

Does Legitimacy Connote Professionalism The Financial Planning Sector in Australia

Brian Murphy – Deakin University



Ted Watts - University of Wollongong





Background

- i **2005, the Federal Government introduced the *Financial Services Reform Act (FRS)*.**
- i **This removed the notion of ‘incidental services’ from previous legislation.**
- i **Provided a narrow scope of exemptions that prevented Accountants and other professionals engaged in financial planning from providing the broad range of financial services they may have provided in the past.**



Background

- i The change appears rooted in the desire of the then Federal Government to ‘clean up’ the financial services sector.**
- i The new regulations and licensing requirements, supported by the federal Corporations Act, require any person to hold an Australian Financial Services Licence if they are to provide financial services to the public**



Background

- i The unintended consequence of this new structure was
 - | the inadvertent exclusion of a great number of experienced professional financial service providers and**
 - | the inclusion of many unscrupulous operators.****
- i It also provided the new entrants with a perceived degree of legitimacy.**



Background

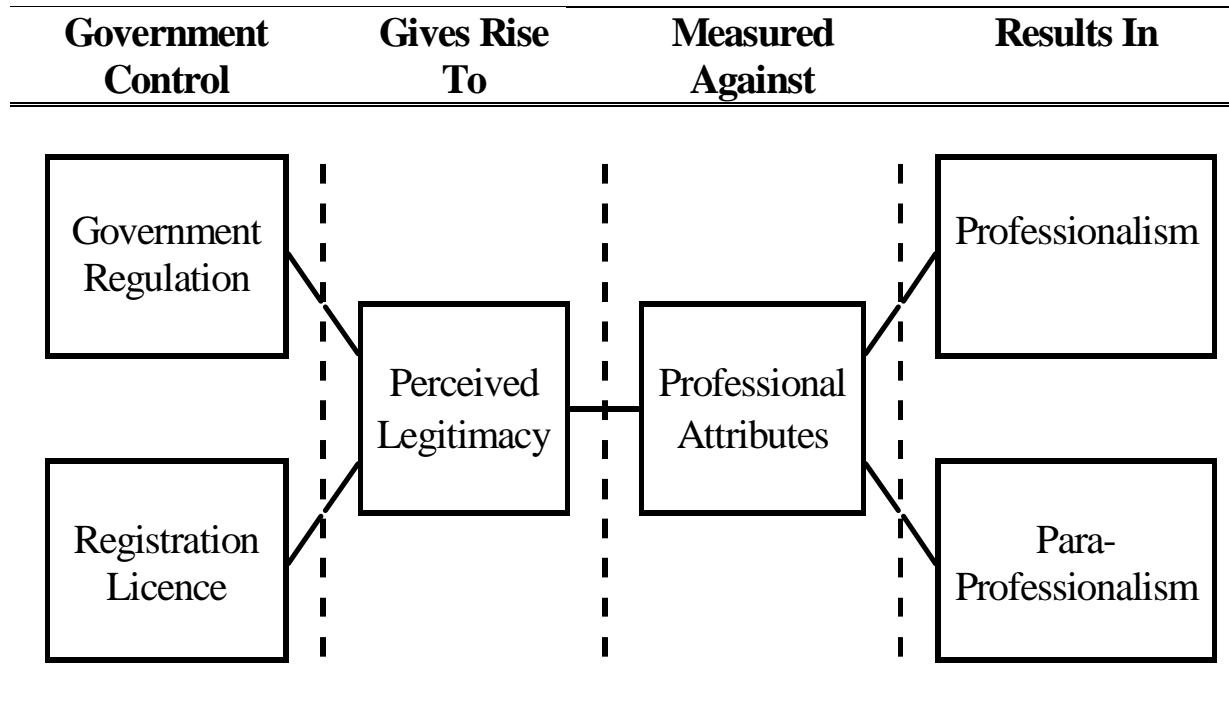
- i However this legitimacy did not provide the supporting level of professionalism required of the group to discharge its responsibilities to the public**
- i Perceived legitimacy encouraged the public to supply resources to organisations that appeared desirable, proper or appropriate.**
- i Therefore, the public perceive these legitimate organisation as more worthy, more meaningful, more predictable and more trustworthy.**
- i Is summary – more professional.**



Objective

- i The aim of this research was to test the professionalism of financial planning to determine if it best fitted the description of industry or profession**
- i To test this four major attributed which are relevant to distinguishing an industry from a profession were identified from the literature.**

Conceptual Framework





The Price of Legitimacy

Company	Collapsed	Debt \$
WestPoint Corporation Pty Limited	January 2006	320m
Storm Financial Limited	July 2009	NA
Bridgecorp Limited	January 2008	450m
Fincorp Limited	April 2007	200m
Australian Capital Reserve	May 2007	330m
Octaviar Limited	January 2008	1,070m
		<u>\$2,370m</u>



Attributes Relevant to Distinguishing an Para-professional from a Profession

Attribute	Industry	Profession
Responsibility	To members – self interest	To Society – the public interest
A systematic body of theory	Stability – by accepting the existing knowledge base as providing sufficient information for the practitioner.	Creativity – by using the increased knowledge base to add value.
Professional authority	Judgment through sanctioned rules	Judgment through superior knowledge
Ethical responsibility	Regulatory – through the belief that regulatory licensing bodies will provide a minimum ethical standard	Self imposed – through the acceptance of the public interest and the need to protect it.



