Association of Financial Advisers Ltd
ACN: 008 619 921
ABN: 29 008 921
PO Box Q279
Queen Victoria Building NSW 1230
T 02 9267 4003 F 02 9267 5003
Member Freecall: 1800 656 009
www.afa.asn.au

29 June 2018

Professor Mark Brimble
Acting Managing Director
Financial Adviser Standards and Ethics Authority

By email: consultation@fasea.gov.au

Dear Professor Brimble,

AFA Submission: Education Standards for Existing Advisers

The Association of Financial Advisers Limited (**AFA**) has served the financial advice industry for over 70 years. Our objective is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

The Board of the AFA is elected by the Membership and all current Directors are practicing financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians reach their potential through building, managing and protecting wealth.

Executive Summary

The AFA supports the increase in the minimum education standard for both new and existing financial advisers (advisers). We accepted the requirement for a degree for new advisers, however back in 2015 and 2016 we recommended in a number of submissions that the requirement for existing advisers should be an Advanced Diploma (AQF 6), and that it should be defined in the law or the regulations so that existing advisers had certainty and did not need to wait for a standards body to define the requirement years down the track. It might have been reported that we supported this regime, however we do not support the way that this reform has evolved. We are not saying that there is no need to change, however we believe that the benefits of this major reform can be obtained, without the likely negative consequences that the current proposals are like to generate.

All stakeholders need to be conscious that the end beneficiary of these reforms is intended to be the Australian consumer of financial advice. Average Australians benefit greatly from professional, personalised financial advice. The proposed reforms need to factor in the expertise of existing advisers along with the value of their advice to Australian families, small businesses and the general community.

Existing advisers are already practicing and have strong relationships with their clients. They have demonstrated the capacity to meet the needs of their clients over many years. Research indicates that the clients of financial advisers trust them highly. Financial advice is a profession where a client discusses some of the most important elements of their life with their adviser and trust them implicitly. Experience brings many beneficial elements with respect to client relationship management and client understanding skills that are not learnt at University. We do not believe that the solution for minimum education standards for existing advisers should be on the basis that they need to start from scratch. We do not support the need for a Graduate Diploma as this understates the value of experience and will result in unnecessary widespread industry disruption.

In April 2018 we conducted a survey of our members that shows a few key points:

- 54% of advisers do not have a degree.
- 69% of advisers with over 20 years experience, do not have a degree.
- These older more experienced advisers are more likely to be business owners.
- 70% of advisers have chosen to do further study including having completed the Advanced Diploma of Financial Planning or the older eight unit Diploma of Financial Planning. Many advisers have also chosen to do a professional designation to improve their education.
- Over 16% of advisers have indicated an intention to retire as a result of these reforms and over 22% are still undecided on whether to remain in the profession. 60% of experienced advisers (20 plus years) have indicated that they either intend to retire or are not yet decided on whether to continue.

Our survey results along with a range of other surveys and reports suggest that this is a critical point, where we face what could be a mass exodus of not just experienced advisers, but also some younger advisers who can no longer see the value in staying in the profession. Other factors such as the workings of the Royal Commission have contributed to an outcome where the morale amongst financial advisers is at an all-time low. Our analysis suggests that the loss of up to 8,000 advisers is possible. With each adviser having on average between two and three direct and indirect support staff, this could result in 24,000 to 32,000 in overall job losses across the sector.

Current student numbers and interest in financial advice suggests that this level of loss will not be replaced by any measure in the foreseeable future. This will have significant flow-on consequences and will certainly not be in the interests of clients. They will lose the investment that they have put into their relationship with their financial adviser. They will struggle to find another financial adviser and will experience an increase in the cost of financial advice. Younger advisers will lose access to experienced mentors and business values will fall with consequential business complications. Ultimately, this means less advisers which translates to less people accessing advice and the cost of advice increasing.

With the implementation of any new regime, the law is critical, however there needs to be a level of reference to and reliance upon the Explanatory Memorandum. The FASEA proposals do not address many of the important provisions discussed in the Explanatory Memorandum. It would appear that FASEA have gone further than the Parliament had expected as defined by the Explanatory Memorandum.

The AFA has recognised four principles that we believe are important in defining the education standard. We believe a focus upon **professionalism** is critical, however we also believe that the solution needs to demonstrate **equity** for all groups of advisers, **sustainability** for the profession and provide study options that deliver **value** to existing financial advisers. It is our view that the current FASEA proposal is only focused upon professionalism and does not adequately address equity and will certainly not deliver a sustainable outcome. The indication that we have is that the options for further study will not be broad enough to result in advisers being able to maximise the value that they could obtain from this further study. We believe that some fundamental changes are required, which we have set out below. The consequences of not delivering more practical outcomes are stark.

Key Recommendations

Education Category Recommendations

The following table sets out the AFA recommendations with respect to each of the FASEA recognised education categories:

Education Category	Recommendation
Financial Planning Degrees not on the FASEA Approved List	• Advisers who have completed a financial planning degree that is not included on the FASEA approved degree list should be recognised. This could be assessed on the basis that they have completed a degree with at least eight financial planning subjects.
Related degree	• Extend the definition of related degrees to include graduates of any degree (undergraduate and post graduate) that includes at least six subjects in Accounting, Finance, Financial Planning/Advice/ Services, Economics, Law or Tax. • Add the fields of study of Mathematics, Actuarial Studies and Psychology to this related degree assessment. • Combine the FASEA Code of Ethics and the Corporations Act bridging course subjects into a single AQF 8 subject. • Enable advisers to get RPL for relevant study in the behavioural finance subject as part of the bridging course.
Related Degree and Related Postgraduate Qualification	• The post graduate qualification should include Graduate Diplomas and Graduate Certificates.
Unrelated Degree	• Financial advisers with an unrelated degree, the ADFP (or DFP 1-8) and have completed a relevant professional designation program should be entitled to do the three subject bridging course and have access to RPL for the behavioural finance subject.
No Degree	• Financial advisers with the ADFP (or DFP 1-8) and who have completed a relevant professional designation program should be entitled do a four subject Graduate Certificate. • Financial advisers with the ADFP (or DFP 1-8) and who have more than 10 years experience as a Responsible Manager of an AFSL as at 31 December 2023 should be entitled do a four subject Graduate Certificate. • Financial advisers with a professional designation should alternatively get access to greater RPL by the structuring of these Graduate Diploma courses to contain subjects similar to subjects already studied.
Experienced Adviser	• The AFA proposes that all financial advisers who are 55 years or older as at 31 December 2023 and have at least 15 years experience as a financial adviser should be able to complete a four subject Graduate Certificate by 31 December 2023, however

Education Category	Recommendation
	subject to a sunset date for capacity to practice of 31 December 2029.

As a result of the AFA Member Consultation events during June, and the feedback that we have received from members, we have made the following changes to our draft proposals that we issued to members on 31 May 2018:

- Add the fields of study of Mathematics, Actuarial Studies and Psychology to those subjects that would contribute to the assessment of a related degree.
- Combine the FASEA Code of Ethics and the Corporations Act bridging course subjects into a single AQF 8 subject.
- Add an additional option for advisers who do not have a degree to take into account the additional experience and CPD that a number of them have gained from having been a Responsible Manager for a financial advice AFSL over at least a 10 year period.
- Extend the experience requirement for advisers who would qualify for the experienced adviser option from 10 years to 15 years.

