



**AUSTRALIAN BANKERS'
ASSOCIATION INC.**

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Ms Nicole Chew
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Dear Ms Chew,

Training requirements

The Australian Bankers' Association (ABA) appreciates the opportunity to provide comments to ASIC on *Consultation Paper 212: Licensing: Training of financial product advisers – Update to RG 146* and *Consultation Paper 215: Assessment and approval of training courses for financial product advisers: Update to RG 146*.

The ABA notes the ABA, AFMA and FSC letter and the joint industry letter sent to ASIC on 10 September 2013 and 11 October 2013 respectively, outlining industry concerns with the proposals contained in the consultation papers. This submission builds on the views contained in those letters.

Opening remarks

The ABA supports efforts to improve the quality of financial advice and the professionalism of the financial planning industry. The industry has had longstanding concerns with the existing training system and believes a new training and competency framework provides an opportunity to reduce regulatory burden and compliance costs by removing duplication of initial and ongoing training requirements via a modularised approach, which would promote educational pathways for staff across the banking and financial services industry as well as implementing a consistent standard of core competencies across the financial planning industry, which would promote 'qualifications portability' and streamlined training and compliance systems.

The ABA notes the commentary by industry and other stakeholders with regards to the training and competency framework during the inquiry into financial products and services in Australia conducted by the Parliamentary Joint Committee (PJC) on Corporations and Financial Services¹. In this context, the industry has expressed its support for improving the training and competency framework, raising professional and training standards and attaining a balance between adequate education and training and accessible and affordable advice. The 'Ripoll Report' acknowledged the need to examine the current training and competency framework, including consideration being given to the establishment of a professional standards body for the industry. While the previous Government did not endorse a professional standards body, we believe this has merit and should be considered as part of the overall consideration of an improved framework.

¹ http://www.aph.gov.au/binaries/senate/committee/corporations_ctte/fps/report/report.pdf ('Ripoll Report')

The ABA supports efforts to enhance minimum training and competency standards and raise the standard of knowledge, skill and competency of financial advisers providing personal advice on Tier 1 products to retail clients. We are concerned that the proposals contained in the consultation papers would be a piecemeal approach, which ultimately would impose unnecessary costs on the industry and result in unnecessary uncertainty for the industry as well as the training and education sector. Additionally, we are concerned that the proposals would result in inefficient business practices and complex administration and compliance systems increasing legal and regulatory risk and the cost of running an advice business, and ultimately, increasing the cost of financial advice for consumers.

It has been difficult for the industry to identify specific recommendations or respond to detailed questions contained in the consultation papers at this time due to a number of factors, including:

- Longstanding concerns with the training standards and administrative complexities associated with the existing framework;
- Structure and design of the existing training requirements in RG 146 and standard-setting with the existing framework;
- Inability to consider the findings of the CTA research into the training standards (noting this research has not been provided by ASIC to the industry);
- Interdependencies with other regulation and reforms not yet certain, such as the TASA requirements;
- Key stakeholders not being engaged along with industry in the development of the proposals, such as training standard-setters and training organisations, academic researchers (noting in particular research into ethical behaviour and financial advising); and
- Incoming Federal Government with its own policy agenda and the pending major inquiry into the financial system.

The ABA believes that implementation of specific and detailed proposals which change the training standards and result in significant changes at this time is premature. Furthermore, the industry is suffering regulatory and compliance fatigue and any further changes must be well managed and timed appropriately. We note that the Federal Government has committed to a moratorium on additional regulation pending the major inquiry and will prioritise actions to address existing outstanding matters, including legal and technical issues associated with the FOFA reforms, TASA reforms, MySuper reforms, etc.

The ABA believes that any new training and competency framework must adopt a strategic, holistic and sustainable approach giving due consideration to an appropriate model across the spectrum of advisory situations. Advisers should be properly educated and trained to provide good quality advice tailored to the particular products they are licensed to (and actually do) provide advice on and the market in which they operate. We consider that a minimum qualification standard, coupled with a modularised approach reflecting the adviser's responsibilities, professional level, stage of career and career pathway, etc, will provide a sensible way forward for the operationalisation of an improved framework. Importantly, we consider that an improved framework should be built around a robust understanding of developments in financial services and education as well as professionalism and ethics.

