

Code Working Group Discussion Paper – Submission from Cecilia Farrow

Feedback on CWG Paper in relation to:

1. Financial Planning Description for Personal and Business Risk Insurance Advice
2. Qualification Level for Risk Advisers
3. Recognition of Prior Learning (RPL) approach
4. Product Advice category

Limitations on my comments

I am making my comments specifically related to the Life Insurance sector

Financial Planning Description

The CWG paper proposes that practitioners who are providing advice to clients regarding the transfer (insurance) of financial risks they face as a consequence of death, disablement or a health event are defined as Financial Planners.

Referring to the FSPB description of Financial Planning (FP) – it defines FP as a process involving consideration of **all aspects of a client's financial situation** when formulating strategies and plans.

I think it is fair to say that the 'brand' of Financial Planning is well established globally with all market participants as meaning the practice as described above and would always include advice related to wealth accumulation and investment other than when the Financial Planner has agreed to a lesser scope of service for a particular reason.

Advisers whose **sole discipline** within the spectrum of the aspects of a client's financial situation, is to provide advice on the financial risks from the events of Death, Disability and Ill Health, would rarely be perceived by market participants as Financial Planners even if they were applying the six step advice process to their specialist area.

Probably, to brand all advisers, irrespective of their line of service or services as Financial Planners, is going to create confusion in the minds of consumers.

The service of providing advice to consumers on their Life, Disability and Health Insurance needs, requires a name/description which is easily understood by consumers and which makes it clear the which aspect within the Financial Planning spectrum is being provided.

Notwithstanding which name it is given advisers providing a service in financial risk management advice should be required to follow the global risk management approach which is fundamentally the same as the six step financial planning process.

Qualification Level for Life, Disability and Health Risk Advisers (LDHR)

The current assumption is that the large majority of LDHR advisers have no formal qualifications.

Our sector is not the first to face the challenge of regulators requiring knowledge, competency and skill standards to be lifted and so there are many examples we can look to within NZ to gain understanding of how they transitioned through the process to bring incumbents up to the higher standards using Recognised Prior Learning processes and to bring new entrants into the regime.

The fear being expressed currently is that there would be a 'mass' exodus from the sector if qualifications were imposed on current practitioners. It is not an unreasonable fear but it should not become the driver of the outcome. Current sector **specific** qualifications available include:

- Level 5 Certificate
- Level 6 Diploma

The current level 5 certificate (depending on the provider) provides 40-75 credits. A credit is expected to involve 10 hours of 'study'. This implies the current level 5 certificate purports to deliver the relevant knowledge required to provide advice in 400-750 hours of learning i.e. 10-18 weeks of full time study.

The market feedback from advisers who have a number of years of experience and then undertake the Level 5 Certificate is that it is so 'superficial' it is hardly useful.

We also know that new advisers who complete the level 5 certificate are inadequately educated to provide personal advice.

My view is that setting the foundation level for LDH Advisers at the current Level 5 certificate would not help advisers currently in the sector to be more knowledgeable and competent nor would it drive better consumer outcomes. Advisers would incur costs to obtain the certificate and costs in productivity while they are learning.

In part this could be that the unit standards are not well defined but I anticipate the most significant issue is that the low level of hours involved in a certificate level qualification severely limit the depth of the content.

The process of consulting, analysing financial risks, developing an appropriate strategy – including selecting the solutions and structuring the ownership, managing the implementation and then managing issues as they arise such as claims has many aspects of complexity.

My view is that an entry level qualification for **Personal** LDH risk advice should be a Level 5 diploma (currently not available) which would require a learner to complete 120 credits (or 120 notional hours).

Advisers who work in this market sector should need to demonstrate knowledge, competency and skills expected from some-one who has a level 5 Diploma.

Segments of the LDH sector which has not been addressed in the CWG proposals are the Business Risk sectors where advisers are consulting and implementing solutions to manage the financial risks resulting from the loss of owners and key people.

I group Business Risk in 3 segments:

- Microbusiness Risk Advice (sole owner/ small Ltd enterprises/1-5 staff)
- Complex Business Risk Advice (multi shareholder/5-100 staff)
- Agribusiness Risk Advice (all farming and agri sectors)

The level of knowledge, competency and skills required for these segments is significantly greater than the Personal Risk market and a minimum level qualification should be a level 6 Diploma.

A level 6 diploma involves 240 credits (or 240 notional hours).

Recognition of Prior Learning

The CWG have proposed that all advisers other than those in the category of product advice **must have the competence, knowledge and skill** to give the financial advice **to the minimum standard reasonably expected** of an individual who has attained 10 a level 7 qual or higher and a level 6 qual in financial planning and advice process.

Recognised Prior Learning (RPL) is a well-established protocol and the NZQA website provides good insight into how RPL can be used within a qualification framework.

“RPL is where existing skills and knowledge, usually gained through work, independent study, informal learning and life experience, are recognised as being equivalent to those taught in a formal education setting for the purposes of awarding credit toward a qualification.” NZQA website

Based on the reading I have done, RPL can be achieved using a range of processes such as:

- Submission of a portfolio of work to provide evidence of the knowledge, skills and competence at the required standard. This is assessed by an expert
- Challenge tests – the adviser opts to complete the tests/examinations of the qualification without undertaking the study. Typically, an 80% pass mark is required
- Client attestations

Where gaps are identified in through the RPL education must be undertaken to meet the standards.

This could be done through a series of short courses potentially using a range of mediums such as e-learning, webinars, case studies, micro-credentials, workshops.

RPL has been used by some sectors to enable ‘grand parenting’ to give the equivalent of the lowest acceptable qualification.

RPL would be a pragmatic process that would enable advisers with experience to gain recognition of that experience and therefore be ‘qualified’ as having **the competence, knowledge and skill** to give the financial advice **to the minimum standard reasonably expected** of an individual who has attained the qualification level appropriate for the type of advice they are providing.

I do not hold the view that the RPL should only apply to advisers with a certain duration of experience e.g. 10 years. All advisers in the market currently should be able to apply to use the RPL process.

Many LDH advisers have chosen not to be part of a professional body which required ongoing minimum levels of CPD – observationally this has appeared to be particularly so in the older generation advisers. I anticipate many advisers with relatively short years in the sector are more competent and knowledgeable than those with many years of sector participation.

Product Advice Category

If a customer is being recommended/sold an insurance policy without advice as to its suitability for their needs and further, without comparison to other policies in the market within the product category then the word ‘advice’ should be precluded from the description of the service.

The process is a policy sale so a more appropriate description is Policy Selling.

Cecilia Farrow

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