Other Recommendations:

- A mechanism needs to be found to better recognise previous study at the AQF 5 and 6 level (Diploma of Financial Planning and Advanced Diploma of Financial Planning), or at a higher level through study to obtain a professional designation and to better recognise CPD.
- Advisers doing the Graduate Diploma or Graduate Certificate should have the ability to do a range of subjects to ensure that they can select subjects that are relevant to their area of practice. It needs to be designed with a limited set of core subjects and a range of electives.
- We recommend that financial advisers who have already completed study through a Graduate Diploma of Financial Planning should be treated as FASEA compliant, although we appreciate that FASEA may expect them to do the FASEA Code of Ethics subject.
- We recommend that the Government defer the start of Compliance Schemes and Code Monitoring until 1 January 2022 to allow all advisers to have completed the FASEA Code of Ethics subject.
- We recommend that the Government extend the deadline to achieve degree equivalence until 31 December 2024 to better allow for existing advisers who are going to be required to complete an eight subject Graduate Diploma. Delays have made the original time frame impractical.
- We recommend that the Government extend the deadline for existing advisers to complete the registration exam from 31 December 2020 until 31 December 2022 to enable them to benefit from study towards the degree equivalence education requirements before sitting the exam.

Background

The AFA has been an active participant in the ongoing debate and consultation on increasing the minimum level of education for financial advisers over the last seven years. This has been the subject of many consultations and inquiries. The prospect of a degree was first proposed in a major consultation through ASIC Consultation Paper 212 in 2013 and then the broader package of reforms was proposed via the Parliamentary Joint Committee inquiry into Lifting Professional Standards in the Financial Services Industry in 2014. The AFA has supported calls for a sensible increase in the minimum education standard, including the requirement for a degree for new advisers. However, changes of this nature, that impact existing businesses and practitioners, need to be achievable and managed in a sensitive way that ultimately benefits the end consumer.

We accept the need for an increase in the minimum education standard for existing advisers, however strongly argued for this to be reasonable and pragmatic. In fact, in a number of submissions in 2015 and 2016 we called for the education standard for existing advisers to be increased to an Advanced Diploma (AQF Level 6) and for this standard to be set in the law in order for existing advisers to have greater certainty, rather than have them wait for a number of years to find out the final outcome. We argued this on the basis that a large number of existing advisers have many years of experience and that this experience needs to be valued. We specifically recommended this approach to avoid the likelihood of the continuing negative impact of uncertainty. The existence of uncertainty has been allowed to continue for a very long time. The fact that such a proposal, impacting the livelihood of tens of thousands of people, has been allowed to remain unresolved for such a long time, is unfair and unreasonable. This is a fundamental failing of this entire process. We need a sensible pragmatic solution as soon as possible to address the impact of this extended uncertainty.

The transition of these existing advisers to a higher level of minimum education should be assessed in the context that they are already experienced practitioners, not from the perspective that we need them to undertake a comprehensive broad program of education as would be expected of new advisers. In our view it is unreasonable to fundamentally change the education standards for existing advisers and then apply this to existing advisers of different ages and levels of experience without adequate grandfathering arrangements.

We do not believe that the current position expressed by FASEA adequately recognizes the valuable experience of existing advisers or the courses that they have undertaken during their careers, including both formal qualifications and ongoing CPD. We also do not believe the FASEA proposals are consistent with the intent of the Professional Standards Legislation. We are therefore arguing for a range of enhancements to the FASEA proposal for existing advisers.

Introduction

The start of 2018 has been particularly challenging for financial advisers as they have needed to come to terms with the implications of doing a substantial amount of further study. When combined with the challenging coverage at the Royal Commission and the extensive calls for further change that flowed from the Second Round of Hearings at the Royal Commission, it is not surprising that the general morale of the financial advice community is at a low ebb. Our own research as part of a webinar in mid-March this year generated the following feedback with respect to the question below:

What is your current thinking in terms of the new education requirements?

Selected Response	Count	Percentage
I am excited to do further study	25	10.4%
I am not looking forward to it, however I understand the importance of doing more education	106	44.2%
I am uncertain as to what I intend to do	70	29.2%
I have real reservations about this and intend to leave the industry before 2024	39	16.3%
Total	240	100.0%

These results suggest an exit rate of between 16% and 45%. It is important to note that this was completed before the Royal Commission Hearings and therefore the current position is likely to be somewhat worse.

Education standards for existing advisers is naturally a much more complicated matter, than for new advisers, as it impacts a large population of existing advisers who are currently authorised to practice and are confronting a challenge to their livelihood (and also to their employees). This is one of the most substantial changes that any sector has undertaken and one where generating a sense of positivity was critical to ensure that we have the best possible engagement in this huge change management program. At this stage our concern is that we have lost the engagement of the adviser community and that we face a very genuine risk of a sizeable exodus from the financial advice profession. Action needs to be taken to address this situation. Research undertaken by Core Data in April 2018 highlights a very low state of morale with only 44% of advisers willing to recommend a career in financial advice and only a quarter having confidence about the future of the advice sector.

In terms of the future career pathway, it will be important for the financial advice sector, Professional Associations, FASEA and the education institutions to work together to ensure that financial advice is seen as an attractive course to study at University and that there is a steady flow of new graduates into the financial advice profession. It is important to appreciate that, based upon the current volume of students, the inflow will be relatively low for quite some time. With an expected significant increase in people exiting the sector in the lead up to the 1 January 2024 deadline, it will be critical that we have a steady flow of high quality new entrants into financial advice. Bridging courses for graduates of other degrees will need to be developed and made available (Career Changers) in order to provide a flow of new entrants. In the context of the focus upon financial advice as part of the Royal Commission and the many years of critical media coverage, it will be challenging to attract enough new capable candidates.

We have made a set of proposals below, which we believe can make a substantial impact upon facilitating the re-engagement of the financial advice community.

Regulation Impact Statement

In our view the consequences of the proposed education standards for existing advisers could have a huge impact upon the financial advice profession, the broader financial services industry and consequently, many thousands of clients. The impact of this could be that many thousands of advisers choose to leave the profession. This will result in probably three times as many staff losing their jobs and hundreds of thousands of clients being displaced. We don't believe the true impact of this on the broader economy is fully appreciated. We strongly recommend that the Government undertake an investigation of the likely impact of these reforms in terms of the number of financial advisers operating in the sector post the commencement of the reforms, including modelling the number of new advisers who are likely to enter the profession and those who are likely to leave. Key decisions of this nature need to consider the potential regulatory impact. We recommend that a Regulation Impact Statement is prepared as part of the finalisation of the education standard for existing advisers.

Objectives for the Financial Advice Professional Standards Program

The overall objective of the new Professional Standards regime is to improve the quality of financial advice provided to Australian clients. In our view this can be broken down further into the following goals:

- Increase the capability of new and existing advisers by undertaking further education.
- Improve the conduct of financial advisers by promoting and monitoring compliance with a new code of ethics.

Australian clients will continue to need access to professional advice and therefore the objectives of this regime need to focus upon the importance of getting as many of the existing advisers as possible to move to these new standards and to be a part of the future of the financial advice profession.

In the pursuit of these reforms, the focus should be on seeking enthusiastic participation in this transformation program, in order to ensure that the sector will continue to meet the needs of their clients and to mentor the new entrants. This is a battle for the hearts and minds of existing advisers, where we should be doing all that we can to get them to commit to this journey, not trying to discourage them and seek to start again with a new, but much smaller batch of highly qualified, but less experienced financial advisers.

We believe that the approach to this point has not placed an adequate focus upon obtaining the commitment of existing advisers. If we fail to gain the vast majority of existing advisers commitment to this journey, then we will have failed to achieve the core objectives for the Australian population. It is important to think of this as a huge cultural change program that will only succeed if we can win the hearts and minds of the financial adviser population. In order to do that, we recommend that the objective to retain experienced advisers is recognised as a core objective of the overall program and that changes are made to specifically focus upon this and to directly address the issues that have emerged since the consultation effectively commenced with the 14 December 2017 release. We are at a critical inflection point, and the next six months will most likely determine the overall success or failure of this important program.

