



FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

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**Email:** [brichardson@fsc.org.au](mailto:brichardson@fsc.org.au)

Re. **Draft APL Standard**

Dear Bianca,

We welcome the opportunity to provide comments on the FSC's draft approved product list (APL) standard. We complement the FSC on commencing this important work and are happy to assist in any ways required.

Our initial view is that we recommend that the scope of the standard be significantly broadened. We are particularly concerned that the standard does not cover the need for the insurers to provide information to enable researchers, and ultimately financial planners, to make informed decisions.

Sections 5 and 7 of the draft provide guidance on the criteria and methodology for determining whether to include a product on an APL. For example, the draft states that, in considering the underwriting philosophy of an insurer, best practice is for the research process to consider:

- Transparent underwriting process to enable advisers to manage clients' expectations
- Emphasis on the customer in the underwriting process
- Medical evidence requirements
- Product design, policy terms and definitions

Much of the detail covered by these factors is found in the practices and internal policies of insurers, rather than any publicly available information. Although researchers could collect data directly from insurers or make conservative assumptions where it is not practicable to access detailed information, we would prefer insurers to commit to providing all relevant information publicly.

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In our view, the standard should insist that insurers produce relevant and reliable information to assist financial planners to select suitable products for their clients. This would promote higher quality research and, ultimately, help advice and consumer decisions meet a minimum socially acceptable standard.

Further, the standard ought to set uniform disclosure requirements. In our view, information and advice should be readily comparable. Insurer product information should be prepared with a view to enable products to be simply and fairly and evaluated in comparison to other products by financial planners when assessing product suitability for their clients. The FSC guidance should require this of insurers (as we called for in our submission on the FSC Life Insurance Code).

For example, Product Disclosure Statements and additional disclosure documents by insurers should be presented in the same order from provider to provider. In addition, there should be a core of standard meanings and expressions used across providers. These measures would promote higher quality product evaluation, and, ultimately, help advice and consumer decisions meet a minimum socially acceptable standard.

We are also concerned that the draft provides no guidance on allocating responsibility across the distribution chain. We think the guidance should insist that insurers and research houses:

- warrant the fairness, accuracy and reliability of the product information provided to advice licensees and their representatives (financial planners); and
- give positive warranties about the intended user market for the product, and conversely provide warnings where the issuer has reasonable grounds to believe the product may be unsuitable for some types of clients or in some circumstances

This approach should extend, for example, to insurers and research houses providing comparator tool output.

In turn, we think FSC members applying the standard should be prepared to warrant to financial planners relying on the standard and to the planner's clients that products on the APL are 'Advice Grade', i.e. that the advice licensee has a reasonable basis to conclude that:

- representations made and warranties given about the product by the issuer or research house are fair and accurate; and
  - representations and warranties given by the product issuer or research house are sufficient to enable accurate comparisons to be made with other products
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Such measures would assist financial planners to make more accurate evaluations and comparisons of an issuer's products to the market of potentially suitable products relevant for a particular client.

Finally, even if the draft standard, including in relation to off-APL processes, is adopted, there is a high risk that APLs will be biased. There is a high risk of bias if, for example, the licensee is connected with, or enjoys a special benefit from, an insurer.

In our view, a product ought to be excluded from an APL if (and only if) it is not Advice Grade. FSC members should agree on a minimum standard for inclusion on an APL, based on the best practice principles in section 7 of the draft. We would expect that very few products would be excluded, meaning that each APL would be extremely broad. Combined with the 'best interest' duty, a substantially open APL would provide optimal conditions for the adviser to act in the best interests of the client.

It might be objected that a substantially open APL places an impractical burden on advisers. This issue should be addressed in the standard by requiring members to ensure that insurers and research houses provide information about such issues as the type of client for which each product is likely to be suitable. However, such assessments should not be used to *restrict* the APL.

If you have any queries or comments, please do not hesitate to contact me at [policy@fpa.com.au](mailto:policy@fpa.com.au) or on 02 9220 4500.

Yours sincerely

**Dimitri Diamantes CFP®**

*Policy Manager*

Financial Planning Association of Australia<sup>1</sup>

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The Financial Planning Association (FPA) has more than 12,000 members and affiliates of whom 10,000 are practising financial planners and 5,600 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
  - In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
  - We have an independent conduct review panel, Chaired by Mark Vincent, dealing with investigations and complaints against our members for breaches of our professional rules.
  - The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
  - We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
  - CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
  - We are recognised as a professional body by the Tax Practitioners Board.
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