Ethics for Risk professionals

Walking the thin line

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Ethics is about right and wrong; ***what ought one to do?***

Socrates

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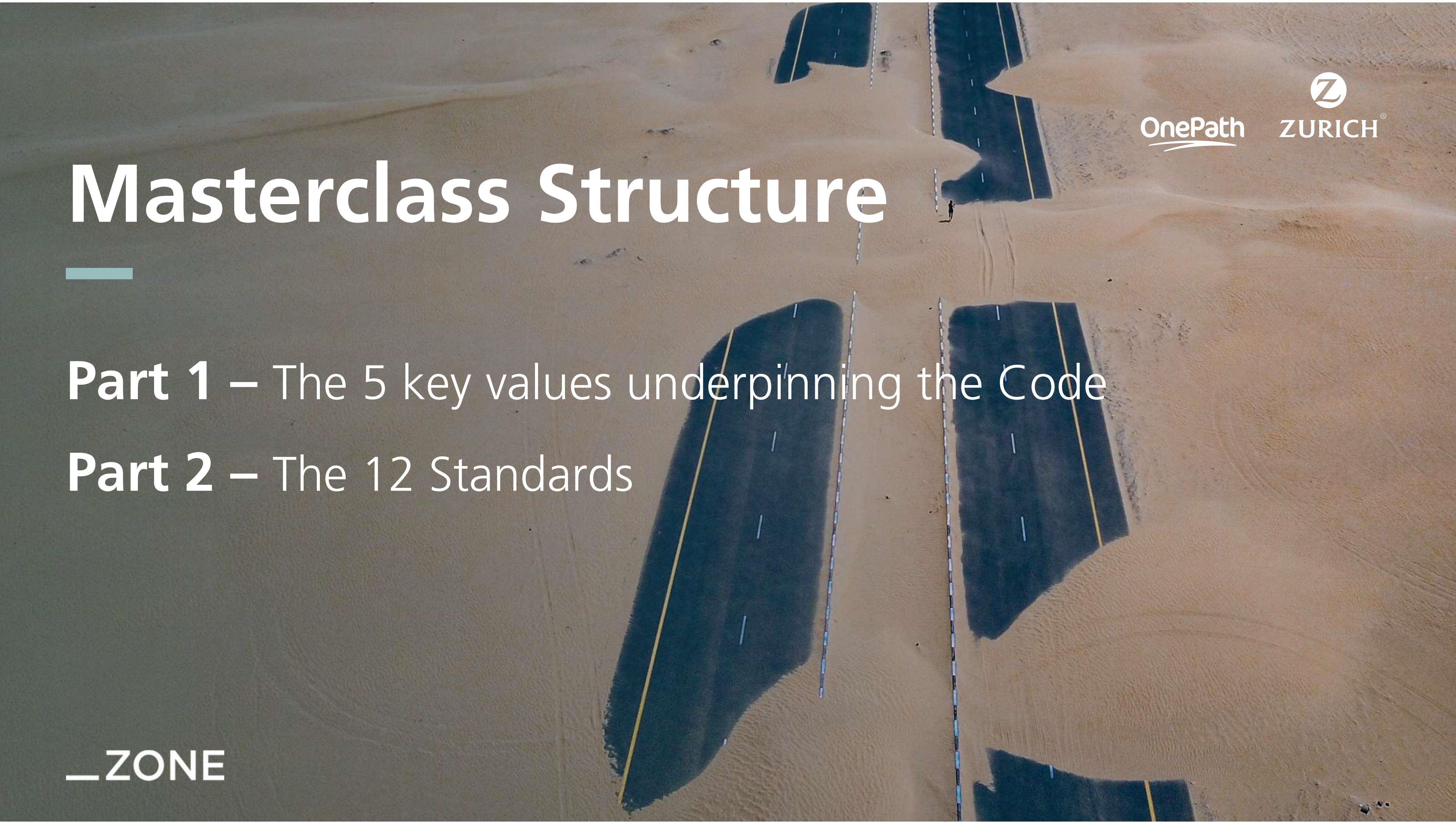