While we are sure that there has been a higher purpose of encouraging or indeed enthusing advisers to embrace further education, unfortunately, any potential overall sense of positivity for education amongst existing advisers has been largely lost at this stage as a result of the high level of confusion and anxiety that has developed over the last six months. The 14 December 2017 FASEA announcement led to a very strong reaction and a lot of mis-information. The strongest response came from people who already had a degree or professional designation. Given these are the advisers who have committed to further education and professional development beyond the minimum expectations in the past, it seems illogical to effectively ignore their efforts and the education they have undertaken. These groups of educated advisers should be considered the advocates and ambassadors rather than being disenfranchised. Whilst the 20 March 2018 announcement addressed some of the confusion, the level of concern and anxiety remains particularly high. Important action needs to be taken to re-engage the adviser community in this program in a new constructive manner.

Requirements of the Professional Standards Legislation and Explanatory Memorandum

We recognised the core education requirement in Section 921B(2), that “the person has completed a bachelor or higher degree, or equivalent qualification, approved by the standards body under section 921U”.

We also recognised that in terms of existing advisers, this has been further clarified in section 1546B(1), that “existing advisers need to have either:

a) Met the education and training standard in subsection 921B(2);
b) Completed one or more courses determined by the standards body to give the provider qualifications equivalent to that standard.”

We recognise that this gives FASEA a great deal of power and discretion to determine the required standard for existing advisers.

Whilst the law is critical, we also think that it is important to review what the Explanatory Memorandum to the Bill said about the requirements for existing advisers. The Explanatory Memorandum on pages 75 and 76 made the following key points:

> 6.8 These provisions are designed to allow flexibility for existing providers, ensuring that <u>they only need to undertake adequate study to bring their qualifications in line with the new standard. It is not expected that existing providers will be required to complete a three year degree.</u>
>
> 6.9 <u>For the avoidance of doubt, the new law explicitly states that courses undertaken before the new law commences must be taken into consideration. The body may take into account diploma or degree courses, licensee training courses or CPD.</u>
>
> 6.10 <u>An existing adviser</u> who currently holds a diploma (AQF level 5) <u>could</u>, as an interim step, <u>attempt to upgrade their qualifications to an advanced diploma</u> or associate degree (AQF level 6) within three years of commencement of the education standards and then undertake further study to upskill to a degree (AQF level 7). Alternatively, an adviser may wish to advance their qualifications directly to a degree level (AQF level 7), without first obtaining an advanced diploma.
>
> 6.11 The length of time that the adviser has been in the industry is not itself a relevant consideration. <u>The body may, however, take into account the fact that an adviser who has been in the industry for a longer period of time has completed more CPD courses.</u>
>
> 6.12 Similarly, the designation that an adviser holds is not relevant. <u>Instead, the body must consider the courses that the adviser completed to qualify for the designation.</u>

In Example 6.3, there is discussion of a case of an adviser with 20 years experience, an engineering degree, a professional designation and an Advanced Diploma of Financial Planning. This example goes on to say that "the body must consider the courses that Anastasia undertook to qualify for the designation" and "The body may decide that the mathematics units in Anastasia's bachelor's degree, together with her advanced diploma and CPD courses, give her knowledge and skills equivalent to the standard."

It is very apparent that the current set of proposals from FASEA:

- Provide no basis to recognise the mathematics subjects completed as part of an engineering degree or for that matter any other degree.
- Do not enable the recognition of an Advanced Diploma. In fact, the positioning of the required study at the AQF8 level makes it very difficult to get credits for study undertaken at the AQF 6 level (Advanced Diploma of Financial Planning).
- There is no means for any recognition of CPD.

We also particularly want to bring FASEA's attention to the content of paragraph 6.10 of the Explanatory Memorandum, as set out above, which encourages financial advisers to undertake an Advanced Diploma. As a direct result of the fact that the Explanatory Memorandum specifically served to encourage financial advisers to do the Advanced Diploma, we therefore believe that this places an obligation on FASEA to find a way to recognise Advanced Diplomas.

We appreciate the importance of the Explanatory Memorandum in setting down the intent of the law. It is important that FASEA consider the expectations established by the Explanatory Memorandum.

Survey of AFA Members

As part of our internal process to prepare for the response to FASEA on existing adviser education standards and to assist our members in preparing for the changes that the Professional Standards legislation will require, we asked our members to complete a survey. In total we had responses from approximately 750 of our more than 4,400 members. The survey included 706 current practitioners, who are the basis of the results set out below. This was a surprisingly low response for an issue that is so important. We suspect that this is reflective of a range of issues, including the fact that many advisers are particularly challenged by these reforms and the personal consequences, along with what is obviously a very low level of morale across the profession. Some might be choosing to avoid this matter or simply hoping that it will somehow be fixed.

The following Table sets out the experience levels for those practitioners who responded to the survey:

Years of Experience	Number	Percentage
0 - 5 Years	85	12%
6 – 10 Years	147	21%
11 – 15 Years	154	22%
16 – 20 Years	116	16%
Over 20 Years	204	29%
Total	706	100%

When we look at our overall levels of education qualification on the basis of our members interpretation of the key categories defined by FASEA, the results are as follows:

Education Status	Number	Percentage
FASEA Approved Degree	43	6.1%
Related Degree	112	15.9%
Related Degree and Related Postgraduate Qualification	55	7.8%
Unrelated Degree	111	15.7%
No Degree	385	54.5%
Total	706	100%

On the basis of the analysis above and if extended across our full membership this would mean that over 70% of our members would need to complete the full Graduate Diploma. The following table sets out the breakdown of the level of experience for each of these education categories:

All Members	0-5 Years	6-10 Years	11-15 Years	16-20 Years	20 Years +
Number of Advisers	**85**	**154**	**116**	**204**	**147**
Existing Adviser with a FASEA approved qualification	10.6%	6.8%	7.8%	4.3%	3.4%
Existing Adviser with a related degree	16.5%	21.1%	17.5%	19.8%	8.3%
Existing Adviser with a related degree and related post graduate qualification	11.8%	6.1%	6.5%	10.3%	6.9%
Existing Adviser with an unrelated degree	11.8%	12.9%	20.8%	22.4%	11.8%
Existing Adviser with no degree	49.4%	53.1%	47.4%	43.1%	69.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

We particularly seek to emphasise the percentage of advisers who have no degree and experience of greater than 20 years. When this 69.6% for no degree is added to the 11.8% of advisers who have an unrelated degree, this would mean that 81.4% of this experienced cohort would be required to do the full Graduate Diploma. When we look in detail at the 498 advisers who provide life insurance advice, the percentage who do not have a degree increases to 59.3% and the total with 20 plus years experience and no degree increases to 76.2%. When combined with the 11.3% of life insurance advisers with over 20 years experience and an unrelated degree the total who would be required to do the full Graduate Diploma increases to 87.5%.

In our focus upon this older experienced cohort of advisers there are a few other important points that need to be made:

- They make up a disproportionate amount of the business owners - 36%.
- They represent 61% of the 118 members who indicated an intention to retire as a result of these reforms.
- They represent 43% of the 159 members who have indicated that they have not yet decided whether they intend to remain in the profession.
- In total, of the 204 members with over 20 years experience, 123 or 60% either intend to retire or have not yet decided whether they wish to continue or not.

We believe that the numbers above demonstrate that these reforms are likely to lead to a material exit of current financial advisers and particularly those older more experienced advisers who on average are less educated and have less opportunity to benefit from an additional investment in education at this later stage in their career.

