



**G3 FINANCIAL
FREEDOM**
Goals + Guidance = Growth

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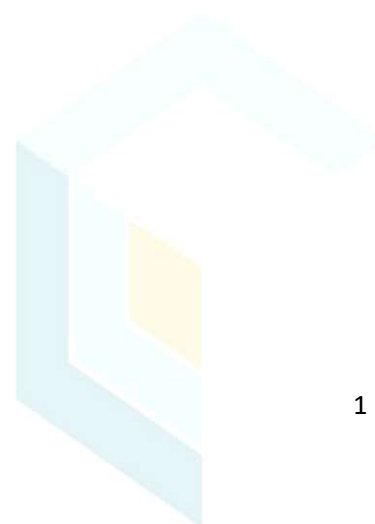
Submission to

Code Working Group

**Code of Professional Conduct for
Financial Advice Services**

Consultation Paper

30 April 2018



Information about us

Company: G3 Financial Freedom Limited
Directors: Jane Benton and Charlene Overell
Contact details: S 9 (2) (a)

- Our business is made up of the directors who act as comprehensive financial planners. We have administration support via our office manager.
 - We have over 30 years of financial services industry experience each, both in the UK and in NZ
 - We are both Certified Financial Planners, Chartered Life Underwriters and Accredited Investment Fiduciaries
 - We are a professional fee for service business, providing financial planning services of a wide range
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Principles for drafting the Code – Good Advice Outcomes

We feel that the term 'good advice outcome' is not an appropriate statement. Whilst there is an expectation of a good advice outcome for consumers, we find that such an outcome is immeasurable and your Principles do not quantify what this means for the consumer. For example, Principle 1, no. 52 explains that a 'good advice outcome' does not necessarily mean the product performs well as you will be focusing on process.

We understand process is vital and would expect, in all situations, that the six-step process be followed. However, we believe that from a client's perspective, a 'good advice outcome' means exactly that. However, this wording seems to indicate that if the quality of advice is low (and how will this be determined or not?), then the client expectation on a 'good advice outcome' is to be low - yet this isn't what the client would expect.

Principle 1 no. 61 moves to a 'service code'. Our concern here is that from the client's point of view, they may feel that are receiving 'good service' and a 'good outcome', yet in reality, what they have been advised on or had set up via the adviser, may not be in their best interest or, as is the case here, having regard to what is putting the client's interest first.

As the wording currently goes, it doesn't appear prescriptive enough and is not measurable. It doesn't differentiate between 'sales' and 'advice'. 'Advice' is planning and providing advice that is putting the client's interest first, which may not involve the selling of any product. Yet, an adviser focused on 'sales', could still 'sell' a product, earn commission and provide a good service to the client, but that may not be putting the client's interest first and not be a good outcome – how would the client know?

We are not sure what the detail around changing the wording should be, as this is such a grey area.

What we really want to see going forward, is all advisers following a six-step process, any advice being in writing or recorded, any product recommendations being compared to what the client already has (which is currently not happening with the BEOT providers when it comes to them promoting their own KiwiSaver and insurance products) and advising the client what their outcome would be if the advice was taken up.

Ethical Behaviour

We agree with the 'Honesty, fairness and integrity' wording on pages 23/24 and the framework for standards in points 84.

In terms of having two categories of minimum standards, we believe this is NOT needed. The code needs to provide the basis for appropriate and quality ethical behaviour and if FAPS wish to apply greater standards as part of their business model, or the FAP or advisers wish to belong to a professional body with higher standards, that's up to them.

If there is a requirement to meet ethical behavior standards as stated, then there should be a requirement to prove the FAP or adviser has met these or can prove they are aware of them. This can be part of the adviser's CPD/PDP as is now for AFAs. If a FAP chooses to have higher ethical standards/processes in the business, then again, as part of their operational manual, we would expect to see some form of written process as to how the FAP and the advisers meet this e.g. the checking of the advisers CPD/PDP, providing access to ethical training, promoting higher qualifications of a fiduciary nature etc.

If the wording around 'good advice outcome' is restructured somewhat, then we would expect ethical behavior to be a 'normal' part of the adviser's role, where they can prove this.

