

**IFPHK's Response to the Insurance Industry Training  
Advisory Committee on Specification of Competency  
Standards for the Insurance Industry**

**January 2014**

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## **Institute of Financial Planners of Hong Kong (IFPHK) - Profile**





### **Background**

IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as the premier professional body representing those financial planners that uphold the highest standards for the benefit of the public.

The IFPHK is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP<sup>CM</sup> Certification and AFP<sup>TM</sup> Certification to qualified financial planning professionals in Hong Kong and Macau.

It represents more than 6,800 financial planning practitioners in Hong Kong from such diverse professional backgrounds as banking, insurance, independent financial advisory, stockbroking, accounting, and legal services.

Currently there are more than 147,000 CFP certificants in 25 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with more than 4,800 CFP certificants in Hong Kong.

CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>,  CFP<sup>CM</sup>,  CERTIFIED FINANCIAL PLANNER<sup>TM</sup>, AFP<sup>TM</sup>, ASSOCIATE FINANCIAL PLANNER<sup>TM</sup>,  AFP and  ASSOCIATE FINANCIAL PLANNER<sup>®</sup> are certification marks and/or trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks and AFP marks in Hong Kong and Macau, through agreement with FPSB.

### **IFPHK's interest in this consultation**

Since its inception, IFPHK has been striving to raise public awareness of the financial planning industry in Hong Kong and highlight the high standards that CFP professionals adhere to. Insurance is an important part of IFPHK's financial planning education and certification programme. Having knowledgeable insurance practitioners, proper consumer understanding of what insurance policies do, effective products, and financially sound underwriters is essential for those seeking financial planning advice.

Since its inception, IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong and uphold the standard of CFP professionals. In 2006, with contributions from the patrons of leading industry practitioners and experts, IFPHK published the *IFPHK Practice Guide for Financial Planners*. The Guide is the first set of guidance materials for financial planners to practise in Hong Kong. To supplement this effort, IFPHK also launched the first Guidance Notes, *Suitability of Advice Obligations: Documenting your Financial Advice* for members. In 2010, IFPHK also participated in a global job analysis review and international studies on financial planning job skills analysis. Through this process, IFPHK has gained professional insights into core characteristics and practices *vis-à-vis* Hong Kong's financial planning practitioners and international CFP professionals. In response to the results of the global job analysis, IFPHK revamped the certification programs in 2011.

In light of the above, IFPHK has taken a strong interest in the Consultation Paper and wishes to express its views on the proposed changes.

**IFPHK's representation**

IFPHK was founded by 30 members ('Founding Members') in order to raise the standards of financial planners and highlight the importance of sound financial planning advice.

IFPHK currently has 47 Corporate Members including banks, independent financial advisors, insurance companies, and securities brokerages. With our Corporate Members providing a full spectrum of the client services and products, IFPHK is well positioned to understand the needs, concerns and aspirations of the financial planning community.

## **Executive Summary**

The Insurance Industry Training Advisory Committee (the "ITAC") issued the Consultation Paper on the draft "Specification of Competency Standards" for the Insurance Industry ("SCS") in October 2013 (the "Consultation Paper"). It then invited comments from market participants on the draft SCS.

In considering various proposals as set out in the Consultation Paper, IFPHK's views are based on the practical experience of financial planners. At present, financial planners can be both insurance agents and brokers who provide valuable advices to clients.

In principle, IFPHK agree with establishing a Qualification Framework ("QF") and SCS of insurance industry. It is an endeavor to set minimum standard for the insurance industry. They can be a driving force to motivate practitioners to get qualified, and to encourage lifelong learning. The SCS can also serve as a quality standard as well as a benchmark for performance assessment. The QF and SCS provide unity, clarification and transparency of what is expected and required of a practitioner.

Notwithstanding the benefits of implementing QF to the insurance industry, IFPHK reminds the ITAC to constantly review and improve the QF and SCS so that they remain flexible and keep up with the needs of consumers, as well as meet the constantly changing requirements of local and international regulators.