It is important to note that the AFA member base has undertaken a significant amount of education in the professional courses that were previously recognised as the education pathway for financial advisers. Our survey results reveal the following levels of completion of relevant diploma and advanced diploma courses. It is clear that 70% of respondents have done at least 8 formal subjects, which is well above what the mandatory requirement was under ASIC Regulatory Guide 146.

Years of Experience	Number	Percentage
Advanced Diploma	350	49.6%
Diploma of Financial Planning (subjects 1 – 8)	145	20.5%
Diploma of Financial Planning	111	15.7%
Base RG 146	100	14.2%

Years of Experience	Number	Percentage
Total	706	100%

In addition to the formal financial planning qualifications set out above, the respondents to our survey included 122 members who have completed the AFA's professional designation (Fellow Chartered Financial Practitioner - FChFP). It is interesting to note that 61% of these FChFP graduates are financial advisers with no degree. This highlights their interest in obtaining further qualifications, but also highlights the gap in the FASEA proposal in that these advisers will receive no recognition from having completed both the ADFP (or DFP 1-8) and a professional designation. They will need to do the same additional study as someone with just the base RG 146 education.

Projection of the Market Impact

The table below presents a projection of the number of existing advisers who could be expected to exit the profession as a result of the education requirements. It is expected that the exit rate will increase consistent with the level of additional study that is required.

Education Category	Percentage of Advisers	Total Market	Estimated Exit Rate	Total Exits
Existing Adviser with a FASEA approved qualification	6.1%	1,537	10%	154
Existing Adviser with a related degree	15.9%	4,003	20%	801
Existing Adviser with a related degree and related post graduate qualification	7.8%	1,966	10%	197
Existing Adviser with an unrelated degree	15.7%	3,967	30%	1,190
Existing Adviser with no degree	54.5%	13,760	40%	5,504
Total	100.0%	25,233	31%	7,845

This projection is based upon the assumption that the overall market allocation against each of the education categories will reflect the AFA member survey. The expectation of exits is not inconsistent with the AFA survey result which showed that 16.7% of advisers intend to retire and 22.5% of advisers are undecided on whether to stay or leave. Other studies report similar results.

Based upon the AFA member survey and the size of the total adviser market, we have projected out the number of subjects that would need to be completed and the total cost of education for the overall financial adviser market. The table below, does not include any assumption on the number of advisers who will exit the market and is based upon the number of subjects and the cost if every adviser chose to stay in the financial advice profession.

Education Category	Percentage of Advisers	Total Market	Average Subjects	Total Subjects	Average Cost- $	Total Cost - $
Existing Adviser with a FASEA approved qualification	6.1%	1,537	1	1,537	2,500	3,842,135
Existing Adviser with a related degree	15.9%	4,003	3	12,009	7,500	30,022,266
Existing Adviser with a related degree and related post graduate qualification	7.8%	1,966	1	1,966	2,500	4,914,359
Existing Adviser with an unrelated degree	15.7%	3,967	6	23,803	15,000	59,508,421

Education Category	Percentage of Advisers	Total Market	Average Subjects	Total Subjects	Average Cost- $	Total Cost - $
Existing Adviser with no degree	54.5%	13,760	7	96,321	17,500	240,803,594
Total	100.0%	25,233		135,636	13,438	339,090,775

Assumptions:

- The overall market split across the different education categories will reflect the AFA survey.
- Advisers with an unrelated degree will on average get two subjects credit by RPL.
- Advisers with no degree will on average get one subject credit by RPL.
- The average cost of studying each subject will be $2,500.
- No reduction has been made for Time Share sales representatives who have been excused from the need to complete further education, despite being authorised to provide personal advice to retail clients and being on the Financial Adviser Register.

Feedback from AFA Members

Over the last six months we have received a lot of feedback on the FASEA proposals from AFA members of all different ages and backgrounds. Some of the key messages are as follows:

- Why are FASEA putting no value on my extensive experience?
- I have invested in myself and committed to study through a professional designation, yet FASEA fails to acknowledge this.
- My clients are very happy with the advice and the service that I provided. They are not calling for me to go back to school.
- I already have a degree and it was considered one of the most appropriate degrees for financial advice at the time that I did it, so why am I required to do so much additional study?
- I am a specialist, so if I am forced to do further study then I want to do it in an area that will be of value to my business and my clients.
- It does not take a degree to do my job well.
- Increased education alone does not lead to high quality financial advice.

The majority of the feedback that we have received from financial advisers is that they are willing to do further study, however they have challenged the extent of further study that is being demanded and have talked to the lack of recognition for what they have already done. We have seen a number of submissions from members who have identified personal reasons that might impact their ability to study, including members who have young children and need to care for a partner. There are other members who are much older who have spoken about the consequences for them and for their clients and staff. We have seen submissions from people who are specialists, seeking a sensible solution that will be of value to them and their business.

We do not intend to repeat the feedback that FASEA will have received from a large number of financial advisers, however we have no doubt that the message about the personal consequences of these reforms will be very apparent. We have received feedback from some members about the emotional impact of these reforms, with some referring to the onset of mental health issues. As discussed above, the morale of the adviser community is very low at this point in time. They are going to need a lot of help to find a way through this.

AFA Principles for Existing Education Standards

Having observed the manner in which this consultation has played out and the way that our members have responded, we believe that it is essential to set down some principles under which the education standards for existing advisers should be considered:

- **Professionalism.** A critical part of this exercise is to lift the education standard for both new and existing advisers and as a result regain consumer trust in the financial advice sector.
- **Equity.** The requirement for additional study should equitably reflect the previous study that an adviser has done, including education in other fields at a university, professional qualifications for financial advisers at a lower level and professional designations.
- **Sustainability.** The final model should present a solution that is going to ensure that the majority of existing advisers choose to undertake study and stay in the financial advice profession in order to continue to service their clients. An outcome that results in a mass exodus of advisers will be of no benefit to consumers and to younger advisers who benefit from guidance from experienced advisers.
- **Value.** Financial advisers should have the opportunity to study relevant subjects that are of value to their business, of interest to them and of benefit to their clients.

We support the principle of professionalism, however do not believe that this should be the only important consideration. We believe that the current proposals fail to address equity on many levels. This is illustrated by the example of a university graduate with a Commerce degree, with a Marketing Major, a Master of Business Administration, but with no major, the Advanced Diploma of Financial Planning and a professional designation. Despite all this education they would be classified as having an unrelated degree and be required to do a Graduate Diploma. This type of case study does exist and there are many that are similar. The definition of a related degree and the failure to address professional designations are the key contributors to this lack of equity.

As discussed above, the current proposals do not appropriately address sustainability and in fact will work to maximise the number of exits from the profession, with all the negative consequences as identified above. Clients and potential clients will lose as a direct result.

Unless the expectations for the content of the Graduate Diploma are modified, the issue of value is not going to be addressed. For people who have already completed the DFP (1 - 8) or the four subject Diploma of Financial Planning and the Advanced Diploma of Financial Planning, doing the Graduate Diploma of Financial Planning that largely covers the same content, but at a higher level, will deliver limited value.

Implications of a Significant Loss of Existing Financial Advisers

The loss of a substantial percentage of financial advisers would have huge additional consequences including a substantial decline in the value of financial advice businesses and a material increase in the cost of providing financial advice. Given that many advisers treat their business as their superannuation, this is a further factor in negatively impacting sentiment. Any such mass exodus would also have a huge flow-on impact to consumers of financial advice, many of whom would no longer be able to access financial advice. This is critical to avoid, and we would suggest that this needs to be a key consideration in the overall design of the framework.

Many advisers are expressing uncertainty about remaining in the profession. This is due to a combination of factors, including the strong perception that their businesses are under threat and things are going to get worse, not better. There is already significant focus and discussion about when is the best time to exit. Consideration is being given to leaving before the rush and therefore thinking that it would be best to exit sooner, rather than wait for the flow of exits to increase and for market pressures to result in a decline in business values. This is not the mindset that we want existing financial advisers stuck in.

