

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2015 - 2016

Department/Agency: ASIC

Question: SBT 21 -

Topic: ASIC - financial advisers

Reference: Hansard page no. 57 - 21 October 2015

Senator: Leyonhjelm, David

Question:

Senator LEYONHJELM: Have you ever had a look at what determines the competency of a financial adviser?

Mr Kell: Yes. That has been the subject of considerable discussion and policy debate, most recently through the parliamentary joint committee review of adviser competency and professionalism. I think it is widely acknowledged—certainly by ASIC—that we would like to see that competency raised.

Senator LEYONHJELM: I am curious about what the attributes are of that competency. Is it age, experience, education, work background?

Mr Kell: That is a good question. It would typically involve a mix of elements. Some of it would go to education. The current proposition from the parliamentary joint committee is that there be a minimum standard of tertiary level, that there be a professional year so that there would be experience built into the requirement to join in, that there be an exam that tests competency, particularly in the specialised requirements around being a financial adviser, and that there be continuing professional development requirements as well. So some of it would go to education, some of it to experience, some of it to how you provided advice over time.

Senator LEYONHJELM: Is there any empirical evidence that would suggest that a degree, for example, leads to people receiving better quality advice?

Mr Kell: I would have to take on notice the question around the degree in particular. But our experience is that advisers with better qualifications are less likely to be involved in poor quality advice. An adviser with a PhD may well give very bad quality advice. But, on average, those with better qualifications give better quality advice.

Answer:

While a degree will not guarantee quality advice, we consider that increasing the minimum education and training requirements for financial advisers is critical to increasing the competence and professionalism of the financial advice industry and thereby reducing misconduct in the industry and improving the quality of advice overall. There is broad support for this position from industry, Government and consumer groups.

ASIC has long maintained that the current competence and training standards of financial advisers are inadequate and have contributed to poor consumer outcomes. The need to raise competency standards was also the conclusion of a number of recent inquiries, including the Ripoll Inquiry, the Senate Inquiry into the performance of ASIC, and the Financial System Inquiry.

In December 2014, the *Report of the PJC Inquiry into Proposals to Lift the Professional, Ethical and Educational Standards in the Financial Advice Industry* recommended increasing the mandatory minimum educational standard for financial advisers to a degree qualification

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at Australian Qualification Framework level 7 (Recommendation 7). This position has been supported by the Government in its response to the Financial System Inquiry (Recommendation 25) and broadly by industry.

Many industry members have already independently moved towards requiring degree level qualifications.

- The Financial Planning Association of Australia has a Certified Financial Planner (CFP) accreditation program that is certified at a degree level.
- In July 2014 the Commonwealth Bank of Australia announced that they will require new financial advisers to have a degree in finance, business, commerce or a related field.
- In August 2014:
 - AMP announced that all of its existing and new advisers must be a CFP, a Fellow Chartered Financial Practitioner, or hold a Masters in Financial Planning qualification. These qualifications are post-graduate degree equivalent;
 - NAB announced that its existing financial advisers will be required to obtain the CFP qualification by 2017 or alternatively a masters degree and CFP qualification by 2019. New advisers will need to hold a relevant university degree and an Advanced Diploma in Financial Planning, or be working towards one to be completed within 3 years;
 - Westpac announced that its existing financial advisers would be required to have a CFP qualification, the Fellow Chartered Financial Practitioner qualification or a masters in financial planning by the end of 2019. New advisers will have up to five years to meet the standard.