



Institute of Actuaries of Australia

Financial Planning – the Education of the Qualified Actuary

Howard Pitts

Presented at the:
Institute of Actuaries of Australia Financial Services Forum
26 – 27 August 2004

This paper has been prepared for issue to, and discussion by, Members of the Institute of Actuaries of Australia (IAAust). The IAAust Council wishes it to be understood that opinions put forward herein are not necessarily those of the IAAust and the Council is not responsible for those opinions.

© The Institute of Actuaries of Australia

The Institute of Actuaries of Australia
Level 7 Challis House 4 Martin Place
Sydney NSW Australia 2000
Telephone: +61 2 9233 3466 Facsimile: +61 2 9233 3446
Email: insact@actuaries.asn.au Website: www.actuaries.asn.au

Concurrent Two
Financial Planning – The Education of the Qualified Actuary
Discussion Paper

Introduction

Over the last 20 years, the focus given to Australia's saving patterns, particularly in the area of retirement incomes and superannuation, has led to a spectacular growth in the demand from individuals for advice in the structuring, protection and investment of their finances. The complexity of taxation and superannuation rules has meant that it is very difficult for an individual to be across all areas and make informed and correct decisions about their personal financial strategy.

The shift in the nature of superannuation as a key component of an individual's long term savings from defined benefit to accumulation structures has accompanied this change.

Financial Planning can mean different things to different people, and a common perception of the industry of financial advice (perhaps particularly amongst actuaries who have an acute understanding of the impact of fee structures and the folly associated with aggressive investment advice) is full of misinformed charlatans out to rip off unsuspecting and otherwise vulnerable people. The demand for advice and the appeal of the flexibility to "be your own boss" has led many with some knowledge of finance to hang out their shingle and name themselves a "Financial Adviser" or "Planner".

While there are many who well fit this description, the industry through the gradual and consistent efforts of organisations like the FPA, SIA and to a lesser extent the Accounting profession, have lifted the standard and competency of the average adviser. Now, in conjunction with the Financial Services Reform legislation, we look forward to a continuing improvement and also some shakeout of the industry of the sub-standard advisers.

The entry of Actuaries to this arena will continue to improve the level of advice provided to consumers.

The growth of the industry is reflected in the growth in the Financial Planning Association (FPA) from nothing in the 1980's to 14,000 today. This has occurred with the successful development and marketing of the Certified Financial Planner (CFP) designation to the point where it is well recognised amongst consumers generally and retirees particularly.

With the decline in opportunities for specific actuarial skills, particularly in the superannuation environment, individual actuaries are increasingly considering Financial Planning as a career option.

Financial Planning at the Financial Services Forum

The interest in Financial Planning is reflected in the number of sessions at this forum directly related to the topic. There are 3 including the session covered by this paper, and the SMSF session can be viewed as a closely related practice area.

At the time of the Forum it is hoped that the results of a survey covering interest in the topic and education of actuaries will give further indication of how the profession will move forward in this arena.

The primary focus of the session covered by this paper is to have discussion about how we assist those actuaries who wish to move into this field can be assisted or guided by the Institute to conduct themselves in an appropriate manner and offer comprehensive advice to consumers.

Action to Date

The Superannuation course was re-written during 2003 and is now entitled the Superannuation and Planned Savings course. It includes a strong component of Financial Planning. Thus, new actuaries have a foundation in the concepts, provision and delivery of financial planning advice.

The knowledge is not only beneficial in relation to those who may one day wish to practice in the area of Financial Planning, but it gives valuable insight into the needs of end users of many of the products and services that actuaries play a very large and instrumental part in designing and bringing to market.

A Financial Planning Practice Committee has now been established to consider the issue further. The initial brief of this group is to consider the issues in this field of practice. The first issue for consideration is the manner in which qualified actuaries should be given training (if at all) to equip them with the skills to work in the Financial Planning arena.

The survey due to be conducted (at the time of writing) and discussed at this session is intended to provide feedback on the issue from the wider membership.

Why are Actuaries Suited to Financial Planning

Financial Planning naturally sits under what was the superannuation course because an individual or family can be viewed in a similar context to a defined benefit superannuation fund.