In addition to general views of the QFs and SCS, IFPHK has specific comments on the draft SCS. IFPHK believes that there will be acute demand for trusted advisors that act in the best interest of the clients, and also a shift from traditional product selling to need-based selling. To address these demands and to make the QFs for insurance industry more sustainable, IFPHK considers that the draft SCS should contain the six-step financial planning process that IFPHK advocated. As a result, IFPHK suggests adding two Unit of Competencies ("UOC") – "implement the financial planning recommendation" and "monitor and review financial plan" as well as raising the levels of two current UOCs – "Assess customer needs" and "Conduct financial planning assessment for customers".

Also, IFPHK regards that the insurance industry practitioners have the responsibility to educate the consumers on the products and the services they are offering so that the consumers are empowered to make informed decision. Thus, IFPHK proposes a UOC "educate the consumers on financial planning" to be included in the draft SCS.

## **The ITAC Consultation**

The seven-level cross sectoral Qualification Framework (“QF”) was established in February 2004. The aim of establishing the QF was to clearly define the standards of different qualifications, ensure their quality and indicate the articulation ladders between different levels of qualifications. To strengthen the industries’ leading role in the development of vocational training, Specification of Competency Standards (SCSs) have been formulated by the respective industries. The Education Bureau (the “EDB”) is assisting various industries to set up their Industry Training Advisory Committee (“ITAC”)<sup>1</sup> to come up with the industry SCSs. The ITAC consists of representatives from employers, employees and relevant professional bodies.

In February 2011, the Insurance ITAC was established. The primary task of the Insurance ITAC is to draw up the SCSs applicable to the insurance industry. The SCS will serve as reference for vocational education and training as well as human resources development. On 28 October 2013, the Insurance ITAC announced the consultation of draft SCSs. The three-month consultation will end on 31 January 2014.

A questionnaire on the Draft SCSs is attached to the Consultation Paper, which contains 7 questions in three parts

### **Part I: General Opinion on the Implementation of QF**

1. Do you think the implementation of QF in the Insurance Industry can enhance the quality of manpower of the industry?
2. Do you think the SCS can help set the competency standards of the industry?
3. Other opinions about the implementation of QF in the Insurance Industry

### **Part II: Major Functional Areas**

4. Do you agree to the classification of the industry into 7 functional areas, as appeared in the draft SCS for the Insurance Industry?
5. Do you think the 7 functional areas specified in the SCS have already covered all major functions of the industry?

### **Part III: Units of Competency**

6. What other Units of Competency (“UoC(s)”) should be added to enhance the forward-lookingness of the SCS?
7. What UoC(s) should be deleted or amended?
8. Do you think that the SCS can provide useful reference for personal career development?

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<sup>1</sup> ITACs have been formed for 19 industries, namely Automotive, Beauty, Banking, Chinese Catering, Elderly Care Service, Electrical & Mechanical Services, Hairdressing, Import & Export, Information & Communication Technology, Insurance, Jewelry, Logistics, Manufacturing Technology, Printing & Publishing, Property Management, Retail, Security Services, Testing, Inspection & Certification and Watch & Clock.

9. Do you think the SCS is helpful in regard to lifelong learning?
10. Generally speaking, what do you think of the draft SCS?

## **IFPHK Response Methodology**

IFPHK is a professional body that seeks to promote higher professional standards in the financial planning industry. Therefore, IFPHK considers it is important to respond to consultation and policy papers that significantly impact on the financial planning sector. When formulating its response to such papers it takes a systematic approach that includes:

1. An independent and objective study of the proposals and their overall impact, both positive and negative on the industry and consumers, based on theoretical and practical analysis.
2. Study of international practices of markets that are either more developed or similar to Hong Kong's in order to understand how similar proposals may have succeeded or failed and the reasons why that happened.
3. Collection of comments and opinions from industry participants whose business practices may be impacted by the proposals in the Consultation Paper.

After collecting and consolidating industry views, IFPHK analyzed the information obtained in conjunction with its own research from markets deemed relevant to the situation in Hong Kong. IFPHK formulated its responses to the various questions raised in the Consultation Paper as well as the recommendations on the practical application and effectiveness of the relevant proposals after taking into account the likely impact on the industry.