Masterclass Structure

Part 1 – The 5 key values underpinning the Code

Part 2 – The 12 Standards

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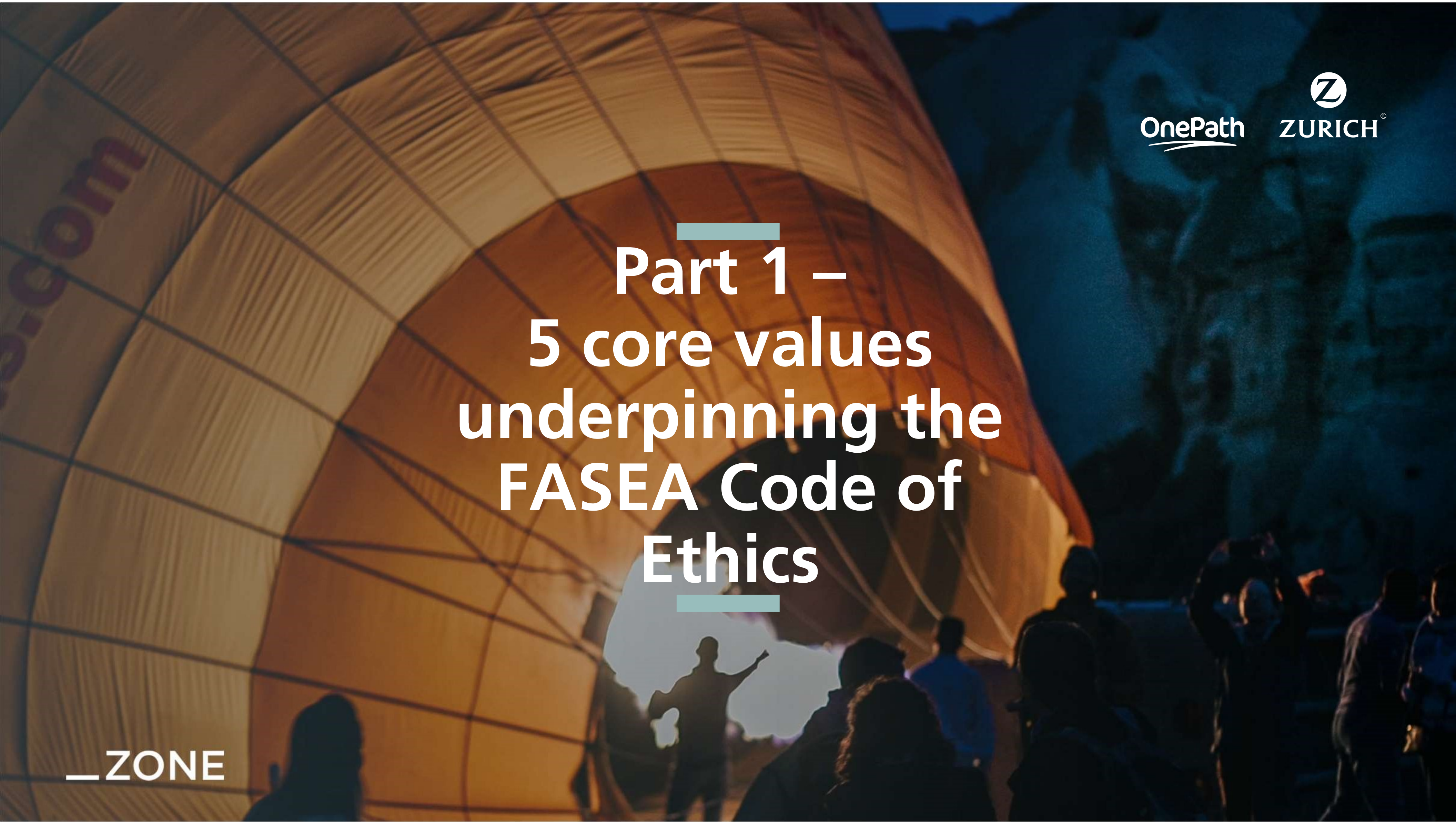

Part 1 – 5 core values underpinning the FASEA Code of Ethics


OnePath
ZURICH
Honesty
Competence
Fairness
Trust
Ethical Principles
Diligence
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#1

Trustworthiness

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- Act in **good faith** and be reliable in your relationships
- Trust is **easily broken** by unethical conduct
- Acting ethically **raises consumer trust and community confidence** in the industry

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#2

Competence

- Consider the **knowledge, skills and experience** necessary to perform your professional obligations
- Have regard to each client's **individual needs**, **priorities**, **circumstances** and **preferences**, both express or implied

What level of risk do they want to be covered for?

What is and is not appropriate to infer from this conversation with the client?

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#3

Honesty

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"*Being honest means **more than just technically telling the truth**, it may require you not to withhold information from your client that your client would want to know.*"

If I was the client, what would I want to know?

Has there been a situation where I should have been more transparent in the information I gave a client?

#4

Fairness

- Bring **professional objectivity** to your dealings
- Properly **investigate, evaluate and diagnose** a client's need for professional services
- Self-reflect on the **limits** of your professional competency
- Understanding your **personal biases**

Am I the right person who is best placed to help this particular client?