A detailed analysis of the implications of a mass exodus are likely to identify many flow-on business consequences such as difficulty recruiting financial advisers and an unsustainable increase in the salary levels for employed financial advisers.

Implications of these Reforms for Clients and Potential Consumers

When viewed through the eyes of consumers, we believe that there are two key groups, being those existing clients of financial advisers and those who are potential future clients of financial advice. The expectations of each group are going to be very different. Future consumers are going to gain confidence from the knowledge that the education standards are going to increase and that other measures are in place to focus upon ethics, but only if they can access financial advice at an acceptable cost.

The clients of existing advisers are going to view these reforms very differently. Many of them have invested significantly in the relationship that they have with their financial adviser. To them, education standards are merely hygiene. They share more personal information with their financial adviser when compared to any other professional service provider and also most probably many of their family and friends. The bond that they have with their financial adviser is personal and important. They may stand to benefit from an increase in their adviser's education level, however the reality is that they may find that it is more difficult to see them over the next few years as they devote a significant amount of time to their study. They may also be exposed as a result of these reforms if their adviser choses to exit the financial advice profession. As a result, they will have lost that investment in their relationship and be forced to seek a new adviser. This effectively means starting again in terms of building that relationship with a new adviser and completely reviewing their arrangements. It is common for clients to seek a financial adviser who is of a similar life stage. Often this will play out in terms of someone who is within seven years of their age. If we experience a significant exodus of financial advisers, then we are likely to see this from the older cohort and therefore it is the older clients who will suffer most from the loss of their adviser.

If we see a mass exodus then there may not be enough advisers to meet the level of demand and some consumers may not be able to access advice, which could mean that they do not have insurance in the time of need or do not have a plan for retirement. It could also mean that clients will not have an adviser to assist them with an insurance claim and that they will need to pay a substantial sum to a lawyer to assist them to fill out the forms. Without access to financial advice, more Australians are likely to end up on the age pension. The flow on consequences to the Australian community and the Australian economy are likely to be significant.

We recommend that the Government undertake research with the clients of financial advisers to understand how they value their relationship with their financial adviser and their views on the potential implications of these reforms resulting in the retirement of their adviser.

What the Research Tells us about What Clients Want

Through research, it has been shown that the attribute that clients value most in their financial adviser relationship is trust. The AFA has often posed the question to universities and higher education institutions "*when building education curriculums, why don't we emphasise the skills that clients value most?*"

In the AFA white paper - *"The Trusted Adviser"* (2013), the overwhelming response to the question *'what are the qualities of your adviser that are most important to you?*' was interpersonal skills. Interpersonal skills were defined to encompass communication skills, building rapport, caring about the client, understanding needs, listening and empathy. The research concludes that technical competence is an important hygiene factor and the attributes that differentiate high performing advisers in the eyes of the client are, in fact, the interpersonal skills and emotional intelligence that complement the advisers' technical knowledge. The practical reality is that these skills are less likely to be gained through study, but are more likely to be learnt through experience.

In the most recent AFA Whitepaper - *"Financial Advice Competency Framework – an industry consensus"* (2017), the AFA sought to answer the question *'what are the skills, attributes and competencies that the financial advice community want reflected in the education framework for advisers?*' The increase in higher education and professional standards has created an opportunity to rethink and reimagine what financial advisers should learn and put into practice.

A key finding of the research is that the current educational knowledge areas and professional development competencies need to broaden in order for the financial advice profession to develop. The industry wide consensus illustrates a demand for a more diversified range of knowledge domains and competencies and for the attributes that are more pertinent to the client/adviser relationship to be better recognised in the education curriculum moving forward. The research shows that the advisers choose to master portions of the broad spectrum of the financial advice discipline and limit their technical services offerings according to the specialisation preferences or type of consumers they chose to advise. It is the AFA's recommendation to FASEA that there should be the opportunity for existing advisers to select elective units within post-graduate study that reflects the various fields of specialisation that exists within financial advice.

AFA Response to FASEA Proposals and AFA Recommendations

New Entrants and Career Changers

The AFA supports the proposal that new entrants to the financial advice profession from 1 January 2019 be required to have passed a FASEA approved degree.

We are very conscious that the flow of new advisers into the sector will decrease greatly from 1 January 2019. We believe that this will have a number of consequences for not just consumers of financial advice, but also for the sector as a whole. It will be important to place a level of reliance for the foreseeable future upon new entrants to the sector coming from people who have completed another degree. In this context it is important that pragmatic bridging courses are available for new entrants who have either a related degree or an unrelated degree. The Professional Standards reforms will turn the tap off for new entrants and result in a substantial number of exits. This needs to be carefully managed and the impact upon Australian consumers of financial advice taken into account. We seek a sensible solution on career changers that promotes the number of new entrants into the financial advice profession.

FASEA Approved Degrees

We support FASEA's proposal that existing financial advisers with a FASEA approved financial planning degree should be required to do a bridging course on the FASEA Code of Ethics. We question the requirement for this to be undertaken at the AQF 8 level as we believe that this could be done just as effectively at a lower AQF level and do not believe that it represents a full 120 hour subject.

Financial Advisers with a Non-Approved Financial Planning Degree

Whilst we support the decision to use the FPEC guidelines and list as the basis for establishing the minimum curriculum and the approved list of degrees for new advisers, we do not believe that this should be used as the definitive process for the recognition of previously completed education. Sensible grandfathering necessarily needs to be applied in this people change program. When it comes to existing financial advisers who have already completed a financial planning degree, then some flexibility should apply. These advisers are people who already have a degree in the required area. This should be enough.

The AFA believes that financial advisers who have met the legislations requirement for a degree, should be recognised accordingly. Financial advisers who have completed a financial planning degree, even if it is not on the FPEC approved list, should be assessed as compliant.

We are conscious that FASEA have discussed mechanisms for education institutions to apply for retrospective recognition of financial planning degrees in the December 2017 announcement, however this relies upon a willing institution to submit the application. FASEA have noted that fees may apply. Through feedback from members and other financial advisers we are aware that some institutions who previously provided financial planning degrees have since exited from the market. It is unreasonable to disadvantage these financial advisers on the basis of the decision that their education institution has made. We should not be judging those who made the commitment in the past to complete a financial planning degree on the basis of the standard that we have for the future. Many of these students would not have been aware of the FPEC list and yet committed to their study with the right intent to get the best qualification they could to be a financial adviser.

When it comes to a grandfathering solution, financial advisers who have either an undergraduate degree or post-graduate degree with financial planning in the title from an Australian university should be treated as degree qualified without the need to do any further education. Such a position could apply to existing advisers without impacting the integrity of the measure that applies to new advisers. This could be assessed on the basis of having at least eight financial planning subjects.

We recommend that FASEA recognise existing advisers with a financial planning degree that is not on the FASEA list, provided that they have completed at least eight financial planning subjects. In the case of a Post Graduate Degree, this could be reduced to six subjects, given the reduced number of subjects normally studied as part of a Masters degree.

We would also like to make the point that there must be many Australian university students currently studying what is now considered an unapproved degree at this point in time, who made this decision in the very recent past with the intention of becoming a financial adviser. On any assessment, this would seem to be unreasonable, given that the new requirement was not known at the time that they started their study. We would recommend that some investigation needs to be undertaken to consider the scale of this issue and to identify sensible solutions. This group need to have a voice and be heard as part of this debate.