Therefore, the ABA does not support the proposals contained in CP 212 and CP 215. We strongly urge ASIC to put on hold its current training standards reform agenda and allow a holistic review to be undertaken by the Federal Government with involvement of all interested parties.

The ABA makes the following recommendations and observations.

Review and consultation process

The ABA believes that the Federal Government should conduct a review and consultation process with the industry about existing training practices with a view to identifying an appropriate model for an improved framework for the training and competency of financial advisers. A Government review and consultation process to identify a new training and competency framework could be conducted as part of the major inquiry into the financial system or as a separate review to expedite implementation of any new framework as far as practicable. A review and consultation process would ensure due process and allow full consideration of the elements of any new framework to be contemplated across the industry.

Furthermore, the ABA believes ASIC and the Tax Practitioners Board (TPB) should work together as part of this process to identify appropriate educational requirements for certain subject areas and topics, such as taxation, reasonable in the context for the provision of personal advice on Tier 1 products.

Specifically, the ABA supports a review that:

- Adopts a holistic approach to the development of a new framework by identifying the policy objectives and principles of a new training model, including dealing with existing problems with training courses; distinguishing education, training and continued professional development (CPD) needs for different categories of advice; and establishing a forward-looking plan for improving the professional and training standards of the industry.
- Determines the appropriate legislative requirements and architecture, standard setting for professional and training standards, and administration and delivery model for those requirements, including consideration of an SRO model and national exam as well as the role of the regulator and whether it is appropriate for ASIC to establish training standards for the industry or whether a professional standards body should be established to oversee the industry and the role of the industry in designing and implementing an improved framework.
- Considers specific education levels, training requirements and core competencies, including a training model constructed around a minimum qualification standard and modularised approach for training standards (entry level, and beyond), building on existing CPD requirements, recognising experience of existing advisers, encouraging 'scaled' personal advice and innovative advisory services, and promoting 'qualifications portability'.
- Considers how these training requirements will interact with, and align with, other reforms (i.e. FOFA reforms and the best interests duty, TASA reforms, MySuper reforms) and ensure the training standards accommodate related competencies.
- Identifies the timetable for implementation of each component, including consideration of the establishment of the training model, administration and funding, and the resources necessary for AFS licensees, advisers and training organisations as well as the broader impacts of any changes on banks and banking groups, such as workplace agreements and enterprise bargaining arrangements, etc.

Overall, we are concerned that if ASIC is to proceed with its proposals, the industry will be required to implement new training standards now and then a new framework in the future, which may or may not involve the adoption of training standards set by ASIC. Additionally, the industry will be required to implement new training and compliance systems which, in isolation, will create new training standards, but in our view, not address ethical behaviour or professionalism within the industry.

To facilitate a separate review, the industry would support the establishment of a working group chaired by the Treasury to look at the design and implementation of a new training and competency framework.

Focus on lifting standards for financial advisers providing personal advice on Tier 1 products

The ABA believes that a new training and competency framework should build on existing training requirements and enhance education and training requirements for financial advisers providing personal advice on Tier 1 products to retail clients as well as ensure financial product advice is accessible and affordable and promotes innovative advisory services, including 'scaled' personal advice.

The ABA believes that generally the proposed changes to the training standards are based on a financial planning business. Therefore, we do not support the proposed changes being applied broadly, and in particular changes which increase the current training requirements for advisers providing financial product advice on Tier 2 products, alter the training requirements for general advice, re-classify products upwards between tiers (i.e. re-categorisation of consumer credit insurance (CCI) products to a Tier 1 product), or prohibit banks and banking groups adopting in-house training models. For example, an expectation that the industry raise the standard of training for staff who provide general advice to an advanced diploma level, and general advice on Tier 1 products to a bachelor degree level, is excessive and unreasonable. Furthermore, new training requirements must not impede the ability for existing advisers to transition into the new framework and new advisers to meet their various legislative requirements.