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#5

Diligence

Perform all professional engagements with **due care and skill**

Deliver professional services in a **timely, efficient and cost-effective** way

Applies to every aspect of your job role (not just client interactions)

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Part 2 – 12 Standards

Overview of the structure

Ethical behaviour (1-3)
Client care (4-6)
Quality process (7-9)
Professional commitment (10-12)

Standards of
Ethical behaviour

Standard 1

You must act in accordance with all applicable laws, including this Code, and not try to avoid or circumvent their intent.

Standard 2

You must act with integrity and in the best interests of each of your clients.

Standard 3

You must not advise, refer or act in any other manner where you have a conflict of interest or duty.

Standards of
Client care

Standard 4

You may act for a client only with the client's free, prior and informed consent. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

Standard 5

All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to the client's individual circumstances.

You must be satisfied that the client understands your advice, and the benefits, costs and risks of the financial products that you recommend, and you must have reasonable grounds to be satisfied.

Standard 6

You must take into account the broad effects arising from the client acting on your advice and actively consider the clients broader, long-term interests and likely circumstances.

Standards of
Quality process

Standard 7

The client must give free, prior and informed consent to all benefits you and your principal will receive in connection with acting for the client, including any fees for services that may be charged. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

Except where expressly permitted by the Corporations Act 2001, you may not receive any benefits, in connection with acting for a client, that derive from a third party other than your principal.

You must satisfy yourself that any fees and charges that the client must pay to you or your principal, and any benefits that you or your principal receive, in connection with acting for the client are fair and reasonable, and represent value for money for the client.

Standard 8

You must ensure that your records of clients, including former clients, are kept in a form that is complete and accurate.

Standard 9

All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.

Standards of
Professional commitment

Standard 10

You must develop, maintain and apply a high level of relevant knowledge and skills.

Standard 11

You must cooperate with ASIC and monitoring bodies in any investigation of a breach or potential breach of this Code.

Standard 12

Individually and in cooperation with peers, you must uphold and promote the ethical standards of the profession, and hold each other accountable for the protection of the public interest.

Our values

A relevant provider must always act to realise and promote the values of:

- Trustworthiness
- Competence
- Honesty
- Fairness
- Diligence

A relevant provider is defined in the Corporations Act 2001 (s 910A) as an individual authorised to provide personal advice to retail clients, ... in relation to relevant financial products.

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Ethical behaviour

Standard 1:

You must act in accordance with all applicable laws, including this Code, and not try to avoid or circumvent their intent.

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Scenario

Ethical dilemmas

How do you balance the **best interest duty of your client and your obligation to field Underwrite** and with your responsibility to be **totally transparent with the insurer**?

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Ethical behaviour

Standard 2:

You must act with integrity and in the best interests of each of your clients.

Ethical behaviour

Standard 2:

1. Ask yourself: will your advice and recommendations improve the client's financial well-being?

2. What does it mean to "act in the client's best interests"?

3. What if a client's express wishes constitute action outside of their best interests?

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Ethical behaviour

Standard 3:

You must not advise, refer or act in any other manner where you have a conflict of interest or duty.

