

# EVOLUTION OF ADVICE

THE FINANCIAL PLANNING  
PROFESSION FROM 2020 TO 2025

DISCUSSION PAPER



FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

# FOREWORD

The FPA has always sought to lead the development of the financial planning profession. We have a history of making tough calls that have not always been of the moment, but of the future. Our voice has been measured and responsible, and our recommendations have often been adopted – although admittedly not always implemented as well as they could have been.

It has been five years since the FPA released our white paper on “The Future Profession” and our 10-point advocacy plan. We are proud to say that nine of those ten points have been adopted. But we cannot rest on those achievements and must continue to look to the future.

The speed of change for financial planners has never been greater. We are experiencing changes to the way we do business, extra demands to meet new education and professional standards, and for some the challenge of finding a new licence to operate under. But if we fail to look beyond these challenges to what is next for the profession, we will also fail our clients by not being prepared when it arrives.

I have no doubt that there is a bright future for the financial planning profession. Australians want access to quality financial advice to help them navigate our increasingly complex world. We know that Australians who get advice are much better off than those who don't.

As leaders in the financial planning community, we must take a shared responsibility for guiding our profession through the current period of change and towards this bright future. Your sustained advocacy and leadership remains the driving force for change in the profession. Now is the right time to refresh our focus and ensure that the steps we are taking today are leading us in the right direction.

To do this, we are renewing our policy platform, which will be a statement about where we believe the profession should go. The policy platform will guide our work over the next five years, but its impact will be felt for a long time to come.

What follows is a paper intended to prompt discussion among FPA members on some of the critical issues for the future of the profession. I encourage all FPA members to engage in this discussion and contribute their ideas to our new policy platform.

While our daily challenges remain, we also have an opportunity to contribute to a long-term vision for the profession and the financial security of all Australians. It is our responsibility to think boldly about our future and set a vision for a healthy and vibrant financial planning profession.



**Marisa Broome CFP®**  
**FPA Chair**

# EXECUTIVE SUMMARY

This discussion paper seeks to elicit the views of FPA members, partners and other stakeholders on issues facing the financial planning profession over the next five years. Your feedback will be used to build the FPA's new policy platform, which will guide the FPA's advocacy and policy work between 2020 and 2025.

Contemporary issues have been grouped under five themes: our clients; affordability and the cost of providing financial advice; trust in financial planning; health of the profession; and regulators and regulation.

Providing a valued service to our clients remains the focus of good financial planning. As the profession evolves, expanding the reach of financial planning to new clients and adapting our relationship with existing clients to better suit their needs will both be critical to its continued strength.

The increasing cost of financial advice is a major factor preventing many Australians from engaging a financial planner. We must consider the factors driving up costs, how these can be minimised, and how we can demonstrate value to our clients.

The Financial Services Royal Commission laid bare serious misconduct in financial services, which has tarnished the reputation of the profession as a whole and affected trust in financial planning. Building trust is an essential step in growing the financial planning profession and having it widely recognised in the community as a source of trusted advice.

A strong future for financial planning will rely in part on maintaining a strong and healthy workforce. New education standards and evolving ways of doing business are changing what it means to be a financial planner. Encouraging qualified and capable new recruits will be necessary to meet growing demand for financial advice.

Finally, financial planning is a heavily regulated profession and the actions of the government will always play an important role in shaping the profession's future. Our advocacy must focus on pursuing the right regulatory settings that provide appropriate consumer protections and support the efficient and effective operation of financial planners.

Each theme is covered in more detail on the coming pages and includes a discussion of how it might affect the profession, some key data points and a series of questions. The issues covered here are not exhaustive and many issues that are important to financial planners cross between multiple themes.

Please take the time to consider these themes and provide your views on how the FPA should address them or any other issues in the new policy platform.

You can provide your views and participate in discussion with fellow FPA members through the FPA Community forum at [community.fpa.com.au](https://community.fpa.com.au).

You can also submit your views directly to the FPA at [policy@fpa.com.au](mailto:policy@fpa.com.au).

The FPA will unveil its new policy platform in 2020.