The ABA notes that the law, including as amended by the FOFA reforms, recognise that Tier 2 products are simple and well understood, and accordingly, the conduct and disclosure obligations are different to more complex products or advisory situations. It is important for the training requirements to also recognise that Tier 2 products are offered in a straightforward manner to consumers.

Provide adequate time and resources for implementation of any new framework

The ABA believes that adequate time must be provided for the industry to transition to any new framework and enhanced education and training standards. The reality is that a new framework would take at least five years to implement, and therefore, any new training and education requirements should commence no earlier than five years after the review and consultation process is completed and the new framework is identified. Time and resources will be needed to design and implement new training courses, modules and programs. Budgeting for these training development costs will be needed. Transitional arrangements will be needed to facilitate changes to staffing roles, job grade and requirements, and workplace agreements.

The ABA does not support the proposed staged approach, and in particular changes which would result in training courses and modules needing to be developed for an interim period and training and compliance systems needing to be changed multiple times. A staged approach would require training organisations to develop courses that would be superseded. A staged approach would require AFS licensees to make substantial internal changes to policies, procedures and processes and to implement change management programs that would be duplicated. The costs involved in training course development for courses only available for an interim period would not be commercial, and therefore, this would create compliance difficulties and/or unnecessary and additional compliance costs for AFS licensees. The disruptions involved in making changes multiple times would cause unnecessary and additional compliance costs and administrative complexities for AFS licensees.

Provide adequate consideration of related requirements

The ABA believes that adequate consideration must be given to the intersection between the training and education requirements for financial advisers and other legal and regulatory obligations, including requirements due to the FOFA reforms and the best interests duty, TASA reforms, and MySuper reforms. We support changes which assist the industry amend its practices and comply with requirements across regulatory regimes without the need to make changes multiple times or implement inefficient training and compliance systems for multiple regimes. For example, industry developments due to new structures, products and services, such as the offer of new simple superannuation products pursuant to the MySuper reforms and the consideration of tax information incidental to the advice which satisfies the requirements pursuant to the TASA reforms, should be accommodated in any new framework. Furthermore, we support making sure that training is affordable and tax deductible (we note that the previous Government announced budget saving measures which would adversely impact on the ability for individual advisers to claim the costs of work-related and self-education expenses).

Policy objectives

The ABA believes that it is important to identify the policy objectives and principles for design and implementation of a new training and competency framework. We consider the principles should balance the needs of the industry and of consumers and regulators and aim to implement a framework which supports access to financial product advice and promotes the quality of advice and professional standards of financial advisers. The principles should be identified via a review and consultation process, however, we consider the principles should be as follows:

- Improve the quality of financial product advice provided to retail clients;
- Raise the professional standards of the financial planning industry;
- Introduce a shared responsibility model by establishing a SRO (potentially, "Adviser Competency Organisation");
- Build on the existing training requirements to minimise inefficient business practices, administrative complexities, regulatory burden and unnecessary compliance costs;
- Remove duplication of initial and ongoing training requirements across advice activities by adopting a modularised approach;

- Facilitate flexible and cost-effective implementation of training for financial advisers as well as maintain suitable training standards for advisers providing financial product advice to retail clients;
- Lift the training standards for financial advisers providing personal advice on Tier 1 products to retail clients and develop a recognisable education qualification which is knowledge and competence-based and transferable across the industry ('qualifications portability');
- Support the design and delivery of innovative advisory services, including promotion of 'scaled' personal advice and provision of simple, low-cost advice; and
- Balance the objectives without reducing the affordability and accessibility of financial product advice to all Australians.

The ABA believes that a new training and competency framework could be introduced to address concerns with the existing training system, require minimum standards of initial knowledge, skill and competence and ongoing professional development and generally incorporate generic and specialist elements, improve the consistency and quality of training and assessment for financial advisers, enhance the professionalism of the financial advice industry, and raise the conduct standards of financial advisers.

