FPSB Education Advisory Panel
6-7 September 2007
Seattle, Washington
Meeting Proceedings

Table of Contents

Global Aspects of Financial Planning

by

Carl Anschutz CFP®

FPI Southern Africa

GLOBAL ASPECTS OF FINANCIAL PLANNING by Carl Anschutz (CFP®)

ABSTRACT

I have taken the 11 Knowledge fields of the FPSB Certification Committee and slotted them into three different areas (I also added one of PRACTICE MANAGEMENT). The recommendation I have for the curriculum of the "GLOBAL" Financial Planner would be something as in the table below:

GLOBAL	GLOBAL WITH COUNTRY SPECIFIC BIAS	COUNTRY SPECIFIC
Ethics and Standards	**Investment**	**Law**
Behavioural Finance	**Retirement, Savings and Income Programs**	**Government Benefit Plans**
Practice Management	**Economic and Regulatory Environment**	
Insurance	**Taxation**	
Financial Analysis		
Debt		
Investment		

1. The topics referred to under the global column are constant for financial advisors regardless of the location of your practice.
    a. The highest focus being on ETHICS and BEHAVIOURAL FINANCE
    b. Then there is the PRACTICE MANAGEMENT – gone are the days when you opened your doors and started furnishing advice to the public, "because you can." You now have to stratify or segment your clients into A, B and C clients and more importantly – your staff have to know the difference as well
    c. INSURANCE (Holistically speaking) should be the next GLOBAL topic. The general public of all countries face challenges which should be addressed by their Insurance on their Business, Life, Health, Property and then insurance against Disability, Income replacement, Critical Illness and Casualty.
    d. Every financial planner should be able to do an in depth FINANCIAL ANALYSIS of his/her clients' lives. This should drill down to budgeting in the finest detail and planning ahead to the last breath.
    e. DEBT is also a universal problem: All financial planners should be aware of how to advise their clients on the management of Credit and how best to avoid Insolvency and Bankruptcy.

f. The following one is INVESTMENTS – but distinguish between

i. Management of investments (global); and

ii. Products (global with country bias)

2. The rest of the table speaks to the Country Specific topics, but as can be seen, some of them are clearly have a global "tinge to them" as well such as:

a. TAXATION – the wealthy investor might be a global investor with a diverse portfolio spread across several countries – his advisor needs to be in a position to assist him from a global perspective.

b. RETIREMENT is another universal topic, but like was found in the case with INVESTMENTS, each country has its own products and laws governing retirement.

c. The economic cross-pollination between countries earns ECONOMIC and REGULATORY ENVIRONMENT a slot under the Global biased column.

d. The topics that are only country specific, are LAW and GOVERNMENT BENEFIT PLANS.

The one thing that is clear from the above is that the "global" financial planner needs a good knowledge of most subjects and specialist knowledge in some. The abovementioned table offers the CFP® practitioner an opportunity to offer advice in their own country and world wide by merely studying the laws of the country into which he/she wants to expand – a truly international qualification.

GLOBAL ASPECTS OF FINANCIAL PLANNING by Carl Anschutz (CFP®)

I have taken the 11 Knowledge fields of the FPSB Certification Committee and slotted them into three different areas (I also added one of PRACTICE MANAGEMENT). The recommendation I have for the curriculum of the "GLOBAL" Financial Planner would be something as in the table below:

GLOBAL	GLOBAL WITH COUNTRY SPECIFIC BIAS	COUNTRY SPECIFIC
Ethics and Standards	**Investment**	**Law**
Behavioural Finance	**Retirement, Savings and Income Programs**	**Government Benefit Plans**
Practice Management	**Economic and Regulatory Environment**	
Insurance	**Taxation**	

Financial Analysis		
Debt		
Investment		

3. The topics referred to under the global column are constant for financial advisors regardless of the location of your practice.

    a. The highest focus being on ETHICS and BEHAVIOURAL FINANCE

        i. Ethical behavior by a financial advisor should always be an area on which a very high focus is placed. The profession of financial planning needs to be regarded by all and sundry as an ethical one that only has place for individuals whom place their own ethical behavior as well as high moral standards above everything else.

        ii. The study of behavioural finance is an exciting one which has become essential to assist financial planners in understanding the psyche of their clients and the reasoning behind some of their clients' decision making and their demands. The studies have scientifically proven that human nature is responsible for client behavior and that is why it has become essential that it becomes part or the global curriculum.

    b. Then there is the PRACTICE MANAGEMENT – gone are the days when you opened your doors and started furnishing advice to the public, "because you can." You now have to stratify and segment your clients into A, B and C clients and more importantly – your staff have to know the difference as well. The way we treat our clients has also become a worldwide phenomenon and practitioners are studying one another's methods and striving to achieve the best fit for their practice based on best practice from a worldwide perspective. A lot has been written on this subject matter and it seems appropriate to include these as a high focus area for the international financial planning fraternity.

    c. INSURANCE (Holistically speaking) should be the next GLOBAL topic. Each country's general public face challenges which should be addressed by the Insurance on their Business, Life, Health, Property and then insurance against Disability, Income replacement, Critical Illness and Casualty/Trauma. The nature (and principles) of the insurance will remain the same throughout all countries, although it may differ/vary from country to country how it is offered or packaged by product suppliers.

d. Every financial planner should be able to do an in depth FINANCIAL ANALYSIS of his/her clients' lives. This should drill down to budgeting in the finest detail and planning ahead to the last breath. Financial analysis goes deeper than merely "balancing the salary to the expense". Clients (and their needs) are vastly different and as such the financial advisor who is able to do the most in depth financial analysis will automatically be in a position to offer his/her clients the most balanced advice. In depth analysis of financial information requires a little more than surface knowledge of how the numbers are put together as well as the influence various aspects of the actions of the individual has on the outcomes of his/her clients' final financial advice.

e. DEBT is also a universal problem: All financial planners should be aware of how to advise their clients on the management of Credit and how best to avoid Insolvency and Bankruptcy. The principles of debt management should be consistent throughout the world and as such, should be included in the global curriculum so that if a client should move from one financial advisor to another, the principles drilled into him/her should be consistent and the new advisor should not have to educate the client from square one.

f. The following knowledge field I would like to suggest is included in the global curriculum is INVESTMENTS – but we need to distinguish between

   i. Management of investments (global);

      1. The principles of the concept "managing your investments" should once again be applied by clients consistently regardless of the country within which they find themselves. The financial advisor plays the "coaching" role in guiding his/her clients to manage their investments in the way most suited to achieve the goals they have set themselves.