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# OUR CLIENTS

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All Australians should be able to access financial advice from a qualified financial planner. The benefits of financial advice are clear. Australians who use a financial planner rate themselves as more financially secure and have greater confidence in their financial security than those who don't.<sup>1</sup>

**G**iven the complexity of our tax and retirement systems, seeking professional financial advice from a financial planner should be as commonplace as seeking health advice from your GP. Yet only a small proportion of the population has a financial planner.

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Around 1.9 million Australians sought advice from a financial planner in 2018.<sup>2</sup> But more than three times as many asked their friends and family for financial advice instead.<sup>3</sup>

Providing financial advice to more Australians will improve the financial wellbeing of the community and provide growth for the profession. A critical goal for financial planners will be to identify ways to attract and engage with people who have not previously sought financial advice.

A range of reasons are given for people not seeking financial advice, including cost (discussed below) (32%), not having the time to engage with a financial planner (35%) and the belief that they do not have enough savings to warrant seeking advice (26%).<sup>4</sup>

**1A. What strategies should financial planners consider to attract clients who would not previously have sought financial advice? What obstacles are there to doing this?**

The traditional model of providing financial advice through a statement of advice and product disclosure statement is often cited as a limitation on innovation and evolving the relationship between financial planner and client. Adapting the manner of providing advice to the needs of consumers will be critical in attracting a new generation of clients.

**1B. What should the future financial planner-client relationship look like? How does the current regulatory framework enable or obstruct financial planner-client relationships?**

Financial advice is facing the same challenges and opportunities from disruptive technology that are being felt in the rest of the economy. Fintech will play an increasing role in many aspects of financial planning, including compliance, back-office support and attracting and engaging with clients.

**1C. What opportunities does fintech present in delivering advice in the future? Are there regulatory barriers in using fintech to deliver financial advice? Consider these questions from the perspective of a client and a financial planner.**

1 Investment Trends. September 2018 Financial Advice Report

2 Ibid

3 Roy Morgan Single Source (Australia), 12 months to September 2018

4 Investment Trends. September 2018 Financial Advice Report

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# AFFORDABILITY

## AND THE COST OF PROVIDING FINANCIAL ADVICE

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For financial advice to be accessible to most Australians, it must also be affordable. Yet cost is a major obstacle and is the most cited reason for a person not seeking financial advice.<sup>5</sup> Addressing the affordability of advice is a critical step in making financial advice available to more Australians and providing financial planners with more opportunities for growth.

### 2A. What are the factors driving affordability and how can they be minimised?

42 per cent of advisers cite efficiency in delivering advice as a major source of their expected growth, second only to attracting new clients at 57 per cent.<sup>6</sup>

The cost drivers for financial planning are significant and growing, and are an obvious factor in high advice fees.

Regulatory requirements that affect the manner of engagement between a financial planner and their client also impact on the cost of advice. Restrictions on scaling advice can prevent a financial planner from serving a consumer that is only seeking advice on a single topic or question about their finances, either because that is the extent of their need or because that is what they are willing to pay for.

Regulation can also hinder innovation in the provision of advice which could otherwise improve the quality of advice and the efficiency with which it is delivered.

### 2B. How should financial advice be delivered to promote affordability? What, if any, changes in regulation would be needed for this to occur?

With commission revenue on investment products being phased-out from 1 January 2021, financial planners will increasingly rely on fee-for-service and ongoing fee arrangements. Ongoing fee arrangements can be covered by the FPA's Professional Ongoing Fees Code or will be subject to annual renewal and new disclosure requirements.

### 2C. Do ongoing fee arrangements allow financial planners to effectively deliver services to their clients? What changes, if any, would improve ongoing fee arrangements?

As well as minimising costs, financial planners must also demonstrate the value of advice to consumers to justify the cost of delivering it. This could include differentiating personal financial advice from other forms of information that consumers may also access, such as general advice and other information.

### 2D. How can financial planners better demonstrate the value of financial advice? What obstacles are there to doing this?