ABA's position – Proposed new training and competency framework

The ABA believes that it is important to identify the elements of a new training and competency framework. We consider the elements should establish clear responsibilities and parameters for the structure of the model and the achievement of competencies across the industry. The elements should be identified via a review and consultation process, however, we consider the elements should be as follows:

- *Self-Regulation Organisation (SRO)*: A structure that incorporates a Board responsible for developing the framework and committees responsible for developing the training and competency requirements. The Board should have representation from across the industry, ASIC, and TPB. The Board should develop a framework which replaces ASIC's RG 146 and the TPB's competency framework for tax (financial) advisers (noting ASIC and TPB would retain all legal obligations, such as licensing and registration, monitoring and enforcement, respectively). The committees should develop the minimum qualification standard and competency requirements (including education levels, training requirements, experience, etc and mandatory national exam questions where applicable). Importantly, the SRO would not be a training organisation or a professional association. Industry representation would be via individual industry experts.
- *Funding model*: A funding structure that provides enduring financial support to the new training and competency framework and administration of that framework. A funding structure should be fair and ensure there is a shared responsibility and ownership of any new framework.
- *Minimum qualification standard*: All new advisers should be required to meet initial education requirements. The development of an SRO model and national exam offers a sensible approach to establishing a credible standard-setting process, identifying new knowledge and core competencies, designing a minimum standard qualification which is transferable across the industry, ensuring that new advisers meet an improved professional standard, and ensuring existing advisers' experience can be accommodated appropriately within the new framework. For example, the training should be provided only by accredited training organisations. Training programs and courses should meet the specified minimum qualification standard and training criteria should be benchmarked against the training standards established by the SRO as the standard-setter. The minimum qualification standard should be tested via a mandatory national exam (adviser certification). Adviser certification should be modularised and comprise compulsory core and specialised modules. Importantly, a minimum qualification standard should address inconsistent and varying levels in the quality of training and promote 'qualifications portability'.
- *Tier 1 products*: Financial advisers providing personal advice on Tier 1 products to retail clients should meet a minimum qualification standard.
- *Tier 2 products*: Financial advisers providing financial product advice on Tier 2 products to retail clients should be able to meet the training requirements by completing training which has been assessed by the AFS licensee as consistent with the existing RG 146 requirements. Certificate III level should remain.

- *General advice:* Financial advisers providing general advice to retail clients should be able to demonstrate compliance by meeting training requirements consistent with the existing RG 146 requirements, and with exemptions. Diploma level (Tier 1 products) and certificate III level (Tier 2 products) should remain.
- *Existing advisers:* All experienced advisers should be required to demonstrate their competence through assessment equivalent to adviser certification or via alternative arrangements during a transitional period. Compliance should be able to be demonstrated via training and assessment components as well as CPD requirements.
- *Supervision and monitoring requirement:* All new advisers providing personal advice on Tier 1 products to retail clients should participate in a supervision and mentoring program. Supervisors should meet minimum requirements, including tenure, experience, relevant knowledge and professional level. AFS licensees should determine requirements adopting a principles-based approach, such as length of supervision period.
- *Ongoing continued professional development (CPD) program:* All financial advisers providing personal advice on Tier 1 products to retail clients should be required to demonstrate their knowledge and competence. Ongoing professional development should be more structured and build on the existing CPD requirements. CPD requirements should be standardised. Advisers should complete a minimum of 30 CPD points per year. Additionally, financial advisers should complete an assessment to determine ongoing competence. Internal assessment should be modularised so that advisers complete modules relevant to their specific advisory role and advice activities.
- *Ethics and financial advice:* Financial advisers should be required to complete core competencies aimed at ethical reasoning, ethical behaviour, conduct and decision-making and governance.