**The views expressed in this submission paper are not necessarily summaries of the views taken from the industry, but may have undergone more independent and critical analysis and consideration by IFPHK as a professional body. As a result, not all the views collected by IFPHK are recorded in this submission paper and neither have all the views expressed in this submission paper been directly endorsed by those industry representatives or members consulted.**



## IFPHK's Submission

It is IFPHK's mission to promote the importance of financial planning. Financial planning refers to the process of setting, planning, achieving and reviewing life goals through proper management of finances<sup>2</sup>. For IFPHK and other affiliates of the Financial Planning Standard Board ("FPSB"), the financial planning process consists of six steps that help clients take a holistic approach to assessing their financial situation. The six steps include:

Step 1: Establishing and defining the relationship with the client

Step 2: Gathering client data

Step 3: Analyzing and evaluating the client's financial status

Step 4: Developing and presenting the financial planning recommendations

Step 5: Implementing the financial planning recommendations

Step 6: Monitoring

A financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a large breadth of financial planning activities, which may include financial management, asset management, risk management, tax planning, retirement planning and estate planning. In Hong Kong, financial planners work in different segments within the financial services industry. Financial planners can be insurance agents of insurance company or insurance brokers work in insurance brokerage or Independent Financial Advisors ("IFAs"). At present, about 56% of the more than 4,800 CFP certificants in Hong Kong are registered with relevant insurance self-regulatory bodies either as insurance agents or insurance broker<sup>3</sup>. Thus, the draft SCS of insurance industry, if implemented, will have a significant impact on financial planners.

CFP Certification is a world-class certification program that tests the abilities, skills and knowledge required to competently perform financial planning tasks. In order to become a CFP certificant, Candidates must fulfill rigorous requirements in education, examination, experience and ethics. The standards and requirements for the international CFP Certification Education Programs are based on a global FPSB framework that includes empirical research of the abilities, professional skills and knowledge needed to practice financial planning. To ensure that CFP Certification is continuously relevant to the needs of the practitioners, IFPHK and its worldwide counterparts conduct a survey every five years in order to understand job profiles and skills of the financial planners. The latest global survey (the "Survey") was conducted in 2010<sup>4</sup>. Through this process, IFPHK had gained professional insights into core characteristics and practice *vis-à-vis* Hong Kong's financial planning practitioners and international CFP professionals. The results of the Survey are reflected in the certification program and the associated policy documents e.g. Financial Planning Practices Standard. In view of the above, IFPHK is in a good position to provide comments on the draft SCS as we have gone through the process of establishing a competency standard.

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<sup>2</sup> [www.fpsb.org](http://www.fpsb.org)

<sup>3</sup> The statistics are based on number of CFP certificants as at 31 December 2013. About 56% of the CFP certificants is registered with at least one of the three insurance self-regulated bodies i.e. HKFI, PIBA and CIB.

<sup>4</sup> The survey was developed based on the identified list of tasks and knowledge, skills, and abilities. It was organized into five content categories with 212 task statements necessary for effective and efficient job performance. These statements included 5 financial planning function statements, 14 fundamental financial planning practices evaluations, 95 ability evaluations, 26 professional skills evaluations, and 72 knowledge statements.

In addition to our general views on the SCSs, IFPHK has specific comments on functional areas that are the most relevant to financial planner i.e. sales and distribution. Our submission also incorporates the results of the Survey.