<sup>5</sup> Investment Trends. September 2018 Financial Advice Report

<sup>6</sup> FPA Member Research, January 2019

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# TRUST

## IN FINANCIAL PLANNING

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Australians must have confidence in the financial advice they get. Lack of trust is the second most common reason cited for people not seeking financial advice, closely behind cost.<sup>7</sup>

**D**espite some high-profile scandals, overall trust in the financial planning profession has declined only slightly in recent years. The decline has been most keenly felt among over 55s and retirees.<sup>8</sup>

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65 per cent of financial planners say negative press is the main challenge they are dealing with in their business.<sup>9</sup>

There is a significant difference in attitude towards the financial planning profession between people who have a financial planner – with a +15 percent rating – and those who do not – with a – 11 percent rating.<sup>10</sup> This data highlights the impact of media reporting and public discussion of misconduct on those who do not have personal experience of the financial planning profession. While this difference is positive for financial planners trying to retain existing clients, it provides a challenge for attracting new clients.

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Fee transparency is the number one issue affecting trust in financial planners with almost 60 per cent of Australians citing it as an issue.<sup>11</sup>

A host of reforms introduced or under consideration by the Government are aimed at addressing misconduct and may have a positive impact on levels of trust in financial planning. Among these are the introduction of minimum

education and professional standards, ending of grandfathered commissions and creating new disciplinary arrangements.

Financial planners are heavily regulated, but often compete for consumers' attention with less or unregulated sectors such as financial coaches and real estate sales.

**3A. What role should regulation and regulators have in building trust? Are the current reforms likely to achieve this? What other regulatory changes could help build trust?**

The FPA holds out its members and CFP® professionals as satisfying a higher standard of professionalism and expertise. Profession-led initiatives such as the FPA's remuneration policy, Code of Professional Conduct and CFP certification can also build trust.

**3B. What actions can the profession and the FPA take to build trust?**

Trust in financial planners can also be affected by their association with issues that are outside of our control. For example, investment losses can be blamed on poor financial advice when the root cause is a product failure that was not foreseeable.

**3C. What actions can the profession take to address factors in trust that are outside of our direct control? Are regulatory changes needed to address these factors?**

7 Investment Trends. September 2018 Financial Advice Report

8 Ibid

9 FPA Member Research, January 2019

10 Investment Trends. September 2018 Financial Advice Report

11 Ibid

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# HEALTH

## OF THE PROFESSION

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To satisfy Australians' demand for financial advice, we need a healthy and vibrant profession. Financial planning has grown strongly over the past decade with around 40% more financial planners now than in 2009.<sup>12</sup> While there is potential for strong growth into the future, projecting the rate of growth is challenging. Substantial changes to regulation and common business models will have an impact.

There are currently around 25,800 financial planners in Australia (August 2019), down from a high of 28,000 towards the end of 2018.<sup>13</sup>

It has been reported that some financial planners are likely to exit the industry rather than meet the higher education and professional standards set by FASEA or other reforms recommended by the Royal Commission. The FASEA exam and education standards are the biggest concerns for advisers in the short term. However, nine in 10 advisers say they will continue to practice after the implementation of these reforms.<sup>14</sup>

**4A. Should the profession have a goal to have a certain number of active financial planners? If so, what should this goal be?**

A record number of tertiary institutions are offering specialised financial planning courses. While there will be a short-term surge in enrolled students as existing financial planners meet their FASEA requirements, there will be a long-term increase in the capacity to educate new financial planners.

There are more options to study financial planning than ever before – 14 tertiary institutions offer 26 undergraduate courses for financial planners and 9 institutions offer 11 different masters programs in financial planning.<sup>15</sup>

The FASEA reforms redefine the pathway to become a financial planner. As well as completing an approved degree, new financial planners must also complete a professional year under the supervision of a qualified financial planner. This is a significant increase in the minimum standard and, while it is consistent with the entry requirements for a profession, it will also have implications for future workforce management.

**4B. What does the financial planner of the future look like?**

**4C. Are we attracting enough new financial planners and do they have the right skills to succeed?**

**4D. How can the professional year be implemented to ensure a strong pipeline of appropriately skilled new financial planners?**

<sup>12</sup> Background Paper 6, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

<sup>13</sup> ASIC Financial Adviser Register dataset

<sup>14</sup> FPA Member Research, January 2019

<sup>15</sup> ASIC Financial Adviser Register dataset

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# REGULATORS

## AND REGULATION

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Chapter 7 of the Corporations Act – the principal source of regulation for financial services – sets two critical parameters for financial advice. The first is a regulatory system that licenses corporate entities as opposed to individual practitioners. The second is a regulatory approach based on the provision of financial products, rather than financial advice.