| SUMMARY | | | |
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| ABA position – Proposed new training and competency framework | | | |
| Tier 2 products | | Tier 1 products | |
| Basic banking products | Other than basic banking products | General advice | Personal advice |
| Existing RG 146 requirements (e.g. same requirements as other Tier 2 products OR internal assessment by licensee) (exemptions to remain) | Existing RG 146 requirements (e.g. general advice = knowledge training on specific products and markets; personal advice = general advice criteria and relevant skills requirement OR individual assessment by an authorised assessor against the relevant training standards) (exemptions to remain) | Existing RG 146 requirements (exemptions to remain) | Minimum qualification standard (e.g. adviser certification) <ul style="list-style-type: none"> • Compulsory core and specialised modules (testing generic and specialised knowledge standards) • Competence standards (testing application of concepts) |
| | | Existing RG 146 requirements (ongoing continuous professional development (CPD) program to remain) | Supervision and monitoring requirement Ongoing continuous professional development (CPD) program |

Specific comments

The ABA provides some additional comments on CP 212 and CP 215, however, we maintain that amendments should not be made to the existing training standards at this time and prior to a review and consultation process as outlined above. We are concerned that a 'one-size-fits all' approach as outlined in the consultation papers will have adverse and unintended consequences for the availability of different forms of financial product advice and the different classes of financial products.

Education requirements

Advisers – Tier 1 products

The ABA, in principle, supports lifting education levels for Tier 1 advisers, but only those advisers providing personal advice to retail clients.

The ABA believes that further consideration should be given to the suitable education level based on an assessment of the objectives, outcomes and costs, such as whether AQF Level 6 (advanced diploma level) or AQF Level 7 (bachelor degree level) equivalent is appropriate. For example, some initial views, if the education level was raised to AQF level 7, this would eliminate most RTOs, as only universities and some TAFEs would satisfy the regulatory requirements, and thereby, increase costs and decrease training offerings for AFS licensees. A bachelor degree in financial planning might be available, however, it is likely new programs would need to be developed for other advisers, including advising on other products (e.g. securities, derivatives). Furthermore, an AQF Level 7 equivalent would increase costs and time for advisers to complete, which is likely to discourage advisers entering the industry.

Additionally, the ABA believes further consideration should be given to the proposed changes to the generic knowledge requirements, such as whether all these requirements are suitable or whether these requirements should apply only to financial advisers (financial planners) providing personal advice on a wide range of products and potentially a complex range of advisory situations.

Advisers – Tier 2 products

The ABA does not support changing the education level for Tier 2 advisers.

Tier 2 products including basic banking products, general insurance, and CCI products are simple, well understood and easily explained to customers. We do not believe there is evidence of market failure with the offer of Tier 2 products, systemic problems with Tier 2 advisers or financial losses caused that would warrant changing the existing requirements. We also do not believe that any lift in training standards for Tier 1 products means that standards should also be lifted for Tier 2 products.

Banks and banking groups have structured their businesses and compliance systems and processes around the FSR regime, including the distinction between Tier 1 accredited advisers and Tier 2 accredited advisers. Career pathways are also structured around these distinctions. Implementing new training requirements would result in commercial and industrial relations issues where frontline bank staff were required to attain a diploma level.

First, a change in education levels would likely impact the ability for banks to attract staff to these roles given the additional complexity of qualifications required for the role and significant study commitments.

Second, the additional training requirements would increase the time for frontline bank staff to be compliant and staff would need to continue to work back office administration until they are able to start in a customer facing role – it is likely that staff turnover will increase.

Third, a change in job grade and requirements commensurate with the broader knowledge and skills and a change in turnover rates would increase employment and commercial costs for retail banking.

The ABA believes that the existing certificate III level is appropriate for Tier 2 advisers. Furthermore, we consider changing the education and training requirements will result in adverse and unintended consequences for the provision of advice on Tier 2 products in terms of accessibility and affordability for customers and employment for bank staff. It is likely that banks which have not already adopted a 'no advice' model for these basic, retail banking products will be forced to cease providing advice and opt for more streamlined training and compliance systems, rather than absorb the additional compliance costs or impact on the ability of staff to efficiently deal with customer needs. It is also likely that banks will need to amend workplace agreements and awards to accommodate a new standard, and therefore, be forced into workplace negotiations to resolve these changes.

General advice

The ABA does not support changing the education level for providers of general advice. Making the proposed generic knowledge requirements mandatory for all advisers providing general advice will impose unnecessary regulatory burden and compliance costs. We consider that the existing requirements for providers of general advice should be retained.