### ***Questions raised in the Consultation Paper***

#### **Part I: General Opinion on the Implementation of QF**

##### ***Question 1:***

***Do you think the implementation of QF in the Insurance Industry can enhance the quality of manpower of the industry?***

IFPHK has always believed that qualified intermediaries, well informed and educated consumers, together with a robust framework for regulating sales process, should form the core pillars for protecting the investing public. Currently, there is a swathe of different types of advisers in the insurance industry and each can have different qualifications and accreditation that often means nothing to the average consumer. To IFPHK and its global counterparts, it has become increasingly important that consumers should be able to differentiate financial planners from licensed product sellers and financial advisers. For the past decade IFPHK has made considerable efforts to enhance the professional standards of the financial planning industry, by improving the certification program and providing variety of professional education programs<sup>5</sup>. As such, IFPHK considers the implementation of QF in the Insurance Industry as one of the measures to enhance the quality of manpower in the industry. It can act as a tool for redistributing education and training opportunities and an incentive for more people to become qualified. Experience shows that QFs have the potential to improve the formal recognition of knowledge and skills that individuals have acquired and that – because of their implications – they may also act as a driving force behind broader education and training reform<sup>6</sup>. They also encourage lifelong learning by providing opportunities and incentives for adults to continue to learn throughout their working lives and the QF can be used to accredit this type of learning<sup>7</sup>.

Nonetheless, IFPHK perceives that implementation of QF alone would not enhance the quality of the workforce as seen in the experience of overseas markets. For some countries, a QF is usually aimed at establishing national standards of knowledge, skills and wider competence, promoting the quality of education and training provision, and providing a system of coordination and for comparing qualifications by relating qualifications to each other. It's also used for promoting and maintaining procedures for access to

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<sup>5</sup> In terms of enhancing professionalism of financial planners in Hong Kong, IFPHK has made considerable efforts in revamping the certification programs. IFPHK has been more advanced than other FPSB affiliates in terms of introducing new certification program to address the need of the industry. In June 2011, IFPHK introduced Associate Financial Planner certification to attract the broader population of the financial planning industry. In respect of the growing concerns on ethical and compliance behavior, IFPHK has made it a mandatory requirement to have two CPD hours on ethics and compliance. Such a requirement is a move from just simply counting CPD hours to an approach in which the content of CPD does matter. To encourage and recognize organizations that have invested in promoting financial planning education, IFPHK introduced a financial education award in 2012.

<sup>6</sup> Etf, A Review of international and national developments in the use of qualification frameworks

<sup>7</sup> Lifelong learning is indispensable in existing insurance industry. Since 2001 the OECD have been conducting a large-scale activity on optimizing lifelong learning by means reforms that involve qualifications systems. Countries introduce QF in order to better match qualifications with knowledge skills and competences and to better relate qualifications to occupational needs, bring coherence to sub-systems of qualifications particularly vocational education and training qualifications, support life-long learning, and facilitate the involvement of political actors and stakeholders.

learning, transfer of learning, and progressing in learning<sup>8</sup>. There is no evidence to prove there is a direct correlation between implementation of a QF and the quality of the industry's workforce. QF does not provide quick-fix or simple solutions to the complex problem facing countries in relation to education, skills development and employment. Expectation that qualification frameworks can achieve the ambitious policy objectives claimed for them in relatively limited time periods seem to be ill-founded<sup>9</sup>.

To successfully enhance quality of the workforce requires a combination of policy initiatives which include raising the entry requirements to the industry. Regulators in overseas jurisdictions realize the importance of having qualified and competent financial planners and advisers. As such, they have introduced policy change to raise the minimum standards of the industry and many of them achieve it by partnering with professional organizations. The Retail Distribution Review ("RDR") in the United Kingdom put forward several changes that have had significant impact on the industry<sup>10</sup>. One of the changes is to require higher minimum entry requirements for front line staff empowered with the important task of providing financial advice to consumers. On 20 June 2012 the Australian Senate passed the Future of Financial Advice (FoFA) bill in which the regulator requires financial advisers to undertake a "knowledge update review" every three years and new financial advisers have to be supervised for a year by a planner with at least five years' experience.<sup>11</sup> In January last year Monetary Authority of Singapore (MAS) announced the FAIR Panel Report, which made 28 recommendations under five thrusts. One of the recommendations is to raise the competence of financial advisory representatives by raising the minimum entry requirement for new entrants and requiring financial advisors to undergo at least 30 hours of formal training annually. Also in January last year the Securities and Exchange Board of India ("SEBI") issued the final investor adviser regulations. The SEBI requires all advisers to have a post-graduate diploma in a finance-related subject or five years industry experience.