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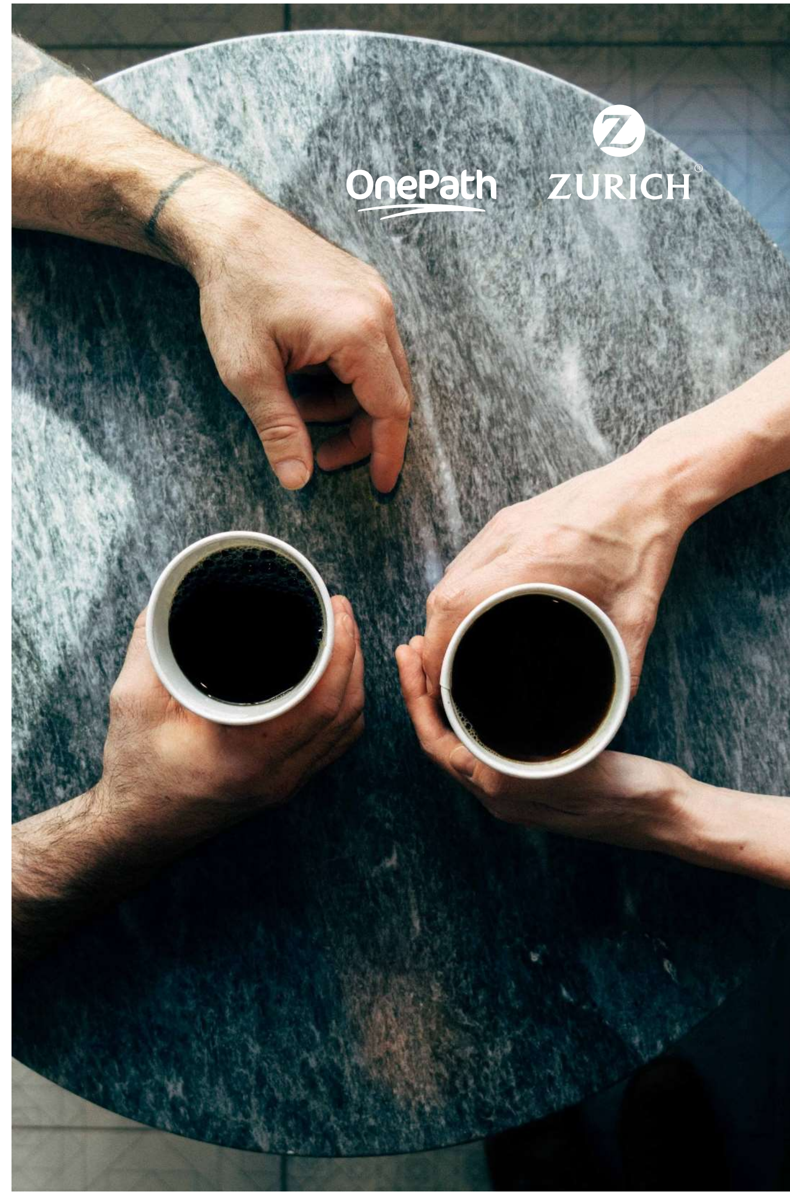
Scenario

Ryan recommends that his client Paul acquire a particular financial product. Ryan’s remuneration includes a bonus depending on the volume or value of that financial product that is sold. Ryan's potential entitlement to the bonus creates a conflict of interest or duty, as it would reasonably appear to influence his advice to Paul.



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Scenario

Jenny has 2 long-term clients, Bill and Emily, a married couple. They tell Jenny that they are divorcing. Because of the divorce, their interests will no longer be the same. If she were to continue to act for both of them, Jenny's duty to Bill would conflict with her duty to Emily.

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BE CAREFUL

Forms of variable income can create (or create the appearance of) a conflict of interest. Risk commission received must be fair and reasonable and represents value for the client and is fully understood by the client.

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Client care

Standard 4:

You may act for a client only with the client's free, prior and informed consent. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

This means that, before you start to act, you must have explained to your client, clearly and simply:

- what services will be provided; and
- the terms on which they will be provided; and
- the records that will be made of the services, and the privacy and confidentiality arrangements applicable to them

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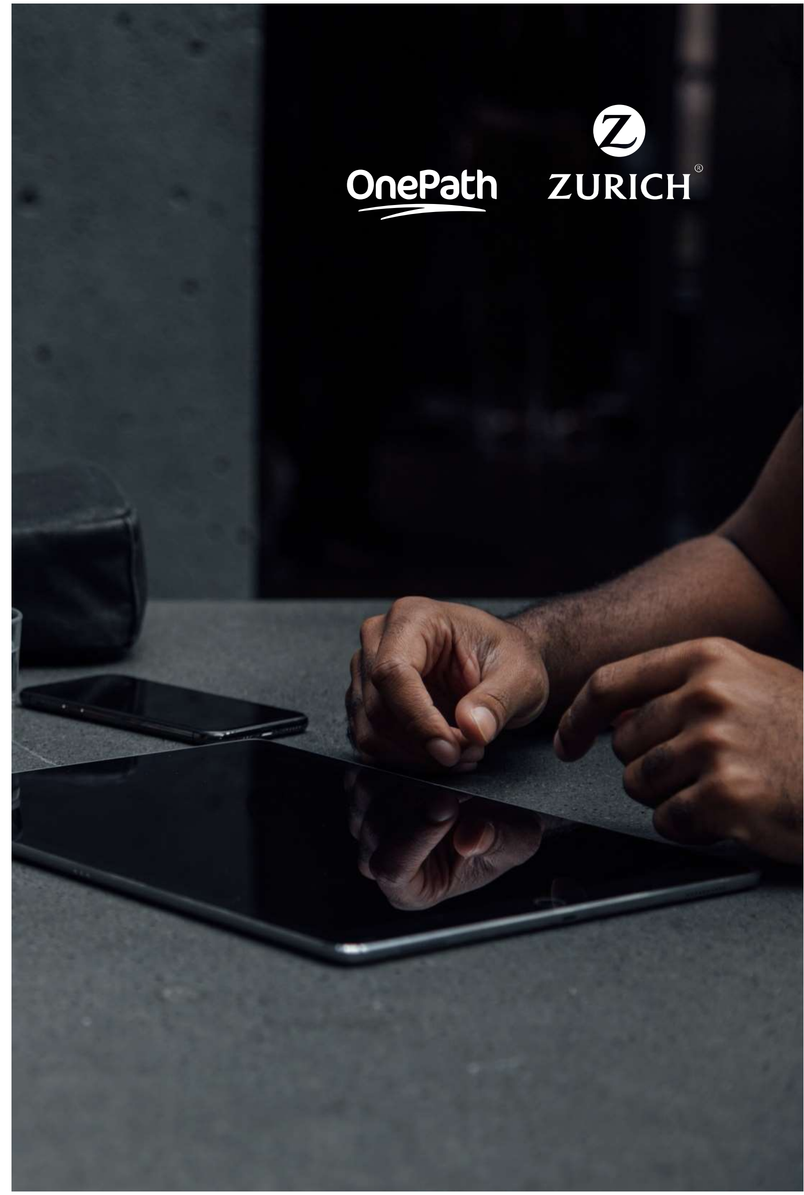
Scenario