Additional knowledge and skill requirements

The ABA believes that the training requirements should aim to ensure that advisers are equipped with the knowledge, skills and competences to provide the advisory service they offer to their clients. We consider that generic and specialised knowledge requirements should ensure that advisers develop their capabilities and maintain currency with subject areas and topics relevant to the provision of advice to retail clients.

The ABA notes that ASIC proposes to implement new knowledge requirements under the subject area "The economic environment". We provide some initial views, however, we consider that any new topics should be thoroughly considered along with other aspects and elements of any new framework. Furthermore, while acknowledging some of these proposed topics, once clarified as suggested, could add to a general understanding of economic and other factors, we do not support these amendments to the training standards for all advisers because most of these topics are only relevant to advisers providing personal advice on Tier 1 products or holistic financial planning advice.

Financial structures and their taxation implications

It is unclear what this topic refers to, although we assume that it is intended to focus on self-managed superannuation funds or trust arrangements. We consider that financial advisers should have a general understanding of the taxation applicable to different structures. Taxation information should only be general information and incidental to the advice, unless the adviser is also a tax agent. (We note that this topic may overlap with the TASA requirements.)

Demographic trends and their impact on markets over the long term

It is unclear what this topic refers to, although we assume that it is intended to ensure that advisers providing personal advice on Tier 1 products are aware of the impact of increased life expectancies and decreased fiscal contributions on investment strategies for their clients. This topic should not expect advisers to be experts in economic trends, domestic growth, patterns of market performance, etc – this is the role of analysts. This topic area should not require all advisers to understand the details of demographic studies.

Concepts in behavioural economics

It is unclear what this topic refers to, although we assume that it is intended to ensure that advisers providing personal advice on Tier 1 products are aware of their communications. This topic should not expect advisers to be experts on behavioural psychology or require advisers to interrogate their clients past experiences which may impact on their current viewpoints. Additionally, it should not expect advisers to be experts in social, cognitive or emotional factors which might influence how people make decisions.

Budgeting

We note that advisers providing personal advice on Tier 1 products or holistic financial planning advice tend to conduct an initial income and expenses assessment for their clients and to assist identify investing interests, cash flow strategies and savings capacities. We consider that money management education, resources and tools (including constructing a budget) may be services offered by banks and other financial institutions to their clients, however, we do not consider that this topic should be mandatory. This topic should not require all advisers to construct detailed budgets with their clients.

Risk profiling/risk tolerance

We consider that risk assessment, profiling and tolerance are important aspects of the provision of advice where the advice does not relate to a single product or class of financial products, however, we do not consider that this topic should be mandatory for all advisers, only advisers providing personal advice on Tier 1 products.

Life stages and their characteristics

It is unclear what this topic refers to, although it is assumed that it is intended to focus on significant life events and how these events may impact on an individual's financial position, risk tolerance, etc. We consider that this topic should be mandatory for all advisers, however, only generic knowledge for advisers other than those advisers providing personal advice on Tier 1 products would be appropriate.

Life events and their characteristic consequences

We consider that generic knowledge for advisers other than those advisers providing personal advice on Tier 1 products would be appropriate, but should be part of generic knowledge associated with life stages.

Awareness of taxation

We consider that ASIC should work with the TPB to develop appropriate core competencies for tax (financial) advice service providers.

Ethics

We consider that ethical behaviour and associated issues should be mandatory for all advisers. We suggest themes should be used to target generic knowledge to advisers as appropriate about ethical reasoning, conduct and decision-making and governance and examples should be used to assist resolving ethical dilemmas.

High-level knowledge of social security regulations, provisions and legislation

We consider that advisers providing personal advice on Tier 1 products should have a generic knowledge of the social-welfare system, government benefits and payments and Centrelink channels, especially if their client-base includes clients that may be support, benefit, allowance or payment recipients. However, we do not consider all advisers should be required to have knowledge of specific benefits and payments.

High-level knowledge of the relevant legislation as it applies to trusts and self-managed superannuation funds

We consider this topic should be part of generic knowledge associated with financial structures and could be relevant for advisers providing financial planning or superannuation advice.