IFPHK expects this wave of reform to spread to Hong Kong. Certainly, it is recommended in the report of the Legislative Council Subcommittee that the issues arising from the Lehman Brothers-related Minibond and Structured Financial Products ("Minibond report) published in June 2012 be considered, and that there should be more focus on strengthening supervision of intermediaries to ensure that sales staff are fit and proper, adequately trained, and have sufficient understanding of the investment products being sold by them. The Subcommittee recommended the regulator consider the feasibility of setting benchmarks on certain key requirements to achieve consistency in standards and better protection for investors. These key requirements include training for sales staff. The Subcommittee also recommended the regulator consider raising the minimum academic qualification of intermediaries to university degree level and/or professional training in specified fields such as finance or accounting.<sup>12</sup>

In light of the above, IFPHK recommends that when finalizing and implementing the QF, the ITAC must take into account the anticipated changes of the regulatory requirements which may include raising the minimum qualification requirements and amendments of the continuous education requirements.

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<sup>8</sup> Etf, A Review of international and national developments in the use of qualification frameworks

<sup>9</sup> Stephanie Allais, International Labour Office, The implementation and impact of National Qualifications Frameworks: Report of a study in 16 countries, 2010.

<sup>10</sup> Changes under RDR include but not limited to prohibiting commission payment to intermediaries on advised sales to retail clients, facilitating adviser charging and raising minimum qualification

<sup>11</sup> As long as the associations have their codes of conduct approved by the Australia Securities and Investment Commission ("ASIC"), their members will be exempt from opt-in rules, which require advisers to obtain consent every two years from those clients who pay asset-based percentage fees and wish to remain with their adviser.

<sup>12</sup> Legislative Council Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and Structured Financial Products, June 2012.

## **Question 2:**

### ***Do you think the SCS can help set the competency standards of the industry?***

IFPHK agrees that SCS can serve as a reference in setting the competence standards of the industry. IFPHK thinks that the SCS can be a defined quality standard which represents levels of attainment that individuals make best use of their knowledge and skills. Whether a SCS is effective in setting the competency standards of the industry depends on its formulation and applications. In this area, IFPHK can share its experience and apply the results of our Global job analysis survey to revamp the certification program.

As mentioned earlier, IFPHK has conducted a survey on the practices of the financial planning industry. The survey results showed that the knowledge, skills and abilities required for professional financial planners and the value proposition of financial planning in Hong Kong were unique. The conclusions from the Survey are reflected in all aspects of CFP Certification and AFP Certification and the continuous education programs. IFPHK also summarized the results of the Survey in a report. We hope that corporations can use the report when reviewing and refining business propositions, recruitment of the right talents to join the financial planning team, and when conducting improvements to the current practices of financial planners.

If implemented the draft SCS must not only set quality standard benchmarks, but also explain how they are to be achieved. Since assessment of performance and competence is evidence-based, IFPHK considers the SCSs as a starting point for appraising staff performance, ensuring they understand what they are supposed to achieve, giving them feedback on how well they are doing, setting fresh challenges and determining improvement or development needs.

## **Question 3:**

### ***Other opinions about the implementation of QF in the Insurance Industry?***

The development and implementation of a QF is a demanding task and requires long-term commitment and investment. Insurance industry and the financial services industry as a whole will continue to face the challenges of tightening regulatory requirements and growing customers demand for trusted advisors. The insurance industry itself is also subject to continuous change in legal and social conditions. The advisory tasks of intermediaries has become significantly more complex and involves more responsibility than ever before. In view of the fast changing environment, IFPHK urges the relevant authorities to constantly review and continuously improve the QF and the SCS based on the following principles:

#### ***The QF must keep up with the needs of the consumers***

Some countries treat the QFs as an important social construct that provides the basis for initiatives such as strategic planning of education and training, meeting labour market needs, and structuring opportunities for individuals to enter and progress in the labour market. Therefore, QFs can be seen as a catalyst to change, which is why some countries make the QFs more demand-led as opposed to supply side driven<sup>13</sup>.

