

The elephant in the room

Tony Vidler | Strictly Business | 30 July 2012

There is every prospect of this article achieving the virtually impossible – offending everyone in the industry. Despite that risk, there is a significant issue that as an industry we have refused to address, and it is timely to begin discussing it.

If we wish the “industry” to graduate to a fully fledged profession in its own right, we have to face up to an ugly truth, which I will refer to as our “elephant in the room”.

Collectively, as an industry, we TRY to confuse consumers.

Everyone knows this elephant is there – it’s nearly as big as the room itself – but nobody wants to acknowledge that it is in the room. It is... well... a terrible inconvenience that shouldn’t be permitted in the drawing rooms of the better part of society. If we refuse to acknowledge its presence, then it perhaps doesn’t really exist as an issue, does it?

Let’s begin with a simple question that any reasonable consumer might be expected to ask of a financial adviser somewhere near the beginning of an engagement: “How are you qualified as an adviser?”

What answers would they get from different corners of the industry? Usually, we answer in acronyms – they do sound more official and lofty, don’t they? If pressed, or if the customers’ eyes have not glazed over instantly, sometimes we enthusiastically tell them what the acronym stands for. Possible answers to this basic question:

- We have CFP, CLU, CFA, CA as full professional qualifications recognised and enshrined within the Code.
- We have ALU, AFP as professional designations reflecting a degree of formal training & experience.
- We have AFA and RFA as levels of licensing for financial advisers (and even perhaps QFE in this category).
- We have NCF5 as an educational standard, together with Dip. Bus. of various sorts.

Industry participants use these as designations and qualifications quite recklessly – and some are neither qualifications or designations at all.

A designation is a distinctive title to categorise a group of people who share common (usually professional) characteristics.

A qualification is something which is attained after the required blend of academic or technical skills, adherence to a set of standards governing the use of the title and (usually), the behavioural and/or supervision requirements have been met. It also usually has an ongoing quality standard – or if you like, a process of ensuring enforcement of the required standards.

A license, be that legal registration or formal market authority authorisation, is permission to conduct business in a jurisdiction managed by that authority.

An educational standard is simply that. It is recognition that a course of study has been completed satisfactorily.

Yet, as an industry, we allow the interchangeable use of these acronyms to suggest any or all of these things to any consumer.

Of course, it is noteworthy that the majority of the financial advisers in the industry apparently ignore the qualifications and designations issue entirely. One must assume that they would probably rely upon the misleading practice of announcing a licensing permission as a professional qualification to answer the consumer’s question.

Moving beyond that, we now have the newest industry body – the TNP Professional Association – suggesting the need (and their intent to launch) a new acronym for their advisers. The ALA (Associate Loan Adviser) is apparently to be added to the mix to help industry and consumers alike. It’s not apparent at this point whether this is intended to be a full professional qualification, or just an acronym appendage to portray higher standards, or something that is somewhere in between these extremes.

Before the howls of protest begin – or the accompanying accusations that I am pushing a particular agenda for or against any particular party or acronym – we should step back and reflect upon the simple question of what we are all trying to achieve. Put aside all the vested interest that the various acronym-pushers promote and think much bigger picture.

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Surely, our over-arching objective is simply getting consumers to have confidence in us as financial advisers and, ultimately, to consider that they can have complete trust that financial advisers are professionals who have the consumers best interest as their primary objective. That objective will not – it can not – be achieved while we endeavour to confuse them because industry participants wish to push particular barrows of self-interest. There is undoubtedly some commercial element to the promotion of various acronyms and, unfortunately, in a world of confusing choice, there is a tendency for advisers without a clear value proposition to seek to use an acronym as being their apparent value to the consumer.

There is a real risk that the announcement of yet another acronym will add to the confusion and may well be a signal to the market regulator that it is time to intervene in this nonsense. That intervention conceivably might be as gentle as providing guidance and instruction to the market participants. It might be an education campaign (in conjunction with many other interest groups and government agencies) to educate the public on what these things all mean, regardless of the impact upon advisers. It is always possible that if regulatory intervention was necessary to clear the muddied waters for consumers, the regulator itself might come up with even stronger actions. Could market authorities ban the use of certain terms and acronyms? Or restrict advisers to only using one of a short (approved) list? I believe so.

If the industry itself cannot agree on common standards and meaning, and that lack of cohesion is preventing the essential goal of regulatory reform from being attained, isn't that potentially the catalyst for an external party to impose common standards and terminology?

And there's the thing for the industry – if we want to avoid having a regulator impose a set of standards that we may not like, then by crikey we'd best head that off by sorting it out ourselves before the regulator feels it has to

In order to do that, we'll have to begin by forming a common view of two things:

1. what gives an adviser permission to enter and compete in the market at a basic level; and;
2. what is expected of a professional adviser operating at the highest standards?

The regulator has provided the answer out to the first question. (Why? Because we as an industry could never put aside the various conflicts of interest and agree to set standards that we designed.)