Wanda is recently widowed. She is 68 years old and her late husband Philip had managed all the family finances. The manager in her local bank branch has noticed she is rolling over large amounts monthly in term deposits. She agrees to see Deepak, the branch's Senior Financial Planner, for advice regarding her late husband's estate.



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Scenario (continued)

Deepak makes recommendations on restructuring assets and an appropriate income stream to meet Wanda's lifestyle needs. Wanda, who Deepak knows has no experience in financial matters, says she understands the recommendations and is happy to proceed.

What should Deepak do in this situation?

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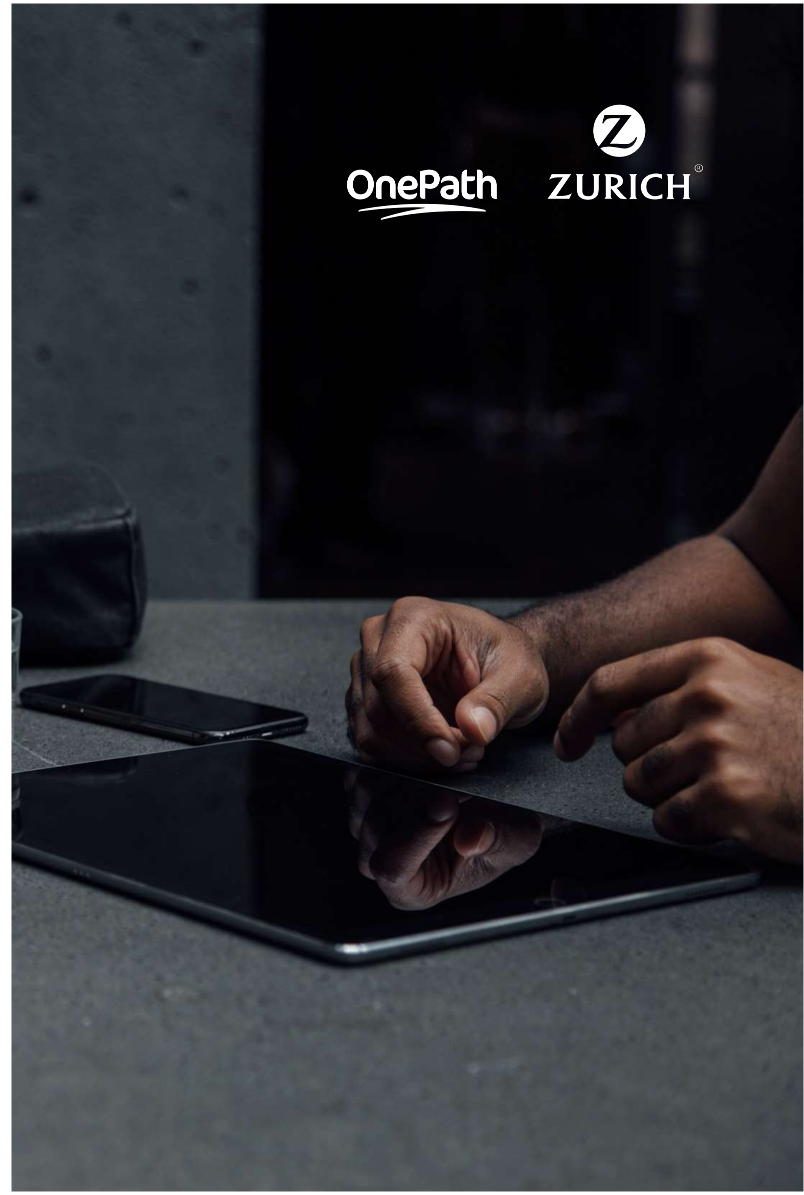