Financial Advisers with a Related Degree

The feedback that the AFA has received from the group of advisers who might fit into this category has been the strongest. Many have been absolutely furious, and this has played out in the blog section of trade media articles on this issue. This group covers people who are reasonably recent graduates through to those who are now in the very later stages of their career. Some have multiple degrees and postgraduate degrees. They are people who have, in the past, made a significant investment in their career at a time when it was certainly not required. This is a group of advisers who expected to be recognised for the education that they have already achieved.

People who completed accounting, business, commerce, economics, and law degrees have become an important part of the financial advice profession. They have all been required to complete further study such as the Diploma of Financial Planning (DFP) to meet the requirements to become a practicing adviser. Many have also undertaken further study such as the Advanced Diploma of

Financial Planning (ADFP) or a professional designation. The fact that it would appear that this additional financial planning specific study won't be counted has further annoyed this group. It is important to recognise that these degrees were considered for many years to be the most appropriate degrees for the purpose of becoming a financial adviser, since financial planning degrees did not exist in any form until the late 1990s. The content was considered very relevant and when combined with the additional study to meet the RG 146 requirements, positioned them to be best prepared for a career as a financial adviser.

Whilst the December 2017 announcement seemed to focus upon the name of the degree, it appears that FASEA have identified some potential problems with this approach. The proposed approach in the 20 March 2018 announcement has even deeper problems. A Major might be as few as 6 or 8 subjects. Where an undergraduate degree involves 24 subjects, study in a Commerce or Business degree is likely to include a large number of subjects in Accounting, Finance, Economics, Tax or Law. To exclude people who have completed this type of degree, yet chosen another major is unreasonable.

There are other examples of the inclusion of some graduates that might not have been expected. A student could complete an Arts degree with an economic history major and be considered a related degree. Equally they could do an Arts degree with an agricultural economics major and be treated as a related degree. Did FASEA intend to exclude people who did a Commerce degree with 12 applicable subjects, but chose another major, yet include people with an Arts degree and a six subject major? We have heard from people who have done undergraduate degrees and postgraduate degrees (i.e. MBAs) without a major. Would they be excluded on the basis that they did not have a specified major? We have proposed below that the assessment of a related degree should be on the basis of at least six subjects studied in the nominated related fields.

We also question why any field of study in law, tax or economics would be included, but the same flexibility is not applied to Commerce or Business degrees. How relevant is study in criminal law?

It was the AFA's view that these existing advisers who have a related degree from an Australian university and have done further study to meet the requirements to become a financial adviser should be recognised and not required to do any further study. They should be recognised for the study that they have done and assessed in the context of the standards that applied at that time.

This group should not be the battlefront in this change program as they are already degree qualified and in a discipline that is very relevant to providing financial advice.

We do note the proposal that FASEA have put forward and we believe that this can be improved by fixing the definition of a related degree, which we have set out below.

We question the proposal that the three bridging course subjects should be positioned at the AQF 8 Level. We do not believe that there is enough content to justify the FASEA Code of Ethics and the Corporations Act subjects being two separate 120 hour subjects and recommend that they be combined into a single AQF level 8 subject. We have also questioned the lack of RPL for the three bridging courses. Whilst this may be more understandable for the FASEA Code of Ethics subject, which is new, we certainly believe that RPL should be available for the behavioural finance subject where many advisers may have studied something similar.

The AFA recommends the following:

- Extend the definition of related degrees to include graduates of any degree that includes at least six subjects in Accounting, Finance, Financial Planning/Advice/ Services, Economics, Law or Tax.

- Add the fields of study of Mathematics, Actuarial Studies and Psychology to the assessment of related degrees.
- Combine the FASEA Code of Ethics and the Corporations Act bridging course subjects into a single AQF 8 subject.
- Enable advisers to get RPL for relevant study in the behavioural finance subject as part of the bridging course.

Financial Advisers with a Related Degree and a Related Post Graduate Qualification

The AFA Supports what has been proposed with respect to existing advisers with a related degree and a related post graduate qualification, however we recommend that a post graduate qualification include a Graduate Diploma and a Graduate Certificate.

We note that there has been some level of opposition to the requirement to do a subject on ethics at the AQF 8 level, and therefore suggest that the requirement to do this at the AQF 8 level be reviewed. As discussed above, the other option is to combine it with the Corporations Act subject as a single AQF 8 subject.

The AFA recommends that a related post graduate qualification includes both Graduate Diplomas and Graduate Certificates.

Financial Advisers with an Unrelated Degree

In the December 2017 FASEA announcement, the Unrelated Degree group were told that they would be able to do a bridging course. We have since seen in the March 2018 FASEA announcement that the bridging course requirement is a three subject program, however, in the same announcement the definition of a Related Degree was made more demanding and the requirements for an unrelated degree was extended from a bringing course to a full Graduate Diploma. No one wants to see their position go backwards during a consultation process, and this group could certainly see themselves as having been disadvantaged through the changes announced in March 2018.

The AFA has a similar view with respect to this group of advisers who have a degree that is not a related degree. Some advisers in this group will have completed a degree in an area that may have particular relevance either through a focus upon numerical skills (i.e. mathematics, engineering etc) or they may have studied client relationship management or psychology, or medical related areas all of which are relevant to the financial advice sector. When it comes to life insurance advisers, a knowledge of medical conditions such as illnesses and injuries and the treatment and expected recovery is valuable. Such advisers will have an advantage in terms of the underwriting process and helping clients through a terminal illness benefit claim, a TPD claim, a Trauma claim, or an Income Protection claim.

It is noted that the argument for this Unrelated Degree group may not in many cases be as strong as for a Related Degree, however it should be recognised that they are degree qualified and have undoubtedly done further study to meet the education requirements for financial advice (i.e. DFP). Many of these advisers will also have completed the ADFP and a professional designation. The current FASEA proposal provides no mechanism to recognise their unrelated degree, their Advanced Diploma or their professional designation. They are in the same position as an adviser who has the base RG 146 and has completed no further study. This is fundamentally at odds with our principle of equity.

It is the AFA's view that an existing financial adviser who has an Unrelated Degree, the DFP, the ADFP (or DFP 1 – 8) and a professional designation in many cases should be considered as compliant with the degree equivalence requirement, which seems to be what was suggested in example 6.3 in the Explanatory Memorandum. In the context of this consultation process, and noting what is the obvious intent of FASEA to keep the regime as standardised and administratively simple as possible, we propose the addition of a new category to recognise existing advisers with an Unrelated Degree, the Advanced Diploma (or DFP 1-8) and a professional designation. We believe that this group should be in the same position as advisers who have a related degree and therefore have access to the three subject bridging course, along with access to RPL for the behavioural finance subject. We would also like FASEA to consider options to better recognise advisers with an unrelated degree and the Advanced Diploma (or DFP 1-8) or experience as a Responsible Manager of a financial advice AFSL.

This is a group of advisers who have previously demonstrated a commitment to education and in the context of a measured approach to grandfathering, this previous study should be taken into account and therefore enable a more streamlined pathway to degree equivalence.

The AFA recommends the following:

- Financial advisers with an unrelated degree, the ADFP (or DPF 1-8) and have completed a relevant professional designation program, should be entitled to do the three subject bridging course and have access to RPL for the behavioural finance subject.
- Advisers doing the Graduate Diploma should have the ability to do a range of subjects to ensure that they can select subjects that are relevant to their area of practice.

Financial Advisers with no Tertiary Qualification

As discussed above this is the largest group of financial advisers representing around 54% of the AFA member survey and probably a similar amount when viewed across the entire financial advice profession. There is also however a great deal of variability in this group. Some might have completed a range of education after starting in the financial advice sector, including the DFP, ADFP (or DFP 1-8) and also professional designations. Others may have left school early and only completed the minimal education requirements to comply with RG 146. For some in this group, additional education may appear a particularly difficult challenge. It is likely that many in this group might underestimate the value of their experience and life learnings and will most probably cope better with study than they anticipate. This however is the challenge, if their hearts and minds are not in this education change program, then they are unlikely to want to take the first step. In many ways this group is the part of this reform that presents the greatest change management program challenge.