Sample

- i Using the 2008/2009 North Shore, Pymble Yellow Pages telephone directory (Sydney, Australia) a questionnaire was mailed to financial planning practitioners listed under the “Financial Planning” and “Retirement Planning” descriptors, in total 153 questionnaires**



Data Collection Results

	Number	Percent
Distributed	153	100
Returned	82	57
Usable responses	78	51



Feelings about Occupational Group

	Yes	%
Are you a member of the Financial Planning Association?	31	39.7
Do you believe a professional association would add value to the professionalism of financial planners?	63	80.7
How would you describe your occupational group?		
—Industry	18	2.3
—Profession	70	89.7
Would obtaining higher qualifications add value for you financial planning?	45	57.7



Feelings about Occupational Group

- i Only 31, or 39.7 % were members of the Financial Planning Association,**
- i While 63, or 80.7 % believed that a professional association added value to the notion of professionalism.**
- i Overall 70 or 89.7 % described their occupation as a profession.**
- i While only 45 or 57,7% saw higher qualifications adding value.**



Age Groupings

Age Group	Number	Percentage
20-29	24	30
30-39	32	41
40-49	18	23
50-59	2	3
60 and over	2	3



Size of Business

Size of Business	Employees	Percentage
1-5	52	66.7
6-10	10	12.8
11-15	6	7.6



Age Groupings and Size of Business

- i Age - 56, or 71 %, were under 40, and of that group 24 or 30 % were under 30, indicating a relatively young group.**
- i Size of Business - 52 businesses, or 66.7% reported 1 and 5 staff and 10 businesses, or 12.8 %, having between 6 and 10 staff.**



Years Working in Financial Planning

Years Working	Respondent	Percentage
1-5	15	19.2
6-10	32	41.0
11-15	26	33.4
16-20	5	6.4



Educational Qualifications

Qualification	Number	Percentage
Bachelor	12	15.5
Master	1	1.2



Experience and Educational Qualifications

- i Experience - 47 respondents, or 60.2 %, had worked in financial planning for 10 years or less, with 15, or 19.2 % being in the business for 5 years or less. Only 5, or 6.4 % had over 15 years experience.**
- i Qualifications - Only 13 or 16.7 % had attended university, with only one achieving a masters degree.**



Importance of the Components of the Attribute - Responsibility

Questions	Mean
The purpose of financial planning is in the spirit of public service	3.33
The purpose of financial planning is to protect the public	2.97
Your responsibility is to your self and associates	2.13
Your responsibility is to your client	1.93
Your responsibility is to your firm	1.97
Your responsibility is to the greater community	3.47



Importance of the Components of the Attribute - Systematic Body of Theory

Questions	Mean
A systematic body of theory is a defining characteristic of financial planning	1.13
A mastery of theory is important in financial planning	1.97
A degree is a necessary prerequisite in financial planning	2.57
An increasing knowledge base will add value to financial planning	3.63
The existing knowledge base provides sufficient information	4.10
A theory base would allow financial planning to evolve with the changing needs of society	2.57



Importance of the Components of the Attribute - Professional Authority

Questions	Mean
A financial planner has authority derived from a dependent relationship	3.47
Clients have little choice but to trust the financial planners judgement	3.10
The lay public rely on the financial planners recommendations	3.93
Industry knowledge is the basis for professional authority	4.40
Theory and knowledge provide professional authority	1.90
Improved practice evolves through improved theory	3.30



Importance of the Components of the Attribute - Ethical Responsibility

Questions	Mean
Ethics provide financial planners with standards to resolve dilemmas	2.30
The way in which I act is consistent with my duties	4.13
My advice and actions are truly independent	2.73
I declare all commissions I receive to my clients	2.90
I believe that ASIC rules provide sufficient ethical direction	2.23
I do not believe that any conflicts of interest occur in financial planning	1.87



Conclusions

- i The descriptive and demographic data suggests a young and energetic group of financial planners.**
- i However, it also suggests a group of small business entrepreneurs with little experience.**



Conclusions

- i **“Responsibility”**—Financial planners demonstrated a partial conformance to the primary purpose of the professional: the spirit of public service.
- i **“Systematic body of theory”**—Financial planners did not believe it was a necessary ingredient of professionalism.



Conclusions

- i “Professional authority” – Financial planners accepted they had such authority and it is derived from a dependent relationship and industry knowledge.**
- i However, they were unconvinced that it be enhanced through theory and knowledge, or that this could improve practice.**



Conclusions

- i “Ethical responsibility” — This also revealed little of the elements of professionalism, with financial planners acknowledging a need for ethical direction while admitting to actions generally considered as unprofessional.**



Conclusions

- i Of the 24 possible responses the mean of 16 reflected an industry mentality while the mean of 8 reflected a professional mentality.**
- i The evidence from the attributes of professionalism exhibited by the respondents failed to achieve a satisfactory level of professionalism. This supports similar findings from the UK.**



Limitations

- i Given the size of the financial services sector, the population surveyed only represented a tiny fraction of practitioners.**
- i The area surveyed is in the middle to upper socio-economic strata which may not represent a fair cross-section of the financial planning sector.**
- i No attempt was made to weight the professional attributes.**