On top of the core regulation of financial planners through the Corporations Act, ASIC and Australian Financial Services Licensees (AFSLs), the Government has added several more entities. The Financial Adviser Standards and Ethics Authority (FASEA) was created in April 2018 to determine standards for financial planners. The Government has also brought financial planners within the remit of the Tax Practitioners Board, which requires all tax (financial) advisers to register and be bound by another Code of Practice.

Financial planners also need to interact with the Australian Financial Complaints Authority, the Office of the Australian Information Commissioner and AUSTRAC.

This is a complex regulatory framework, with substantial areas of overlap and potential for inconsistency between regulators.

**5A. What should be the goal of regulation in financial services? Do the current regulations achieve this goal?**

**5B. Should the licensing arrangements for financial planning change? If so, what changes would you recommend? What role should AFSLs play in the future?**

In this context, there also remains several outstanding recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Recommendation 2.10 suggests the establishment of a single, disciplinary body for financial planners. While it is not clear how the Government will implement this recommendation, the Royal Commission was attempting to address the complexity, overlap and potential inconsistency that currently exists.

The Royal Commission also identified a need to simplify the law governing financial services, remove exceptions and qualifications in the law and focus on fundamental norms. As an example, it identified the best interest duty and associated “safe harbour” provisions in section 961B of the Corporations Act.

**5C. How are consumers and financial planners best served by regulation?**

**5D. How should consumers be protected when seeking financial advice?**

It must be recognised that these regulators and regulations were created to address a real or perceived threat to consumers from misconduct. Any argument in favour of streamlining or simplification must address the need to provide consumer protections.

**5E. What other regulatory issues are impacting the profession?**

# QUESTIONS

## OUR CLIENTS

- 1A What strategies should financial planners consider to attract clients who would not previously have sought financial advice? What obstacles are there to doing this?
- 1B What should the future financial planner-client relationship look like? How does the current regulatory framework enable or obstruct financial planner-client relationships?
- 1C What opportunities does fintech present in delivering advice in the future? Are there regulatory barriers in using fintech to deliver financial advice? Consider these questions from the perspective of a client and a financial planner.

## AFFORDABILITY AND THE COST OF PROVIDING FINANCIAL ADVICE

- 2A What are the factors driving affordability and how can they be minimised?
- 2B How should financial advice be delivered to promote affordability? What, if any, changes in regulation would be needed for this to occur?
- 2C Do ongoing fee arrangements allow financial planners to effectively deliver services to their clients? What changes, if any, would improve ongoing fee arrangements?
- 2D How can financial planners better demonstrate the value of financial advice? What obstacles are there to doing this?

## TRUST IN FINANCIAL PLANNING

- 3A What role should regulation and regulators have in building trust? Are the current reforms likely to achieve this? What other regulatory changes could help build trust?

- 3B What actions can the profession and the FPA take to build trust?
- 3C What actions can the profession take to address factors in trust that are outside of our direct control? Are regulatory changes needed to address these factors?

## HEALTH OF THE PROFESSION

- 4A Should the profession have a goal to have a certain number of active financial planners? If so, what should this goal be?
- 4B What does the financial planner of the future look like?
- 4C Are we attracting enough new financial planners and do they have the right skills to succeed?
- 4D How can the professional year be implemented to ensure a strong pipeline of appropriately skilled new financial planners?

## REGULATORS AND REGULATION

- 5A What should be the goal of regulation in financial services? Do the current regulations achieve this goal?
- 5B Should the licensing arrangements for financial planning change? If so, what changes would you recommend? What role should AFSLs play in the future?
- 5C How are consumers and financial planners best served by regulation?
- 5D How should consumers be protected when seeking financial advice?
- 5E What other regulatory issues are impacting the profession?

Provide your answers at [community.fpa.com.au](https://community.fpa.com.au) or to [policy@fpa.com.au](mailto:policy@fpa.com.au)



FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

ABN 62 054 174 453  
GPO Box 4285  
Sydney NSW 2001

1300 337 301  
[policy@fpa.com.au](mailto:policy@fpa.com.au)  
[www.fpa.com.au](http://www.fpa.com.au)

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