IFPHK understands that the draft SCS of the insurance industry is a collaborative effort by ITAC and industry representatives, and the result should already incorporate the talent requirements of the industry. However,

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<sup>13</sup> Etf, A Review of international and national developments in the use of qualification frameworks

to make the QFs more sustainable, IFPHK recommends the ITAC construct the SCS in a demand led way, which would address customer's demand of having trusted advisors who act in the best interest of the clients and can help them make informed investment decisions.

*Not to be prescriptive*

Over-prescription that has no basis in how qualifications are actually used is unlikely to be effective. The SCS should be flexible enough to incorporate specific content as well as outcomes in their definition of a qualification, and that these are linked to appropriate forms of assessment which are likely to include examination<sup>14</sup>.

*Keep abreast of local and international regulatory development*

Financial services industry is a highly regulated industry and the quest for talent evolves with the regulatory requirements. For instance, a decade ago demand for Anti-money Laundering ("AML") specialists was almost non-existent, whereas today most large-sized financial institutions have an AML Officer and/or a team of AML specialists in order to cope with intensive regulatory examinations on AML.

Globalization and financial market integration has increased rapidly in the past few years. As an international financial centre, Hong Kong is not immune from international financial market and regulatory development. This has been illustrated by the recent financial crisis where problems originating in one country quickly spread across the globe. Because of the global contagion witnessed during the current financial crisis there have been greater calls for better coordination between regulators from different jurisdictions, and for an increase in the convergence of financial regulation. As discussed in Question 1, many regulators have raised the minimum qualifications of practitioners to ensure uniform standards. Therefore, IFPHK reminds the relevant authorities that execute and administrate the QFs to be mindful of the global regulatory trend when formulating and reviewing the QFs.

*Recognition of prior learning*

One of the expectations that have been widely associated with the introduction of a QF is its potential for accrediting informal learning. Experience shows that while people do acquire considerable skills and knowledge in informal ways, the promise of QF in this respect has not been realized<sup>15</sup>. The insurance industry has a long history of self-regulation and previously its reputation has suffered from varying standards. There is a swathe of different types of advisers in the insurance industry and each can have qualification requirements and accreditation that mean nothing to the average consumer. It is therefore a challenge, and a difficult one, for ITAC to agree with the industry to a standard for prior learning undertaken by veterans of the sector.

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<sup>14</sup> Michael Young, International Labour Office, InFocus Programme on Skills, Knowledge and Employability, National qualification frameworks: Their feasibility for effective implementation in developing countries, Skills Working Paper No.22, 2005.

<sup>15</sup> *ibid*

## **Part II: Major Functional Areas**

### **Question 4:**

***Do you agree to the classification of the industry into 7 functional areas, as appeared in the draft SCS for the Insurance Industry?***

The industry is divided into 7 functional areas namely sales & distribution management, marketing, underwriting, policy service, claims, legal & compliance and operational support & services. IFPHK has no further comments on the classification.

### **Question 5:**

***Do you think the 7 functional areas specified in the SCS have already covered all major functions of the industry?***

IFPHK has no further comments on the 7 functional areas specified in the SCS.

## **Part III – Units of Competency**

### **Question 6:**

***What other UoC(s) should be added to enhance the forward-lookingness of the SCS?***

Like any other framework the QF, once established, is not set in stone. It needs continuous development and adaptation to changing environments. As discussed in Question 3, IFPHK recommends the QFs to focus on customer demand for trusted advisors and the regulatory trend of raising minimum qualifications. To enhance the forward-thinking nature of the SCS, IFPHK suggests adding the following UOCs

#### *Incorporate elements of financial planning process*

International trend greatly shapes the future of the insurance industry in Hong Kong. The demand for need-based selling and trusted advisors whose priority is to act in the best interests of clients is here. IFPHK envisages there will be a gradual shift from traditional product selling to financial planning in insurance industry.

