What if the game changed overnight?

Tony Vidler | Strictly Business | 03 December 2012

Hypothetically speaking, imagine if suddenly every New Zealand financial adviser had to be an AFA by... oh, say... December 2013? Or worse, June 2013? No more Registered But Not Authorised Financial Services Providers. Just a simpler world where an adviser is authorised to be in business providing financial advisory services themselves, or they work for an institution that is authorised to provide advice.

Most of the key decision makers in the financial services sector have concluded that this is a probability in time. Nearly everyone agrees that it is most likely to occur within three to five years when the newly regulated advice world has settled down and everyone knows how the game is to be played. The end game is generally agreed to be all advisers as either AFAs or under a QFE.

Recently, though, someone posed a superb hypothetical, asking me "but what if it wasn't three years away; what if it was next year?"

That idea sort of takes your breath away, doesn't it? But, a little reflection suggests that maybe it is not such an outrageous question. Maybe the question is so good that it's best we ask ourselves (as an industry) that very 'what if'?

As it stands, we have something like 8,000 to 10,000 financial advisers in New Zealand, of whom about 2,000 or so are currently AFAs. By all accounts, there are a large proportion of Registered Financial Advisers (RFAs) who can pretty much complete the last step of applying for authorisation whenever they want to, but who have basically chosen not to do so at this time for their own reasons. Conceivably, then, perhaps (and it IS a big perhaps!) half of RFAs either are, or can be very quickly, AFAs. The other half would need a reasonable timeframe to be able to make the transition.

Immediately after asking the big 'what if', though, your thoughts turn to the implications.

What might be good about it

- There is little doubt that the financial adviser licensing and authorisation regime is still confusing for the industry itself, and could be improved with some simplification or streamlining.
- There is little doubt that consumers generally have no idea what the difference is between any sort of financial adviser regardless of acronyms.
- There is abundant confusion within the industry – and mostly ignorance outside of the industry – about: what registration or licencing status is/means; what is a qualification; what is a designation. Actually, the three quite different things get used interchangeably by many within the industry.
- It seems apparent so far that the majority of advisers are actually doing the work of providing advice in a manner and process that is consistent with the principles of the Act and the Code, regardless of their licensing status. By that I mean that the majority of RFAs

and the Code, regardless of their licensing status. By that I mean that the majority of RFAs have embraced the AFA standards and embedded them into their business processes anyway, or are a long way down the path of doing so.

- The wider industry has no real compulsion to adopt high advice standards yet, to become trusted financial advisers to consumers, we need to be known for universally providing high advice standards.
- The industry is still essentially divided into a multitude of camps, often centred on preferred business structures or specialty disciplines. The common denominator has been laid down in law but has yet to become a unifying force that could give the industry the lift it needs in consumers' minds.
- The overall cost to industry of regulation would be more evenly balanced and apportioned – it would be a fairer system
- The advice side of the industry would be easier to regulate and administer. Theoretically, that should act as a constraint upon escalating licencing costs and levies.

Some not so positive implications

- For many advisers, this would create a direct cost impost (further education/licensing costs) that they may not be able, or wish, to bear.
- There is the potential to accelerate the exit of some advisers (which the RFA regime effectively prevented) or drive a higher proportion of advisers reluctantly into an institutional arrangement.
- It is another business distraction for many advisers who would have to direct their attention to the business of getting authorised – there would be a short-term productivity loss for the industry.

I am sure there are many other positive and negative implications not listed here but the above were the more significant ones that occurred to me.

When a question like this is posed, it is worth considering again what the purpose of the regulation is supposed to be. The primary objective of regulatory reform was to increase the participation in the use of financial services and trust in the industry by consumers, wasn't it?

If that objective has not yet been met – even if it is relatively early days – you would imagine that at some point in time the objectives of the Act are going to be a benchmark by which we all – regulator and industry participants – will be assessed. We can probably all agree that, at this stage, we are not seeing any significantly increased trust in the financial services sector by consumers, are we? We can probably all agree that we aren't seeing any significant increases in product purchases or general savings and investment rates by consumers, are we?

So – what if the powers-that-be decide to change the rules such that every NZ adviser had to become an AFA not in three to five years as expected, but by December 2013? Would darkness descend on the industry? Or would it be a new dawn?

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