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A National Exam for Financial Advisers: Panacea, check-box or integrity system?

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Introduction

Can a state-run national exam raise standards for financial advisers and financial planners in the contemporary Australian context? While such an exam offers significant promise, it should not be viewed as a panacea, nor set down as an automatic element of a 'check-box list' of required measures. Instead, the exam must be strategically implemented so as to fit within an interlocking host of elements making up a larger 'integrity system', including legal, educational, economic, institutional, socio-cultural and psychological components.

This paper begins by sketching three different approaches to the national exam. Stressing the merits of a holistic, contextual approach, the paper describes how exams pitched at different levels fill distinct roles, and can play a role in professional life-long learning. Deflecting the idea that the exam can be a panacea, the paper compares the exam with university education, and notes its inefficacy in instilling ethics. Finally, the paper describes how a poorly implemented exam could actually worsen – rather than assuage – integrity problems in the sector.

Three approaches to employing an exam to improve competency standards

I. The 'Exam as panacea' approach

This approach sees the exam as the core bulwark in the battle against low standards of service and the central gateway to entry into the occupation. (This approach resembles that of the US and Canada; in CP212 of 2013, ASIC hints at this approach.)

II. 'Exam in the checklist' approach

This approach accepts that the exam alone cannot ensure the sector's quality of service. Instead, the checklist (or 'building blocks') approach puts forward a laundry-list of appropriate governance measures that in combination aim to establish appropriate standards of service. The portfolio of required measures might include:

1. Formal educational qualifications;
2. The national exam run by an independent body;
3. A national register of financial advisers, recording compliance;
4. A system of licensees of all companies employing financial advisers.

III. Holistic 'integrity systems' approach

This approach looks strategically at the entire regime, working out what works and what does not— not just what pieces are present, but what specific functions each piece serves, and how they interact with each other. This approach acknowledges the exam might play a vital role in the overall system. In other cases however, the exam might be unnecessary – and perhaps even degrade the larger system. On the holistic approach, strategic thought is given to what role an exam would play, and how the exam should be situated into the existing system if it is to play that role effectively. (The UK since 2012 has taken a holistic approach, and it is also employed by the 2014 PJC Report and the Murray Inquiry.)

The strategic purpose of the exam: testing different competencies

The holistic approach directs attention to the specific objective the exam needs to fulfil, which in turn helps determine the knowledge content the exam should test. Define the 'standard knowledge' as the expertise that professional aspirants should possess upon passing the relevant course offered by Registered Training Organizations (RTOs). Pitching the exam at different levels in relation to the standard knowledge allows the exam to fulfil different roles.

Pitching the exam *at the standard knowledge level* can achieve distinct goals:

- This exam provides a layer of oversight for the RTOs. If the RTOs display variable pedagogical teaching or assessment quality, then the national exam will guard against market-entry of low quality aspirants from low-quality RTOs.
- This exam can assess the quality of those seeking accreditation outside the RTO process. Such an 'alternate pathway' proves important in transitional circumstances where existing service-providers do not have educational credentials and yet may possess expertise.
- This exam can *standardize* the knowledge that aspiring service-providers should possess—and it can do so from the perspective of the profession, or from stakeholder submissions to a regulatory body.

Pitching the exam at a *lower* level than the standard knowledge can achieve different goals:

- This exam can ensure a minimum level of knowledge-competence across the entire financial services industry, including service-providers of basic services (the US FINRA exam provides an example). In the Australian financial context, this differentiation occurs between Tier One and Tier Two products, and between giving personal versus general advice. With the exam setting a minimum standard for all practitioners, professionals aspiring to give complex financial advice would fulfil more demanding requirements.
- This exam can work as a swiftly implemented, across-the-board transitional measure in cases where the formal education requirements for entry have been low.

Finally, the exam may test *more* than the standard knowledge:

- This exam would be administered after, and test knowledge gained from, a period of supervised work or further study, qualifying the service-provider as advanced beyond a mere entry-level standard. This approach parallels many professional exams, where colleges test for expertise far exceeding what the initial degree graded.

Figure 1 provides a map of the overall integrity system for financial advisers, showing the different, interweaving forces impacting on the sector. The Figure illustrates the placement of four different national exam alternatives, each with a different objective, and pitched at different levels.

Examinations and life-long learning in existing professions

Most professions employ the exam in a holistic way, using it in specific ways to contribute to a larger goal. Historically, the exam filled an important function in the education of professionals like doctors and lawyers; it helped ensure the standardization of knowledge that professionals could be expected

to demonstrate. But this remained only one part of professional education and training, with apprentice-style learning also playing a significant role.

The ongoing interaction between professions and professional schools in universities has made both aware that professional education has to be life-long learning where different skills and knowledge are acquired (and reinforced) at different life-stages. Focus on the national exam can encourage the misleading view that education is intensive but limited in time – a stage you go through rather than a continuing career process. Instead, university education can encourage students to ask deep questions about the nature of the profession, cultivating their engagement with an ongoing process of life-long learning.

A comparison with university education

If a national exam is pitched at the appropriate level, then could it obviate requiring a university-degree (as ASIC hints in CP153 and CP212)? Even if we set aside the university's potential role in cultivating a professional identity and a love of life-long learning, university study promises a wealth of pedagogical benefits over a single program of (online, multiple-choice) exams. The benefits include:

- *Improved and multi-faceted testing*: Different assessment tasks—exams, presentations, team-projects, assignments—can assess different skill-sets, professional attributes and types of knowledge. So too, periodic university assessments can better appraise students that tend to 'test poorly', triangulate performance over time, and test for embedded knowledge rather than crammed short-term memory.
- *Improved learning*: University education can teach content that cannot be captured by the exam: including professional qualities, deep understanding, flexible problem-solving, communication skills, and more.
- *Improved integrity*: While university assessments are not immune to cheating, their multiple, staged, qualitative, flexible assessment tools pose substantial hurdles to those wishing to cheat. In contrast, a single exam program presents just a single obstacle to be overcome.

