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<u>Swimming through the alphabet soup of financial planning</u>

The 1st of July may have been unexceptional for many, but for anyone in the business of providing financial advice, it was a watershed day. That's because as of the beginning of July, anyone providing professional financial advice must be an Authorised Financial Adviser, or AFA.

Why is this? The Government passed the legislation in the wake of over thirty finance companies collapsing, or suffering serious financial losses, in recent years. These are corporate failures which have seen thousands of New Zealanders lose millions of dollars, and in the most tragic cases, even their own homes.

One of the cornerstones of the new regulations is that any Authorised Financial Adviser is required to act in their client's best interests. In other words, they should be trustworthy, performing the role of fiduciaries, a term which means someone who can be trusted with your money. To achieve AFA accreditation an adviser must have undertaken studies, written exams and demonstrated an understanding of the need to act in clients' interests – a process that would have taken numerous hours to complete.

The motivation behind the new rules is certainly welcome. But it is not the case that every financial adviser now has the same level of accreditation. Instead, as a consumer, you may find yourself swimming through an alphabet soup of accreditations in your search for the perfect planner.

To begin with, advisers don't have to be AFAs. A Registered Financial Adviser or RFA can advise on restricted range of product types. Advisers who are members of the Institute of Financial Advisers may already be Certified Financial Planners, CFPs, or Chartered Life Underwriters, CLUs, qualifications which are not legally required, but demand far more commitment. The CFP and CLU accreditations require greater levels of study at diploma level over several years and are internationally recognised designations.

Your advisers may tell you that they are CFAs, or Chartered Financial Analysts. These are broadly similar to CFP qualifications, but issued by the CFA Institute, an organization with offices in the US, Europe and Hong Kong.

If your advisers are AIFs (Accredited Investment Fiduciaries) they have received more extensive training on fiduciary processes – the way in which an advisory business is structured to avoid conflicts of interest

While knowing the definition of all these TLAs – Three Letter Acronyms – is one thing, what do they all mean? Sure, an AFA or RFA is a legal requirement, while the others are not. And among the voluntary accreditations it can be argued that some indicate a greater level of commitment or knowledge than others.

But it seems to me that truly acting in the client interest goes well beyond accreditation, required or voluntary. And there are two areas where the new regulations in New Zealand can be argued to still fail to protect consumers.

The first is payment by commission. If an adviser is paid by an investment company for the advice he gives his clients, does that not put him in a conflicted position? Can consumers be sure that his recommendations serve their own best interests rather than his own? Would it not be beneficial to move in the same direction as more regulated markets by aiming to ban commission payments on investment advice and move the whole profession onto a fee for service model where advisers' interests are much more closely aligned with those of their clients?

The second is fiduciary process. Being trustworthy is not only about having certain qualifications, being intelligent or even wanting to do the right thing by your clients. It is about having proper processes in place to ensure that your clients' money is safeguarded every step of the way. Any New Zealand company can voluntary put itself forward for fiduciary process auditing by an independent certification agency, but few do. Surely this area is worthy of more attention?

In summary, while the requirement for AFAs is a good one, it should not distract the clients of financial planners from the fact that there are many other forms of accreditation which carry more weight. Nor should it distract from the fact that professional qualifications only go so far; the way that an adviser is paid and the fiduciary processes in place are far more likely predicators of an ultimately successful investment journey.

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