BE CAREFUL

You must be satisfied that the client understands any explanation about the effect of your recommendations BEFORE you can implement the recommendations on their behalf

It is NOT SUFFICIENT to simply explain the effect of the recommendation to the client and gain their written authorisation to proceed

BE CAREFUL

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If you are not satisfied the client understands the recommendations being made, you MUST NOT proceed to implement the recommendation

File notes are critical to detail your conversations/explanations

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Client care

Standard 5:

All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to their individual circumstances.

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Client care

Standard 5 (continued):

You must be satisfied that the client understands:

- ***Your advice – that must be clear and simple***
- ***The benefits, costs and risks of the financial products you recommend***

You must have reasonable grounds to be satisfied these are met.

In advising all of his clients, Frank uses a template statement of advice (SoA) document provided by his licensee. The document is long and contains educational material and standard risk information relating to a range of advice topics.

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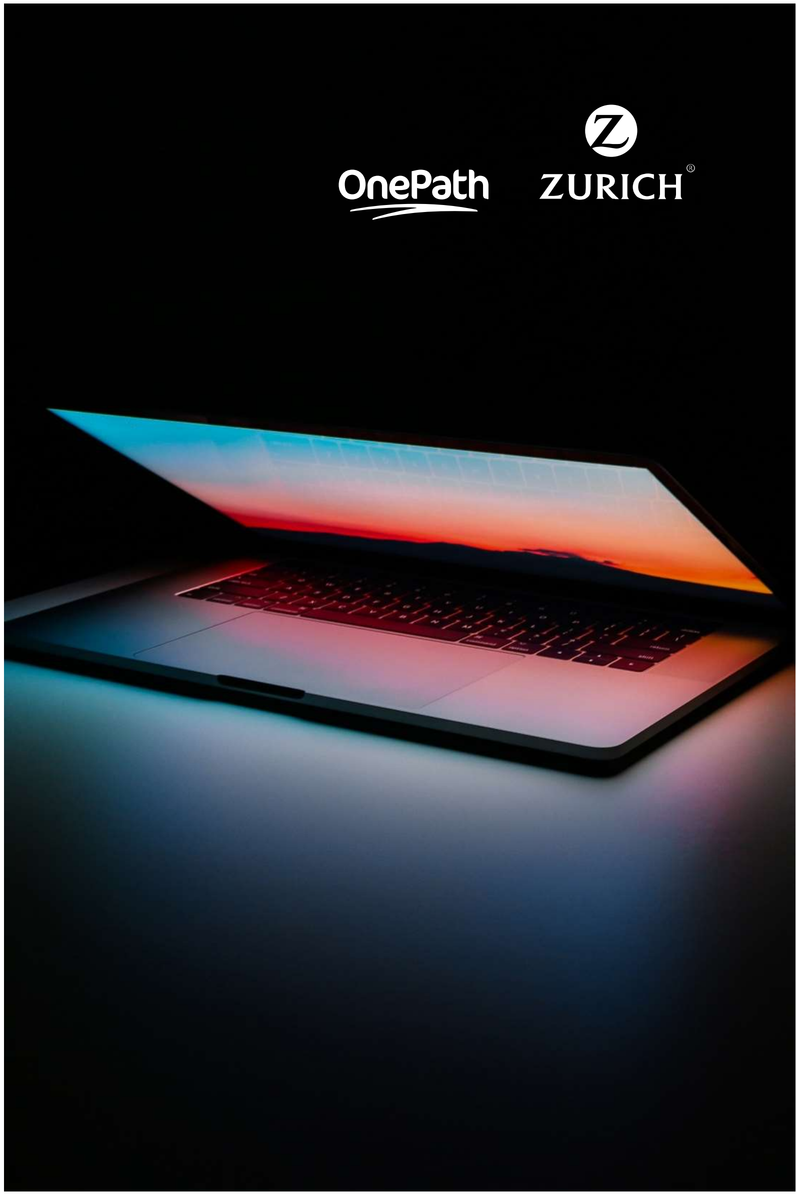

Scenario (continued)

At his licensee’s insistence Frank is only able to minimally tailor this document for individual clients and, never tailors or removes generic information that is not relevant. The resulting SoA document is unnecessarily long and includes complex language and concepts that compromise the client’s ability to understand the advice

What additional steps does Frank need to take?