If the FAP has a higher code of ethics, it is up to the FAP to share that if they believe this is a benefit to clients, and it should not be requirement to have this publicly available.

It goes without saying therefore, if proof of behaving ethically is required, as it should be, then access to training is needed and proof provided. The IOSCO report does give some good suggestions on how an organisation can include training and processes to provide an ethical culture.

The BEOT, having remuneration structures and KPIs that encourage, and demand by way of quotas, the sale of certain products has been the ethical dilemma to date. We believe that transparency of fees from all advisers will result in positive behavioral changes.

If a FAP has limited product range and is only able to offer the client that, then although ethically there may be products in the marketplace, if the FAP and adviser has, via their Scope at the outset, advised the client of that limited product range, that they are unable to provide comprehensive impartial advice and how they are remunerated, then the client is aware of the limitations that apply and can make an informed decision whether to engage those services. The six-step process can continue to be applied however and any conflicts of interest declared.

Resolving ethical dilemmas

FAPs should have a process for resolution and advisers within a FAP have training about this – similar to the current client complaint process potentially.

Advice giving Standards

As already mentioned, the six-step process should always apply, in whatever advice is being given as even in a limited advice situation, this can be recorded in written form to the client, via file notes, video or voice recordings – any form that legally is deemed as 'written'.

Advice given should always accompany a suitability analysis.

We feel that other components that should be included in the design considerations of an advice process, are: competency, qualification and skills of the adviser/FAP to ensure these are appropriate to the level of advice being provided.

Advisers and FAPs who consider themselves professionals, should be encouraged to belong to a professional body to demonstrate good advice process and adherence to that body's professional standards and requirements for membership. In many body's these are greater standards than the Code minimum requirements. We all want to have a 'profession'.

Advice process

We see no need for the Code to provide guidance material or be a consult. Firms can choose their own ways of complying and meeting their own internal standards of behaviour.

Client Data Confidentiality

We're a little confused here, as if the current Privacy Laws and legislation protects client confidentiality, the code doesn't need to add to this.

With reference to point 100 bullet point 6 "client information should only be held for a long as it is required, then it should be disposed of, or deleted securely" – if we have a 'live' client for 15 years, we need to be able to retain information for that length of time, and not be forced to delete it after say 7 years, so the word 'should' is in appropriate.

Personalised Suitability

We feel that this to date has been an issue of 'sales' versus 'advice' and this needs to be removed.

Fit for purpose is quite good for the example you give.

The minimum standard should remove the discrepancy that currently exists between AFAs and RFAs. An example would be where KiwiSaver product sales/advice is provided. A level playing field needs to apply whilst also ensuring the advice is fit for purpose and the product sale/advice does meet a suitability analysis undertaken with the client.

The suitability analysis can and should still be part of the six-step process but of course, the questions asked of the client will be less than comprehensive financial planning and should relate to obtaining all the relevant facts about the client in relation to the advice being provided.

The minimum standards should include wordings around the minimum type of questions required to be able to demonstrate the advice/product is fit for purpose and that a suitability analysis as proof has been provided.

We need to keep the processes short yet effective, whilst keeping the costs of providing the advice low to the client.

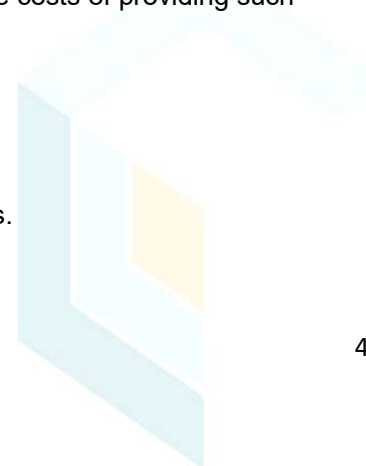
There needs to be proof on the adviser/FAPs client record, that the client has requested limited advice, or is requesting an 'instruction only' service and that the client signs to understand what this means and that they are taking their own responsibility for any implications to their wider affairs about not receiving wider advice.