Complaint processes and agencies

We consider that all advisers should have a generic knowledge of the regulatory framework, including law, regulation and self-regulation applicable to their advisory services as well as the existence of internal and external dispute resolution processes.

Skills

The ABA believes that all financial advisers should have generic skills to ensure they can assess their clients' needs and circumstances, communicate with their client in a manner their client understands, and manage conflicts of interest. However, we consider that advisers providing personal advice on Tier 1 products to retail clients should also be able to conduct a risk assessment to establish the risk tolerance of their client and document a risk profile to direct their advice and recommendations as well as to make sure they maintain the primacy of their client in the advice process.

The ABA notes that ASIC proposes to implement new skill requirements. We do not support these amendments to the training standards because these topics are relevant to advisers providing personal advice on Tier 1 products or holistic financial planning advice.

Implementation

The ABA does not support the implementation approach contained in the consultation papers. We consider a piecemeal and staged approach will inevitably create additional and unnecessary uncertainties, complexities and costs for the industry. As we have stated above, we support a review and consultation process to identify a strategic, holistic and sustainable approach to designing and implementing a new training and competency framework.

Furthermore, irrespective of our views about the appropriateness of the proposed education levels, the ABA does not believe that a commencement date of 1 January 2015 (AQF Level 6 advanced diploma and AQF Level 4 certificate IV respectively) and 1 January 2019 (AQF Level 7 bachelor degree and AQF Level 5 diploma level respectively) is realistic. It is unlikely that sufficient training programs, courses and modules will be available, especially with regards to the proposed new knowledge and skill requirements, for industry to meet their new compliance obligations. Specifically, amending the training standards will require development, assessment, marketing and rollout of new programs, courses and modules by training organisations, assessment and embedding in training and compliance systems and other policies and procedures by AFS licensees, and enrolment and completion by advisers (both on a full-time and part-time basis to ensure new and existing advisers' needs are accommodated).

The ABA believes that a streamlined approach is needed for existing advisers, especially advisers that change roles during a transitional period towards any new framework, and for addressing practical issues of making sure existing advisers are not disadvantaged in terms of their career progression and pathways.

The ABA believes an assessment of the operational costs and impacts is needed to inform the design and implementation of any new framework. For example, the amendment of education levels and training standards will not just impact on training costs, but will also impact on training and compliance systems, staffing costs for compliance management, workplace agreements and re-grading of roles and adjustment of award requirements, and other indirect costs (i.e. time and resources spent on completion of training by advisers).

The following provides some indicative and estimated training costs associated with the proposals. We are not able to provide indicative and estimated additional or other indirect costs.

\$450 - \$1,050 per adviser to amend existing training to adopt the proposed generic knowledge requirements, plus an additional \$600 - \$1,000 per adviser for new competency skills.

\$2,000 - \$4,000 per adviser to amend existing training for Tier 2 advisers to Tier 1 advisers (i.e. reclassification of CCI).

\$2,000 - \$4,000 per adviser (diploma level) (regime A)

\$4,000 - \$6,000 per adviser to increase to advanced diploma level (regime B)

\$25,000 - \$30,000 per adviser to increase to bachelor level (regime C)

\$485 - \$3,500 per unit for additional specialised requirements

\$4,400 - \$7,000 per tax (financial) adviser to meet assumed additional TASA requirements (based on completion of 2 x units of tax / law by existing advisers)

Overall, it is estimated that the change in training costs would increase by 25%-30% to move to the proposed regime B and between 70%-80% to move to regime C.

Additionally, the proposed new training standards would have initial and ongoing costs. For example, a major bank indicates that staff turnover in retail banking alone would mean additional training costs of around \$20,000,000 if Tier 2 advisers were required to attain a diploma level qualification.

Reclassification of certain insurance products

Personal sickness and accident

The ABA supports the reclassification of personal sickness and accident insurance to a Tier 2 product. This product is similar to other general insurance products, and does not present consumer protection risks that warrant this product being treated as a Tier 1 product. We consider that all general insurance products should be treated as a Tier 2 product.