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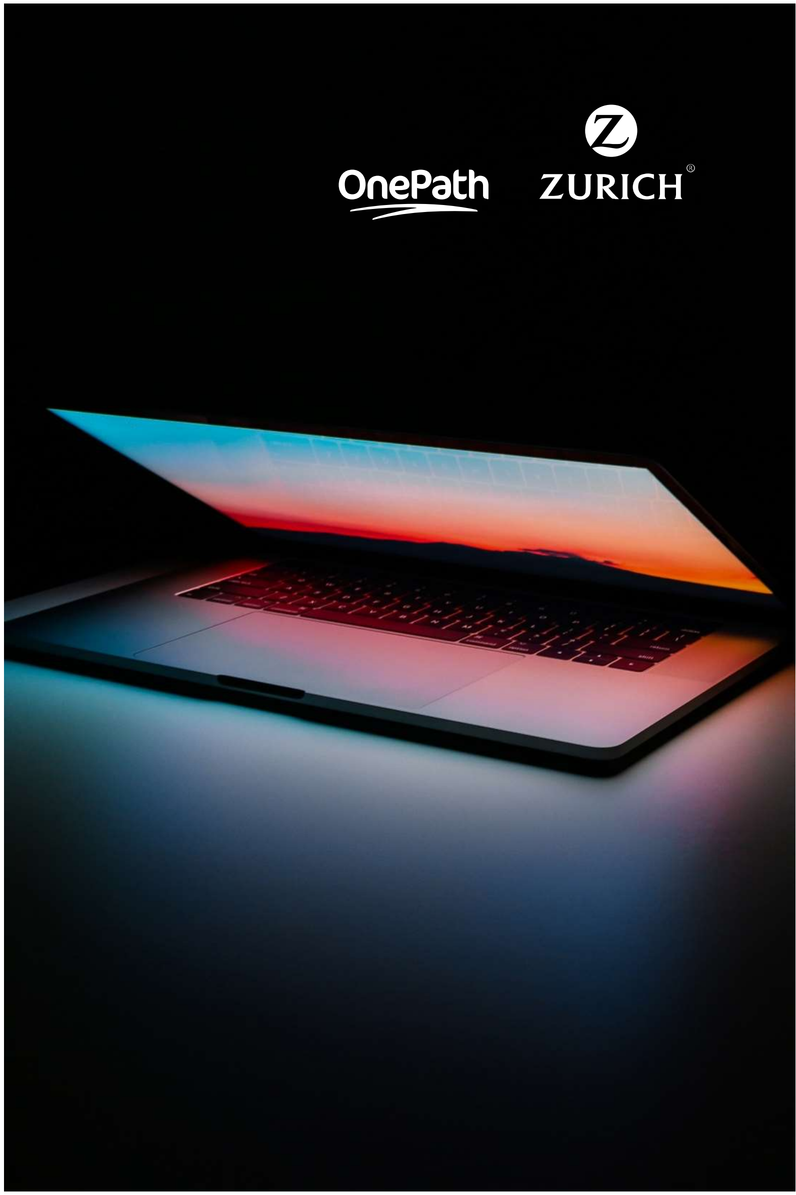

Client care

Standard 6:

You must take into account the broad effects arising from the client acting on your advice and actively consider the client's broader, long-term interests and likely circumstances.

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Client care

Key considerations

This standard is particularly relevant when dealing with **older clients nearing retirement**.

- Does my advice take into account a sustainable income for the person to live on?
- What is their current financial situation?
- Am I helping them meet their investment goals?
- Are my risk assessments accurate?

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Quality process

Standard 7:

The client must give free, prior and informed consent to all benefits you and your principal will receive in connection with acting for the client, including any fees for services that may be charged. If required in the case of an existing client, the consent should be obtained as soon as practicable after this code commences.

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Quality process

Standard 7:

Except where expressly permitted by the Corporations Act 2001, you may not receive any benefits, in connection with acting for a client, that derive from a third party other than your principal.

You must satisfy yourself that any fees and charges that the client must pay to you or your principal, and any benefits that you or your principal receive, in connection with acting for the client are fair and reasonable, and represent value for money for the client

PRACTICAL TIPS

If you are referring a client to third party provider, **do your research** to ensure all options are considered and it is the most appropriate

Fee authority forms must be **completed in full with accurate figures** before they are given to clients to sign

Always explain the scope and effect of the **letter of engagement and associated fees**

"Fees for no service" is clearly not fair and reasonable and it does not represent value for clients.