Although there has to be good process from the FAP/adviser, acting with honesty, fairness and integrity and where any conflicts of interest are shared with the client, the client does need to understand their role in the relationship and be clear about what they want and why and that the adviser cannot be held responsible if the client deems to only want little, if any, advice. Currently, the AFA model versus the RFA model means consumers are not receiving the quality advice that AFAs can provide due to the costs of providing such advice, yet the RFAs are providing no advice with no costs.

General competence, knowledge and skills

Advice needs to be evidenced.

Your interpretation of financial planning is not what a true financial planner does.



This is a matter of 'sales' versus 'advice' again. True comprehensive financial planning is provided where advice is in the best interests of the client and does not necessarily lead to product sales. If product sales are a result of part of the process, this is demonstrated to show that the outcome for the client is beneficial.

An insurance adviser is not a Financial Adviser. Neither is someone providing lending advice, or estate planning advice, or investment advice. The terms need to be broadened out. An Insurance Advisor provides insurance advice (this could be personal or business insurance services and products). A mortgage adviser provides advice, products and services around the client obtaining loans, and so on.

The term financial planning would benefit from having the word 'comprehensive' or 'full' in front of it.

Even using the terms insurance planning may be confusing for insurance advisers who are remunerated for providing advice on products. The term 'planning' is about providing advice and planning to ensure good quality outcomes to meet a client's needs and circumstances and this may not include new product sales.

We need to encourage more qualification within our industry and for advisers to strive for higher levels too.

When the AFA regime was introduced, we saw a reduction in advisers wishing to increase their knowledge and skills by way of education and examination. The confusion created by the introduction of RFAs and AFAs as two types of advice levels needs to be reversed. If a person does not have the relevant competence, knowledge and skills to give advice then refer them to someone that does rather than relying on organisation structures to tick the boxes for you.

Level 5, we agree, should be the minimum for ALL advisers. We do not believe that just because an adviser has 20 years of skill knowledge that they should be grandfathered in. They need to sit the Level 5 too.

There needs to be a timeframe for the existing advisers to meet Level 5.

Financial Planning is different from Financial Advice and we feel Level 7 with a financial planning qualification is required. If a degree is already held, then the relevant financial planning papers should also be taken on top, to demonstrate competency and skill. For example, I may have a finance degree but that doesn't mean I have the skills to be a financial planner. A minimum time period in the industry as a practitioner should also be a requirement before the individual is 'unsupervised'.

We believe that increases to education standards will promote the quality of advice available to consumers. Having a clearer education path into the industry should encourage new entrants as they will have a recognised pathway.

No further costs for us right now as we are already CFP, CLU, and AIF. However, that said, education and qualification is an investment in ourselves, along with continued CPD.

We do not want the 'in aggregate' approach to financial advice. If a new employee comes into the business, then they should have the supervision of the FAP or senior Financial Adviser be responsible and sign off for all dealings with the client and the advice given, until they are Level 5 qualified. Once Level 5 attained, then the individual can be responsible for that advice. When financial planning advice is to be given by that same new adviser, then again, supervision by a senior qualified Level 7 adviser should be provided and the responsibility be on the Level 7 adviser, until such time as the new employee becomes fully qualified as a Level 7 themselves.

Organisational standards

This is similar to our current ABS is it not?



Introducing a manual specific for internal checking by the FMA does seem to be onerous and costly and we're wondering how this benefits the consumer if they don't see it. Having disclosure is one thing however, surely the process around how we provide the quality advice we do, is just as important to the consumer.

We understand the need for documents that demonstrate a businesses processes, systems, dealing with clients, recording of client interactions and ethical behaviours for example, however, please do not introduce another manual just for the sake of it. How will this be policed and checked and what relevance will this have to the end consumer if they don't see it, just like our ABS currently is.

Also, if it is supposed to link back to your view of proving 'good advice outcomes', then we're not sure how this will work having read our views on the concept of 'good advice outcomes' as proposed.

The impact on our business should be minimal based on the current proposals in terms of client advice and processes. However, the cost and time involved in obtaining a license remains unknown for small businesses such as ours.

Submission presented by Jane Benton & Charlene Overell
Directors