Of course, an expansive understanding of 'examination' can encompass broader forms of assessment. For example, the national exam proposed in 2015 by the UK *Solicitors Regulation Authority* (whose consultation process itself provides an excellent example of a holistic 'integrity systems' approach) included simulations, role-plays, practice contexts, unflagged ethical questions throughout, and more.

Using the exam to test ethics

There are few who deny the importance of ethics in the professions in general and in the emerging financial profession in particular. Indeed, many see professionalization as a potential response to the unethical behavior of those in banking and finance *because* ethics is so central to professions.

But exams struggle to test (much less improve) ethics. Ethics cannot be taught in terms of right and wrong answers. Ethics is always contextual, and professionals routinely face complex dilemmas between important values. So too, ethics is not just a matter of knowledge. A key part of professionalization involves working with senior members of the profession who can vouch for the ethics and integrity of prospective new members. As well, ethics cannot be taught or assessed as an isolated subject. Ethics problems flare up in every part of professional practice; practitioners need to

recognize them, understand them and build in ethical elements into their daily practice. All these factors make ethics resistant to simple examination.

Risks: can a national exam 'make it worse'?

If implemented unreflectively, the national exam can actually work to *degrade* overall service quality. This risk can manifest in three ways:

- I. *The exam might entrench low standards:* If the exam is set at a minimum level, those standards may efface in the public mind the significance of higher competence-measures. The exam may smear the distinction between mere salespeople/brokers, and full-fledged university-educated financial advisers accredited by a genuine professional body.
- II. *The exam may stymie the growth of professionalism:* Top-down governmental regulation can weaken the public demand for greater self-regulation by professional bodies, even as it weakens their brand.
- III. *The exam may engender false trust:* The public might suppose that the exam ensures competence standards similar to those expected of other professions, and so instill false confidence in clients that the government has 'cleaned up' the sector.

Conclusion

As the discussion of life-long learning underscored, the key question for education and assessment is what is to be taught and when—recognizing that many elements, particularly ethics, will be learnt through all stages. A strategically designed national exam can form part of a suite of mutually reinforcing integrity measures that provide safeguards against the kind of behavior that not only deprived many investors of their life savings but brought capitalism to the brink of collapse.

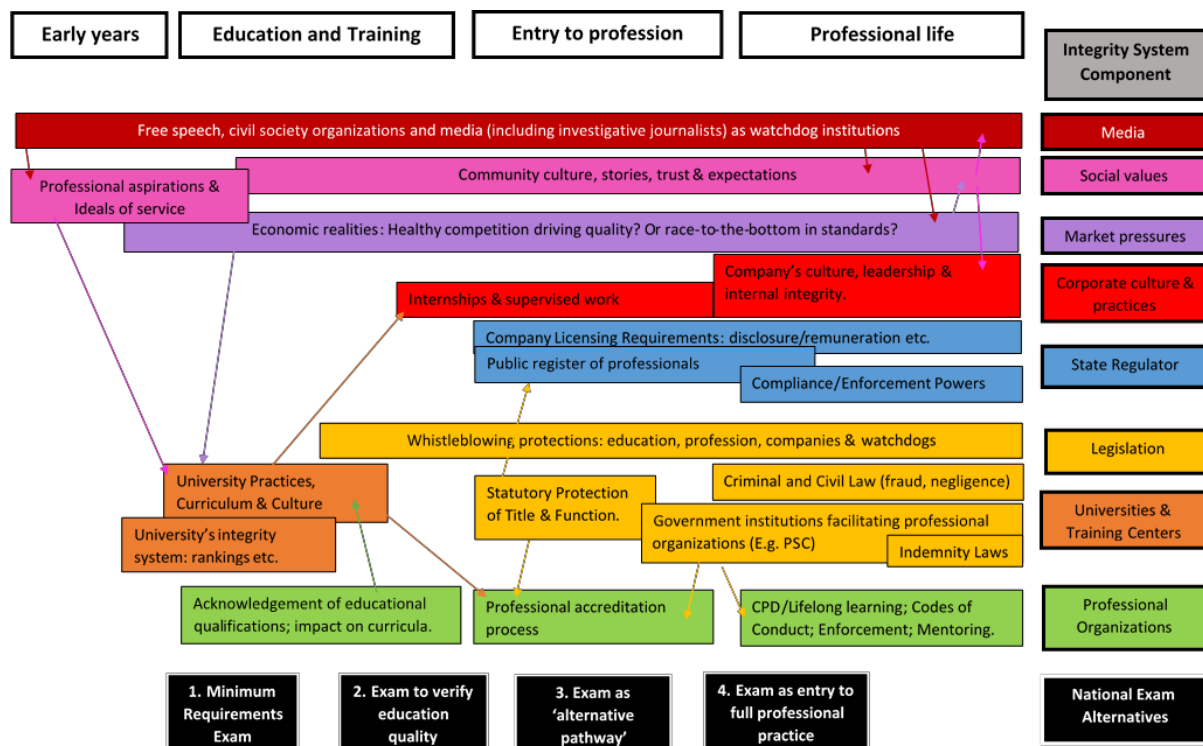


Figure 1: Example Financial Advisers Integrity System, canvassing four different options for the National Exam