We still have a chance to shape the answer to the second question, however. A professional qualification, as used in any other profession, will consist of broadly four elements:

- a. Tested academic achievement/technical knowledge;
- b. A period of professional supervision;
- c. Standards of behaviour exceeding legal minimums (i.e. "ethics in action") focused on the consumer; and,
- d. A robust process of enforcement operating with judicial independence.

When considering whether any of the acronyms listed at the beginning of this article are professional qualifications, assess them against these four points.

It seems to me that those listed as professional qualifications and acknowledged within the Code – CFP, CLU, CA, CFA – clearly do meet the four criteria. They must therefore be the starting point for any discussion about future professional standards, and all else should be relegated to the dustbins of history. The sooner the better, too.

Of the professional qualifications listed, three are essentially specialist designations. That is acceptable in any profession, where specialisation over and above the minimum professional standards can (or should) be recognised as its own discipline.

This all leads to the following question – The CFP Certification As A Universal Minimum Standard For Adviser Competence? (*Nerd's Eye View*, Michael Kitces, Monday, 23 July, 2012). Michael is one of the most respected thinkers and writers internationally on best practice standards, and the evolving field of professional obligations for financial advisers. His article is well worth reading – for any financial advisers who plan to stay in the business long term. Most importantly though, he raises a fair question.

While considering the merits of such a standard, Michael does make some other very valid points that can, and should, be applied to any discussion around any professional qualifications:

"While the CFP marks – as with any standard – don't unequivocally mean someone will get the best and most optimal advice because the adviser has the CFP, that's not the point; in the end, the purpose of such a standard is not to define a best practice, but instead the minimum acceptable standard to ensure the fundamental protection of the public..."

Regardless of what particular qualification is ultimately settled upon as the minimum for a profession, there will be no guarantee of satisfied consumers from having dealt with an advisers with that qualification.

"Of course, the reality is that having a CFP certification alone does not unequivocally mean someone is going to get the greatest/best/optimal advice. That is true of any standard. Not only because there will be people who from time to time violate the standard (just as there are criminals who violate the fiduciary standard, steal client money, embezzle, etc), but because a minimum standard is not meant to be a sign of best competency but simply minimally acceptable competency."

We must begin by agreeing as an industry – including product manufacturers, regulators, educators, and the multitude of various adviser groupings (commercial and non-commercial) – that we actually aspire to be a single profession of financial advisers some day

financial advisers some day.

If so, what do we collectively expect as a minimum standard of a professional financial adviser?

Then, we need to work out what rubbish needs to be consigned to the dustbins so that we can concentrate on some

real qualifications and standards that actually mean something to our customers, and promote confidence in using professional financial advisers.

Tony Vidler is an AFA and principal of Strictly Business which provides advice to the financial advice industry to help financial advisers become better practitioners and build more profitable businesses. <http://www.strictlybiz.co.nz> He is the financialalert Person of the Year 2011, and current chairman of the board of the Institute of Financial Advisers.

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5 comments

by Murray Weatherston 05:33PM 30th Jul '12

What naked self (IFA) interest.....

Where is the disclosure that Tony is the Chair of the Board of IFA?

I would have thought that via the Code of Practice, the Regulator has also answered the second question that Tony wants to answer with teh IFA solution.

It is interesting that Theresa hatton above openly ays she has wanted to leave IFA for years. I wonder if she would be prepared to elaborate why?

by Peter Flannery 05:42PM 30th Jul '12

yes...

well said, it is an issue. Not sure whether the public care. As and industry / profession the public appear to have little understanding about what we do and how we add value. Mostly, apart from our own clients, it seems that for the most part, we don't really exist! Therein might lie the opportunity...

I think the IFA are doing some good work...good on them.

Thank you for raising a real issue. Looks like it might be time to upgrade my already old "qualifications".

by Simon Hassan 05:55PM 30th Jul '12

Acronyms as sheep's clothing

Thanks Tony.

The Financial Advisers Act prohibits 'misleading, deceptive and confusing' disclosure, conduct and advertising by financial advisers and others in this space – setting significant penalties for those who fail to comply.

The Act gives FMA the role and powers required to enforce these important rules.

Given that public confidence is core to the purpose of the Act I have no doubts whatsoever that FMA will consider the potential for acronyms like those Tony mentions to mislead, deceive and confuse 'mum and dad' members of the public alongside other forms of potentially misleading, deceptive and confusing conduct – and take action as appropriate against those is considers have crossed the line.

by Deirdre Keown 05:59PM 30th Jul '12

Disclosure

Murray, you raise a valid point. We'll now add a note regarding Tony's role with IFA.

by Tony Vidler 07:00PM 30th Jul '12

My role within & membership of the IFA is as irrelevant here as the ChFC qualification I obtained many years ago Murray. The IFA connection here is as irrelevant as your SiFA connection. From past feedback I can assure you that articles like this disturb IFA members occasionally, as they do non-IFA members. Such is the nature of writing opinion pieces – they often initiate debate, which is often uncomfortable for people.

This is an opinion piece, clearly labelled as such, in my capacity as an adviser & consultant. Which is also clearly labelled as such.

Perhaps addressing the issue raised would be more useful for everyone rather than what amounts to little more than playing the man off the ball.

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