Quality process

Standard 8:

You must ensure that your records of clients, including former clients, are kept in a form that is complete and accurate.

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PRACTICAL TIPS

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This also includes taking steps to ensure:

- **Both paper and electronic records are kept up to date where required**
- **Confidentiality of client information is maintained**
- **Documents containing sensitive information are stored securely**

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Quality process

Standard 9:

All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.

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Client care

Key takeaways

1. Know your products
2. Present products as they are

You are required to act efficiently, honestly and fairly

(This is the core obligation of licensees - Section 912A(1)(a) of the Corporations Act)

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Professional commitment

Standard 10:

You must develop, maintain and apply a high level of relevant knowledge and skills.

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Professional commitment

Standard 11:

You must cooperate with ASIC and monitoring bodies in any investigation of a breach or potential breach of the Code.

An adviser is notified that they will be subject to an investigation by the relevant investigating body. The adviser is confident that they have maintained good records and takes steps to ensure that all relevant documents that they and their licensee hold are readily available to the investigators. The adviser responds in a timely way to questions from the investigators. The cooperation provided by the adviser allows for an efficient investigation and swift resolution.

What would behaviour which breaches this standard look like?

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Professional commitment

Standard 12:

Individually and in cooperation with peers, you must uphold and promote the ethical standards of the profession and hold each other accountable for the protection of the public interest.

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Donna has just taken a new job in her old hometown. It will enable her and her new husband Keith to buy an affordable home near Donna's parents and start a family. Donna explains the move to her financial adviser and requests a copy of her file so she can provide it to a new adviser back home.

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Scenario (continued)

Donna's adviser provides her with a copy of the file including the fact find, advice documents, current position, and relevant file notes and also offers to engage in a 'handover' tele-conference with the new adviser once Donna has settled in so her new adviser can quickly get up to speed on key strategic aspects of Donna's financial arrangements and goals.

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Scenarios to reflect on

How can we do better to act ethically and in the best interests of our clients?

Risk advice dilemma

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In advice discussions with your client, a strong need for personal risk insurance was identified. Your clients indicated they were happy to add Life, TPD and IP however, didn't want to fund out of cash-flow, just from Super. What ought one do?

Potential answers;

a) Agree and provide quotes fully funded via their Super, including Basic IP cover
b) Provide an analysis on the impact on their Super balance at retirement
c) Provide an analysis on the impact on their ongoing income at retirement
d) Provide an analysis on the impact on both Super balance and ongoing income at retirement
e) Discuss the Pros and Cons of such a strategy, including limitations of IP within Super and tax implications, particularly for TPD cover or non-dependants
f) Whilst your client has only requested insurance advice, highlight the benefits of salary sacrifice

Underwriting dilemma #1

During the application process your client states their height is 180cm and weight is 95kg you confirm this information with the client, who confirms is correct, in fact only weighed themselves a couple of days ago. In your view, you estimate the client is at least 110kg. What ought one do?

Potential answers;

a. Submit the application as is, given its in clients best interest to obtain standard rates
b. Further question your client and reinforce the importance of full disclosure
c. When lodging the application you add additional file note recommending the insurer obtain a Medi-quick
d. Is this fair on all policyholders? Or simple anti-selection?
e. Given you believe the clients is not acting in good faith, decide not to engage as your client

Underwriting dilemma #2

You have a longstanding client and recently completed the annual review recommending a new insurer. The client agreed and undertook a tele-interview for the personal statement. When you receive a copy of the application you notice the client failed to disclose a significant medical condition which was disclosed to the previous insurer. What ought one do?

Potential answers;

a) Do nothing as disclosure is between client and insurer
b) Contact your client and advise them of the discrepancy
c) If client suggests the information is not relevant, reinforce the importance of full disclosure
d) Contact the insurer with the additional medical information
e) Is this fair on all policyholders? Or simple anti-selection?
f) Given you believe the client is not acting in good faith, decide not to engage this person as your client

Claim dilemma

In discussions with you client who is currently on an income protection claim, you become aware the client is actually back working, however is still claiming the full benefit for total disability. What ought one do?

Potential answers;

a) Do nothing as disclosure is between client and insurer and your client is financially better off
b) What impact does this have on other policyholders?
c) Contact your client and advise them falsifying claim documents is fraud
d) If the client suggests "he has paid enough premiums over the years" and is simply "getting a return on his investment" should you contact the insurer for investigation?
e) Given you believe the client is not acting in good faith, decide to no longer act on their behalf and notify the client in writing and company accordingly

Any Questions?

Thank You!

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