In our more recent thinking about education for this group, we had expected that the requirement would be a four subject Graduate Certificate. FASEA have elected to go with the higher requirement of an eight subject Graduate Diploma. The establishment of this higher standard is likely to result in a significant increase in the number of advisers who choose to exit the financial advice sector. This would now appear unavoidable; however, we have set out a recommendation below with respect to those advisers who do not have a degree, but have other qualifications and also a separate recommendation for older experienced advisers.

As identified in our principle of equity, we strongly believe that it is important that within this group, those advisers who have done more study, receive greater recognition and therefore the option of doing the Graduate Certificate or at least more credits towards a Graduate Diploma.

We recommend that those financial advisers with a DFP, ADFP (or DFP 1-8) and a Professional Designation should have the option of doing a four subject Graduate Certificate. We also believe that there needs to be greater mechanisms for advisers to get credit for previous study undertaken as part of completion of the ADFP (or DFP 1-8) or in partial completion of professional designation program.

We recognise that there is a particular category of financial advisers who also perform the role of Responsible Manager for a financial advice licensee, which involves significant additional responsibilities and obligations. As part of this role they will need to complete additional CPD activity. We are therefore recommending that those financial advisers with a DFP, ADFP (or DFP 1-8) and more than 10 years experience as a Responsible Manager as at 31 December 2023 should have the option of doing a four subject Graduate Certificate.

Universities have the capacity to give some credit for experience and continuing professional development. We believe that this is probably the best basis to recognise CPD, which was specifically addressed in the Explanatory Memorandum and should therefore be permitted. We believe that this requires greater flexibility in the required education programs and that FASEA should not be looking at the requirement for further study in terms of every adviser ticking every box.

Whilst this group of advisers have been less vocal over the last six months, they are in fact the largest group and the one where the extent of change is the greatest. They are also the group where the risk of them making an early decision to exit the sector is the greatest. It is important that all involved in the financial advice sector work very hard to hold onto these advisers so that they remain available to service their clients and to guide and mentor new advisers who come into the financial services industry with an approved degree, but not the life experience or the client relationship management skills.

With respect to the Graduate Diploma (and also the Graduate Certificate), we would like to propose a curriculum based upon a core set of central subjects that would apply to all advisers and then a set of electives that would reflect the various specialisations in the sector. It is most important that financial advisers get the opportunity to undertake study in an area that is of benefit to their business and is of interest to them. We will await further detail on the proposed design of the Graduate Diploma and Graduate Certificate (should that eventuate) and look forward to participating in consultation with regard to this, however the starting point needs to be value to the adviser and the acknowledgement that their experience should not require that they complete study in every area that is identified in the curriculum for new advisers.

The AFA recommends the following:

- Financial advisers with no degree who have completed the ADFP (or DPF 1-8) and who have completed a relevant professional designation program should be entitled do a four subject Graduate Certificate.
- Financial advisers with the ADFP (or DFP 1-8) and who have more than 10 years experience as a Responsible Manager of an AFSL as at 31 December 2023, should be entitled do a four subject Graduate Certificate.
- Financial advisers with a professional designation should alternatively get access to greater RPL by the structuring of these Graduate Diploma courses to contain subjects similar to subjects already studied.
- Advisers doing the Graduate Diploma or Graduate Certificate should have the ability to do a range of subjects to ensure that they can select subjects that are relevant to their area of practice.

Arrangements for Experienced Older Advisers

We are particularly conscious of the substantial exposure that the financial advice profession faces with respect to this group of experienced older advisers and believe, as we have set out below, that there are very strong grounds to make special provision for them.

The financial advice sector naturally is skewed to the older age groups. This is important to understand in seeking to estimate the impact that FASEA's implementation of this legislation will have on the overall financial advice sector. This group of older advisers are also likely to be less educated than some of the more recent entrants into the profession. They are also the group with the greatest level of experience and also the group that are most committed to passing on this knowledge to new advisers. They also represent a disproportionate amount of practice owners and therefore their retirement will have a much broader impact on not only other advisers in the practice, but also their support staff and third party service providers.

We believe that the grounds for special consideration of this experienced older adviser group are as follows:

- Experience is particularly important in financial advice and should not be under-valued or under-rated.
- The loss of a significant percentage of this cohort of experienced advisers will lead to the disadvantage of their clients who have invested in their relationship with their adviser. It will be difficult and costly for them to find a new adviser who they are comfortable to deal with.
- The departure of a large number of older advisers will disadvantage older clients who want an adviser of a similar age who has had similar life experiences.
- This cohort of older advisers are particularly important in mentoring younger advisers in the practical and emotional intelligence elements of financial advice. The new professional year requirements will create the need for advisers to play this supervisor role.
- This group represents a significant number of practice principals and business owners and their retirement will place the livelihood of their staff at great risk.
- The departure of many from this group will have a material impact upon business values. A decline in market indicators for business values could impact loan arrangements, with continuing financial advice practices required by their bank to either repay debt or put up more security.

In this context and with the serious risk of a mass exodus of experienced older existing financial advisers from the sector, the AFA would like to propose a modified transition arrangement for experienced older advisers, based upon a lower education standard with a sunset clause. We believe that this is the only way that the impact of this transition, in terms of the exodus of a large number of adviser, can be spread over a longer period, to reduce the expected negative consequences for clients, business values and the ongoing mentoring of new advisers.

The AFA recommends the following:

- Existing Financial Advisers over the age of 55 as at 31 December 2023 and with at least 15 years experience should be able to complete a four subject Graduate Certificate instead of a Graduate Diploma, however subject to:
- A sunset date of 31 December 2029, at which point if they have not completed the full Graduate Diploma then they would need to exit the market.

We believe that such a proposal could assist in changing the initial decision that has already been made by many in this group to exit the financial advice sector. The requirement to pass eight subjects will feel absolutely overwhelming for many in this group. On that ground alone, many will not have given much consideration to even considering starting the journey by undertaking the first subject. The requirement to do four subjects may seem much more achievable and might entice them to at least consider doing the first subject. They may find after completingthe first subject that they are quite capable to undertake this study and they might actually enjoy the study if they have the option to do subjects that are of genuine interest. This positive experience may be enough to assist them to decide to commit to continue with doing the four subjects or even wanting to proceed to complete the full Graduate Diploma and therefore allowing them to remain in the profession longer term.

We recognize that some will argue that it is not appropriate to have two levels of education in the industry and that it is not appropriate for less educated advisers to mentor younger newer advisers. We counter that argument by making the point that there will already be different levels of education (there always will be) and the arrangements for existing advisers already enables this. We also make the point that experience counts for a lot and that it provides skills that cannot be learnt quickly and cannot be learnt in the class room. It takes time to understand the full impact of economic cycles and market downturns. It takes time to develop the skills to handle client loss and tragedy. It would be a mistake to underestimate the importance of experience or to fail to cater for such an important group. There is a lot at stake if this is not given due consideration.

Professional Designations

One of the hottest areas of this debate has been the recognition of professional designations, which is an issue that has angered many. The clear concern with the 14 December 2017 and 20 March 2018 announcements is that financial advisers who have completed a professional designation are receiving no recognition for this study. We understand that the thinking of FASEA is to focus upon qualifications rather than designations, however we still believe that there should be an opportunity to recognise professional designations in terms of degree equivalence. As discussed above, the key opportunities for doing this are as follows:

- For advisers who are degree qualified in an unrelated discipline, completion of a professional designation should make them eligible to undertake the three subject bridging course.
- For advisers who do not have a degree, completion of a professional designation should enable them to complete a four subject Graduate Certificate.