As repeated stated in this submission, it is IFPHK's mission to promote the importance of financial planning. We believe the financial planning process consists of six steps that help clients take a holistic approach to assessing their financial situation. The process involves gathering relevant financial information, setting life goals, examining a client's current financial status and coming up with a strategy or plan for how clients can meet their goals given their current situation and future plans. Hence, the suitability requirements that are required by all regulators are already embedded in the six-steps of IFPHK's financial planning process, which financial planning professionals are required to be familiar with<sup>16</sup>.

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<sup>16</sup> In 2006, with contributions from the patrons of leading industry practitioners and experts, IFPHK published the *IFPHK Practice Guide for Financial Planners*. The Guide is the first set of guidance materials for financial planners to practise in Hong Kong. To supplement this effort, IFPHK also launched the first Guidance Notes, *Suitability of Advice Obligations: Documenting your Financial Advice* ("Suitability Guidance Note") for members. As stated in the IFPHK's Suitability Guidance Note,

The financial planning professional should work with the client to identify all relevant parameters relevant to the development of a financial plan. The financial planning professional is required to collect and properly document quantitative and qualitative data regarding these parameters, which might include (but not limited to) the client's background, financial condition, investment experience, attitude toward risk and capacity of loss, in order to enable the financial planning professional to provide a recommendation and advice for a product or service suitable and appropriate to that client. The assessment should be agreed with the clients and updated at regular intervals (i.e. at least annually). In consideration of the above, financial planning practice fulfills the customer requirements for need-based selling.

Though the UOCs contain elements of financial planning which include assess customer needs (INCGSD305A), maintain up-to-date customer records to support daily operations (INCCCN204A), conduct financial planning assessment for customers (INLISD301A) and manage responsible and ethical advisory activities (INBKSD501A), they are incomplete. As such, IFPHK suggests adding the following UOCs:

- Implement the financial planning recommendations  
The financial planning professional should agree with the clients on how the recommendations will be carried out. The financial planning professional and the client should also agree on implementation responsibilities that are consistent with the scope of the engagement, the client's acceptance of the financial planning recommendations, and the financial planning professional's ability to implement the financial planning recommendations. Based on the scope of the engagement, the financial planning professional identifies and presents appropriate product(s) and service(s) that are consistent with the financial planning recommendations accepted by the client<sup>17</sup>.
- Monitor and review financial plan  
Financial planning is a dynamic process that may require updates due to changes in the client's personal, economic or other circumstances. Financial planning professionals have a responsibility to check the consistency and quality of their advice or recommendations given to clients. To ensure the quality and validity of their advice, financial planning professionals shall work with the client to define and agree on terms for reviewing and re-valuating the client's situation. The reviewing process may require financial planning professionals to modify the original advice or initiate a new plan. The financial planning professional defines and communicates to the client the nature and scope of the reviewing activities that he/she will provide. The review activities may include additional data collected from the client. When conducting a review, the financial planning professional and the client should review the client's situation to assess progress toward achieving the set objectives, determine if the original recommendations are still appropriate, and confirm any mutually agreed revisions<sup>18</sup>.

#### *Educate consumers on financial planning concepts*

The role of an adviser or financial planning professional is to help a client make an informed investment decision. Ultimately it is the client himself/herself who makes the investment decision. Therefore, qualified intermediaries must accompanied by informed investors to support a healthy financial market.

Despite the relatively high penetration rate of insurance products in the Hong Kong market and a reasonable growth in premium over the years, the general understanding of insurance products and how they could be

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<sup>17</sup> IFPHK Practice Guide for Financial Planners

<sup>18</sup> *ibid*

used effectively in one’s financial plan remains poor, especially on products such as insurance linked assurance schemes (“ILAS”). IFPHK has always believed that intermediaries have the primary responsibility in educating the public on financial literacy. Over the past thirteen years IFPHK has worked towards these objectives and has a track record of advocating on the provision of financial education to consumers. It is IFPHK’s view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in a greater consumer appreciation of planning for a long-term financial future – a concept IFPHK continuously promulgates. Our views correspond with the view of the regulators and other global organizations. The International Association of Insurance Supervisors stated in the Insurance Core Principles that insurance intermediaries with their direct contact with clients can help promote consumer protection by assisting them make better informed decisions about the products they buy<sup>19</sup>. Thus, it would make sense to include the task of financial education into the SCS for the medium to long term benefit of the market and consumers.