Consumer credit insurance

The ABA does not support the reclassification of CCI to a Tier 1 product. This product is similar to general insurance and unlike life risk insurance. CCI provides cover for a specific credit product and for a specific time and is not sold in the same manner as life risk insurance.

Additionally, CCI offers simple insurance cover where life risk insurance does not provide cover, for example, a customer is made redundant (involuntary unemployment) and is unable to meet their home loan repayments. Hardship assistance may be provided by a bank or other creditor for a period, but this may not be sufficient and may have consequences for the consumer in terms of their credit position. CCI provides a legitimate insurance option for customers.

Banks may offer CCI to their customers either with or without financial product advice (factual information, general advice or personal advice models). Typically, information or advice is provided at the time of the origination of the loan. If CCI was reclassified as a Tier 1 product this would mean that frontline bank staff (trained as Tier 2 advisers) would not be able to provide advice to their customer, which could result in underinsurance or customers having a gap between protection being in place and their newly acquired financial obligations.

In discussions with the ABA, ASIC has indicated it is concerned that some consumers do not understand the nature of the CCI product they purchase and the terms and conditions associated with it. We do not believe that this is the result of a failure in training requirements, nor that a case has been made for additional training requirements which would result in this product only being able to be offered through financial planners (not by frontline bank staff).

Unlike in the UK, there is no evidence of widespread mis- or inappropriate selling of this product in Australia, and therefore, no case for increasing the regulatory requirements for this product, which would adversely impact the offer of this product by banks and other ADIs and competition in the CCI market.

The Corporations Act treats CCI differently because the product provides simple insurance cover which does not warrant additional disclosure and conduct obligations, and therefore, an increase in the training requirements would be contrary to the existing legal obligations for this product.

The ABA and the banking industry have engaged constructively with ASIC during its reviews of CCI. Additionally, we note that during the initial review and following the publication of *Report 256: Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions* (REP 256), banks have altered their sales practices and made significant changes to their practices to broadly reflect the recommendations contained within the report. The impact of these changes has not been assessed and the phase two review of CCI has not been completed, and therefore, we consider any further significant changes of the nature contemplated with the re-classification of CCI being treated as a Tier 1 product would be premature. Notwithstanding, the industry is willing to work with ASIC to develop a more targeted solution to concerns with regards to disclosure and consumer awareness, such as initial and ongoing disclosure via a key fact sheet and annual reminder notice.

ASIC's Training Register

The ABA believes that the ASIC Training Register is not an accurate reflection of the current training offerings and has not been maintained due to resource pressures. Notwithstanding, we do not support replacing the register at this time.

Without an alternative to enable industry to map specific training areas and core competencies to training courses and modules, the register provides a compliance tool to ensure AFS licensees are able to meet their legal and compliance obligations and supplement the individual certifications given by training providers. Furthermore, deferring the governance of financial advice education and training to third party authorities (i.e. ASQA or TESQA) does not provide the means for AFS licensees to validate that the courses and modules in the market meet the requirements of RG 146. The proposals to amend the training standards would not necessarily mean these training course or modules would be subject to supervision by ASQA or TEQSA.

The ABA believes that training standard-setters and training organisations need to have capabilities developed consistent with any new framework. It is important to conduct a review and consultation process to determine an appropriate way forward in a timely manner and address longstanding concerns and deficiencies with the existing training system. It is also important to identify appropriate international qualifications to be recognised in any new framework.

Concluding comments

The ABA appreciates ASIC's concerns with regards to many aspects of the existing training system. However, we consider that it is premature to make substantive changes to the training standards, including education levels, knowledge and skills requirements, and subject areas without conducting a review and consultation process of the entire framework. An appropriate model should be identified and then education levels, knowledge and skill requirements and other compliance and monitoring arrangements established. We recognise that there are aspects of the existing training requirements that need attention, and therefore, the industry is prepared to contribute to a review and consultation process in a timely manner with a view to being in a position to commence new requirements five years after the review and consultation process is completed and the new framework is identified.

Yours sincerely,

Diane Tate