

Crystal ball (part 2)

Tony Vidler | Strictly Business | 21 November 2013



LOOKING AHEAD

The New Zealand financial services sector is still in a state of evolution, and the financial advice profession is still evolving. A profession exists when consumers have faith in the ethical and behavioral standards because those standards create predictable and desirable consumer experiences.

Any consumer knows the behavior and ethics they have a right to expect – almost unquestioningly – from dealing with a profession.

But to create predictable professional experiences at a minimal professional level requires that standards meet three basic requirements:

1. Universal
2. Visible
3. Enforceable

Universal standards do not require uniform licensing status, nor do they require particular business structures or levels of independence. The existing system provides a high level of flexibility, autonomy and responsibility for different types of financial advisers. Advisers can choose to partner with an institution who will take on an agreed level of responsibility in exchange for an agreed level of control, or advisers can choose business independence and full use of product and advice spectrum in exchange for higher personal standards of responsibility. Or, advisers can choose some level in between.

This presents an excellent balance between regulatory intervention and free market enterprise – provided the same level of behavior applies equally across all market participants, but that is not the case at this time. We do not have universal ethical or behavioral standards. Public trust and confidence will not be achieved until there is ethical uniformity.

The varying standards we do have are not really **visible** to consumers. Sure, there is information out there to some degree explaining our various acronyms. But there are so many acronyms they are already meaningless, if not downright misleading, to consumers. To the majority of consumers a QPB is probably something like a QFE, as are an AFA and RFA, or a CFA and a CRA. The list could go on interminably, couldn't it? The acronyms are meaningless.

We have not achieved **visibility** in professional standards – we have achieved obscurity. That must change if we are to achieve public confidence in a profession.

There is still the rogue'ish element that continues to operate on the fringes of the industry. The barriers to entry for a financial adviser, as defined in law, are remarkably low. A bankrupted serial con artist can still enter the industry and provide wise counsel to unsuspecting consumers while earning a significant income.

Inside the industry, we witness vicious parochialism, character slurs bordering on the defamatory, and inane self-promoting or self-protecting arguments occurring in print on a daily basis. There is division and numerous "us and them" factions with bitterness and acrimony deep-rooted somewhere back in history that is poisonous – and often played out publicly. At the very least, it is immature and irresponsible behavior. At its worst, it is destructive and counter-productive to generating confidence in the advice industry.

Consumers can, and do, read or see this behavior played out in public. It cannot give them confidence in the advice industry on the whole. If anything, we risk collectively being seen as

laughing stock.

"Fit and Proper Person" rules, professional behavior, and the enforceability standards to support both must inevitably become more stringent in the bid to raise public confidence in an industry trying to evolve as a profession.

We have brought it upon ourselves.

As the various regulatory authorities move closer to finalising the infrastructure and regulatory framework for the institutional side of the business (which extends well beyond just managing QFEs), and as we move into year four of financial advice reform, my crystal ball suggests that we should expect the big themes to be:

1. Increased scrutiny, oversight and intervention in ethics and behavior across the market.
2. Discussion (if not outright resolution) of raising industry entry standards.
3. A greater focus on monitoring, supervision and enforceability of advice standards to promote public confidence in the sector.
4. Debate without resolution on financial literacy issues, until genuine collusion occurs across the industry. Regulators or government will be the primary catalyst for it.

There is one standout area, however, which I am not brave enough to call a prediction, or even a trend. It is more a mood that could be a major game-changer in rapidly evolving as a profession and building public confidence.

There are many advisers across the market who can, quite rightly and proudly, call themselves professionals – individually. Covering different areas of specialisation, business structures, group or business affiliations, there are many advisers with a common mood for raising the collective profile of professionals in the industry. Some are members of industry associations; many are not. Some have academic qualifications; many do not place any credence on additional acronyms. Risk advisers, investment advisers, lenders, bankers – you name it – there are caring professionals right across the advice spectrum.

The common denominator is "they care". They care about more than just themselves and their own businesses. They care about their professional reputations and their society. And, they care about the legacy they are creating for future generations.

There is a power in that collective mood and the many advisers with similar views will possibly find a way to work together for the common good, perhaps through a financial skills coaching programme or a pro-bono scheme.

This could well be the unifying force internally (within the advice sector itself) that could be the game changer with greater consumer influence than any interventionist can bring to bear. The influence and ability to change consumer perception reasonably rapidly would be created from the apolitical efforts of caring professionals committed to using their professional skills to improve the wider community's prosperity.



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. Tony was the financial alert Person of the Year 2011.

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