Essentially, financial planning in its concept deals with a number of issues that are second nature to the Actuary as a professional. These include:

- Targeting an income in retirement – based on the level required to meet day to day needs and other items that may be part of the client’s “wish list” lifestyle and in effect a defined benefit;
- Targeting items in a lifestyle wish list prior to retirement – whether these be education for children, holidays, hobbies etc etc;
- Understanding risk and how this can impact on, or prohibit the delivery of a wish list;

- Quantification of that risk and superior knowledge of the best ways of mitigating those risks;
- An understanding of investment principals, including the concept of investment immunisation;
- The provision of long term projections and a realistic assessment of how reasonable they may be;
- Understanding of fee and product structures;
- In depth knowledge of superannuation and retirement income streams as a key component of financial planning; and
- Understanding of concepts of integration with social security and other forms of government support.

Another way of viewing this is to suggest that the Actuary is without peer when it comes to the technical skills to provide Financial Planning advice. However, and having said this, the level of training to become an actuary is well in excess of that required to offer competent and adequate financial planning advice particularly with many of the tools and technology that exist today.

What do Actuaries Lack?

From a Financial Planning point of view, there are a number of things that the Actuary does not possess or gain from their training that is helpful in the delivery of sound financial advice to an individual. *Generally* speaking, these include:

- A broad knowledge of the taxation system, particularly as it impacts upon individuals – many may however gain this from their own experience.
- A full understanding of the administration and process of the Social Security system.
- The actual Financial Planning process itself often described as the “Six Steps” to sound Financial Planning.
- Appropriate business management, selling and marketing skills – these are essential for success as a small business and the reality is that all the technical skills in the world do not guarantee business success in this arena.
- The ability to provide clear direction rather than a series of options and possibilities in a concise and understandable fashion.
- The components of a full financial plan and structuring of advice, including communication in a clear and concise manner.
- A full understanding of what individuals are seeking when they look for financial advice.
- Full understanding of the licensing and compliance regime surrounding provision of retail advice.

Thus, it is a matter of how the actuary best goes about filling in these gaps in their professional knowledge that we are now seeking to address.

What is Required vs What is Prudent

Of course, under the new licensing regime, there is an assumption that understanding of processes such as “Know your client” and “Know your product” is obtained through compliance with PS146 training requirements. That is, prior to a licensee being prepared to grant a representative status to a person providing retail advice, they must be satisfied that the person has a fundamental knowledge of these and other legislative requirements in the provision of advice.

The Institute has already had a number of courses listed as meeting the requirements of PS146 and these can be found on the website.

Therefore, there can be a distinction drawn between:

- What is required to enable the actuary to provide advice – legally, this can be relatively easily obtained through a bridging course and officially recognised demonstration of knowledge; and
- What is prudent in order to ensure that the reputation of the profession is protected through adequate training and guidance in provision of advice?

There is a temptation to believe that the status of the Actuary, the experience and training obtained regardless of when or where it was completed, enables that person to easily transfer those skills to the delivery of advice to an individual.

Points for Discussion

The points for discussion at this session of the Financial Service Forum are listed as follows:

1. Should the Institute become more active in the area of Financial Planning as a career option for an Actuary? To some extent, this step has already been taken through incorporation of the Planned Saving component of the Superannuation course. Particularly:
 - A. Should the profession be concerned that its members may seek out another qualification to be recognised as providers of this advice?
 - B. Should the Institute be concerned that members may work in this field and rely upon the disciplinary processes of other bodies to guide and monitor conduct?
2. In terms of filling in the gaps in the education of the qualified actuary, how should the Institute go about achieving this:
 - A. Should it do anything at all?
 - B. Should it offer a bridging course?
 - C. Should it defer to another professional body?
3. In the event that a bridging course may be offered, are there any thoughts on what would be the appropriate format?

4. In the event that members are referred to another body, such as the FPA or SIA as obvious alternatives? In this regard:
 - A. Should there be a formal relationship?
 - B. Should the Institute endorse a particular course or programme?
 - C. Should exemption from their education programme, or at least components thereof, be negotiated with those bodies to hasten the actuary's acquisition of that body's qualification?
5. Should the Institute take an active policy in the formulation of guidance and policy statements for those members operating in the Financial Planning arena?
6. Any other issues relevant to the discussion.

The objective is to get as many views and ideas as possible on the issue for formulation of Institute policy.

We look forward to a healthy discussion.

Howard Pitts
Convenor
Financial Planning Practice Committee

1st July 2004