We believe that the FASEA standards needs to address the issue of professional designations and we would recommend that they are taken into consideration in the ways suggested above and also through better recognition via RPL.

Recognising Previous Financial Planning Study at the AQF 8 Level

We note that at this time there are no FASEA approved Graduate Diplomas (AQF 8). We are also aware that some financial advisers have previously completed either Graduate Certificates or Graduate Diplomas in Financial Planning over recent years. We believe that these advisers need to be considered in the FASEA standard. We recommend that those advisers with an existing Graduate Diploma or who are currently in the process of studying a Graduate Diploma should be recognised and those who have completed or are currently studying a Graduate Certificate should get credit for this study.

The AFA recommends that financial advisers who have already completed study through a Graduate Diploma of Financial Planning should be treated as FASEA compliant, although we appreciate that FASEA may expect them to do the FASEA Code of Ethics subject.

Review of the Timeline

We are very conscious of the following key dates that are relevant for these education standards:

- 1 January 2020 for the commencement of the Code of Ethics and Compliance Schemes.
- 31 December 2020 for existing advisers to complete the Registration Exam.
- 31 December 2023 for existing advisers to achieve degree equivalence.

Our reason for raising the timing of the commencement of the Code of Ethics and Compliance Schemes is that advisers will not have the opportunity to complete their study of the FASEA Code of Ethics by the time that the Code of Ethics and Compliance Schemes are due to commence. We do not anticipate that these subjects will be available until 2020. Given that FASEA have proposed the requirement for all advisers to have completed this subject, it would seem unreasonable to hold them accountable to this Code before they have had the chance to undertake the required study on the Code.

We recommend that the Government defer the start of Compliance Schemes and Code Monitoring until 1 January 2022 to allow all advisers to have completed the FASEA Code of Ethics subject.

It might be questioned why the registration exam is relevant to this degree equivalence timeline, however we believe that it is particularly relevant as we would expect to see that study towards the degree equivalent requirement be important in enabling and preparing existing advisers to pass the exam. FASEA have specifically recognised this in the Proposed Guidance on Education Pathways for Existing Advisers consultation paper. Each of the elements of the professional standards regime are inter-related and there is a strong and important relationship between the study for degree equivalence and the exam.

When looked at in terms of the impact of the additional study and the time that it might take, we need to look at this from the perspective of an adviser who is required to do a lot of further study and the impact of this study on them as individuals, and on their businesses and their families. We believe that this should be considered from the perspective of an existing adviser with no degree who needs to do the full eight subject Graduate Diploma. If this adviser has not done study for many years and has the responsibility of running a business and supporting a family, then it is not realistic to expect them to do more than one subject per six months. There needs to be some allowance for failure of subjects or for periods of time where no study is possible. For this segment of the market, which we believe is going to be a large proportion of the market, they should be allowed 5 years to complete the required eight subjects of study.

With the Legislative Instrument not due to be finalised until December 2018, it will take education institutions up to 12 months to have their courses developed and approved by FASEA. It will take extra time for advisers to choose the most suitable course for them. This means that advisers studying the Graduate Diploma are unlikely to be able to start until the beginning of 2020. By this time, under the existing deadline, this cohort of advisers would only have four years left. We do not believe that this is enough for those who have to do eight subjects.

We recommend that the Government extend the deadline to achieve degree equivalence until 31 December 2024 to cater for existing advisers who are required to complete an eight subject Graduate Diploma.

We believe that the study towards degree equivalence should assist an adviser to prepare for the registration exam. This means that they would need to complete the content that is relevant to the registration exam prior to the time when they first attempt the exam. Given that advisers will probably not be able to commence the Graduate Diploma until 2020, we certainly do not believe that the current deadline of 31 December 2020 for passing the exam allows enough time for them to have completed all the relevant study content by the time they would need to first sit the exam. In fact you would assume that an existing adviser would need to have sat the exam by the middle of 2020 to allow them time to re-sit the exam if required. This would mean that they may have only completed one subject on their journey towards degree equivalence by that time. Study that advisers undertake in preparation for the exam should also be able to count towards achieving degree equivalence. It is important and fair to give financial advisers more time to study approved subjects before seeking to pass the exam. We therefore believe that the deadline for existing advisers to complete the exam is too soon for them to be able to have undertaken the study towards degree equivalence that would cover the content of the exam.

We recommend that the Government extend the deadline for existing advisers to complete the registration exam from 31 December 2020 until 31 December 2022.

Foreign Qualifications

As we have proceeded with our member consultation program, one common question that we get is how will overseas qualifications be treated. There are many advisers who completed study in places like the United Kingdom or South Africa who do have relevant qualifications. We appreciate that this is specifically referred to in the law, however this particular group are very uncertain as to the implications for them. We recognise that the uncertainty for this group will continue for much longer. It will be important to provide a sensible and timely solution for this group of advisers.

Feedback on Public Outcomes

Do you think increased education standards will assist in providing higher quality advice?

The AFA believes that an increase in the minimum education standard for financial advisers will have a positive impact upon the quality of advice. We believe that this impact will be greatest where existing advisers are able to undertake further study in an area that is relevant to their business and the services that they provide to their clients. Whilst we believe that raising the minimum education standard is important, it is one of a range of factors that will influence the quality of advice. In terms of existing advisers, the benefit from completing eight subjects will not be significantly greater than the benefit of competing four subjects. The majority of the benefit from higher education standards can be obtained without raising the standards as high as FASEA has proposed.

Do you think these education pathways meet the expectations of consumers?

The existing clients of financial advisers have not been actively calling for their adviser to be more educated. In fact, the feedback that we get from our members is that their clients never asked about their qualifications. As we have mentioned above, the existing clients of financial advisers treat education as a hygiene factor – they expect it but don't focus upon it. What they really value is the interpersonal skills and emotional intelligence capabilities that really drive the depth of their relationship with their adviser and the level of trust.

In terms of the Australian public who are potential consumers of financial advice, it might be expected that they would be more likely to be influenced in the selection of an adviser by their education. Nonetheless, once they have established a relationship with their adviser, education is unlikely to be a focus area or a discussion point.

In terms of the expectations of consumers, they expect to have access to financial advice and to be able to get it at a reasonable cost. Research suggests that they are typically unwilling to pay the actual cost. A reduction in access through a substantial decline in financial advisers and an increase in the cost will not meet consumer expectations. Delivering on consumer expectations is a fine balancing act and education standards is only one factor. Higher education, however with reduced access and increased cost, will not meet consumer expectations.

Concluding Remarks

These changes are the most significant that the financial advice sector has faced in a generation and the consequences could be drastic if we fail to win the commitment of existing advisers to make the leap and commence the journey towards higher minimum education standards. It is important to strike the right balance so as to engage and enthuse advisers. There is a substantial amount of work still to be done to deliver this outcome and to ensure that Australians can continue to access financial advice that is of a high quality, readily available and affordable.

What FASEA have proposed in their March 2018 announcement does not provide equity for those advisers who have already completed additional voluntary study in the past. It certainly does not address what we believe is the critical objective of ensuring that the financial advice profession is sustainable. We also think that there is a need for significant change to ensure that financial advisers will gain value from the completion of further study. There is a lot at stake with these reforms and it is our view that the morale of existing advisers is at a very low ebb as a result of the manner in which these reforms have been handled. Much needs to be done to ensure that financial advisers re-engage in this important reform.

The AFA welcomes further consultation with FASEA should you require clarification of anything in this submission. If required, please contact us on (02) 9267 4003.

Yours faithfully,

Philip Kewin
Chief Executive Officer
Association of Financial Advisers Ltd