**Question 7:**

***What UoC(s) should be deleted or amended?***

Part of the skill of advisers or financial planning professionals is considering and evaluating different pieces of information to form an adequate client profile and recommend what is most suitable for the client. The advisers or financial planning professionals must have an adequate level of knowledge and skill and be able to effectively apply that knowledge and skill towards accurately classifying and profiling clients, identifying their needs and objectives, and providing quality advice and services to them. Generally speaking, IFPHK feels that the draft UoC(s) is based upon on the needs of the industry players (supplier driven). Though the needs of the industry players also reflect the demand of the consumers, IFPHK suggests the UoC builds directly upon the needs of the consumers (demand driven). As discussed, IFPHK believes there will be a gradual shift from traditional product selling to need-based selling. IFPHK suggests amending the following UoCs to address this trend:

<b>Level</b>	<b>Code</b>	<b>Title</b>	<b>Opinion</b>
3	INCGSD304A	Assess Customer needs	Suitability is the cornerstone of financial planning. As mentioned in the IFPHK’s Suitability Guidance Note, know your client is fundamental to the provision of financial services or advice. It protects both the client and the financial planning professional by having the financial planning professional know which services or investment best suits the client, based on his/her needs and ensuring the financial planning professional knows his/her client’s financial goals and objectives and other important information before giving any financial advice.

<sup>19</sup> International organizations such as the G20 and other political and supervisory bodies continue to drive financial services sector reform – both globally and at a local level. The adoption of new International Association of Insurance Supervisors (“IAIS”) standards in October 2011 was a catalyst for many insurance supervisors to commence reform<sup>19</sup>. The Insurance Core Principles, Standard, Guidance and Assessment Methodology (“ICP”) provides a globally accepted framework for the supervision of the insurance sector. It contains 26 principles that IAIS members are advised to observe and adopt. In consideration of the recent development, it is necessary for the insurance industry to keep up with global standards.



Level	Code	Title	Opinion
			<p>Understanding customer needs is critical and fundamental to the delivery of quality advice and services. To master such a task requires excellent communication skills (to collect the right information) and good analytical skills (to analyze and understand the information).</p> <p>As such, IFPHK consider assigning the task “Assess customer needs” to level 3 is too low.</p>
3	INLISD301A	Conduct financial planning assessment for customers	<p>As mentioned in Question 3, the financial planning process requires a financial planning professional to work with the client to identify all relevant parameters relevant to the development of a financial plan. The Survey also revealed that majority of the CFP professionals confirmed that they worked with their clients to collect the quantitative and qualitative information; study potential opportunities and constraints; assess information; and synthesize information to provide holistic financial recommendations.</p> <p>Synthesis of information into a financial plan is tested in CFP Certification Examination (Level 2), the highest examination requirement of the CFP Certification.</p> <p>Thus, IFPHK considers assigning the task of “Conduct financial planning assessment for customers” as level 3 is too low.</p>
3	INCGSD307A	Apply selling skills to secure insurance sales	<p>Financial planning represents the process of developing strategies to assist clients in managing their financial affairs to meet life goals, with financial planning professionals developing long-term relationships with their clients. However, this relationship does not always result in a sale of financial products.</p> <p>The Survey conduct by IFPHK clearly showed that CFP professionals were well aware of the need to act in the best interests of their clients. Developing strong relationships with clients is an essential skill for CFP professionals as they need to develop a bond of trust for the relationship to function efficiently.</p>
3	INCGSD308A	Handle objection to secure insurance sale	
5	INCGSD506A	Improve agents’ selling skills	

Level	Code	Title	Opinion
			<p>Also, strong communication skills are essential for understanding client's needs, instilling confidence when agreeing on products and strategies, and ensuring that the clients are fully aware of the benefits and risks.</p> <p>In this regards, IFPHK recommends to combine UOCs that relate to selling skills to a UOC that improves an intermediary's communication skills.</p>