      2. The coaching role will also include educating the client that the responsibility of making decisions on buying/selling or decreasing/expanding volumes of various investments can not be abdicated by the client to his/her financial advisor, but that responsibility will ALWAYS remain with the client.

      3. Lastly the coaching role will also include constantly reminding the client of his/her risk when investing and how that risk can be mitigated or the increased risk should the client not adhere to the principles of risk minimization.

ii. Products (global with country bias)

1. Each country has their own range of products through which a financial planner can advise his/her clients on investments.

2. It will be up to each country to include products specific to their country in their curriculum so as to achieve the best possible training for the financial planners working in their country and to best serve the public in that specific country. It could be left up to product providers to be seen to train their advisors and the Financial Planning Bodies that govern the profession in each country, to include in it's required curriculum the necessary knowledge required at the lowest level.

4. The rest of the table speaks to the Country Specific topics, but as can be seen, some of them clearly have a global "tinge" to them such as:

   a. TAXATION – the wealthy investor might be a global investor with a diverse portfolio spread across several countries – his advisor needs to be in a position to assist him from a global perspective. As such the financial planning body per country needs to include all aspects of that country's tax aspects in it's curriculum so as to equip the financial advisor to render the most tax efficient financial advice to his/her clients.

   b. RETIREMENT is another universal topic, but like was found in the case with INVESTMENTS, each country has its own products and laws governing retirement.

   c. The economic cross-pollination between countries earns ECONOMIC and REGULATORY ENVIRONMENT a slot under the Global biased column.

5. The topics that are only country specific, are LAW and GOVERNMENT BENEFIT PLANS.

The accounting fraternity went through a similar situation a couple of years ago when IFRS (International Financial Reporting Standards) came into being. Each country had their own reporting standards based on their own laws, regulations and requirements. It became difficult for multinational companies to report in different methods in the countries in which they were operating.

The implementation of IFRS around the world has been phased in by various countries in different methods and using different timing. Adoption of IFRS

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Russia, South Africa, Singapore and Pakistan. Nearly 100 countries currently require or permit the use of, or have a policy of convergence with, IFRS.

Follow the link below for a current overview of all countries that have adopted IFRS

http://www.iasplus.com/country/useias.htm retrieved 17 August 2007

The following extract comes of the Wikipedia website:

Structure of IFRS

IFRS are considered a "principles-based" set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards comprise:

- *Framework for the Preparation and Presentation of Financial Statements*
- *International Financial Reporting Standards (IFRS)—standards issued after 2001*
- *International Accounting Standards (IAS)—standards issued before 2001*
- *Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)—issued after 2001*
- *Standing Interpretations Committee (SIC)—issued before 2001*

When all of the above is considered, one realizes that:

a) The financial planning fraternity could learn from the accounting fraternity's lessons as to the implementation of global standards or the setting of global curricula.
b) With good planning and positive input from all participating countries, the structured implementation of new curricula worldwide would only make our financial planning fraternity a stronger one and assist us to grow from strength to strength.

Towards a Global Financial Planning Body of Knowledge

by

Associate Professor Ken Bruce

Central Queensland University

Abstract

This paper attempts to address the key aspects of the global body of knowledge for financial planning and provides a specialist view on how to deliver the financial planning body of knowledge that prepares people for the competent practice of financial planning. The paper provides an historical perspective on the global body of knowledge and provides suggestions on distinguishing global knowledge from territory-specific knowledge. An analysis of the work undertaken by the International Organization for Standardization clearly supports the premise that the framework for the global body of knowledge is not in dispute. Analysis of the accounting and internal auditing professions provides some clues for an approach for identifying the global and regional bodies of knowledge for financial planning. This paper suggests from a brief analysis of the CFP Certification requirements of FPSB affiliates that there may be inconsistencies in standards, and that this could be addressed by the use of appropriate benchmarks and a comprehensive compliance program. The paper also suggests that collaboration between experienced competent CFP professionals and academicians as the authors and teachers of structured learning material will help develop the body of knowledge. Finally the paper addresses the importance of engaging with the university sector in acknowledging its role in delivering the financial planning body of knowledge and building a research base.

[*] (Adjunct) Associate Professor, Faculty of Business and Informatics, Central Queensland University, Australia; State Director, Melbourne International Campus, 61 3 8662 0524 (phone), k.bruce@mel.cqu.edu.au.

Introduction

There is no universally agreed definition of what constitutes a profession, but the definition provided by the Australian Council of Professions (1997) is useful.

> *'A disciplined group of individuals who adhere to high ethical standards and uphold themselves to, and are accepted by, the public as possessing special knowledge and skills in a widely recognised, organised body of learning derived from education and training at a high level, and who are prepared to exercise this knowledge and these skills in the interest of others. Inherent in this definition is the concept that the responsibility for the welfare, health and safety of the community shall take precedence over other considerations.'*

This definition clearly describes a body of knowledge as an essential defining characteristic of a profession through individuals who possess special knowledge and skills. All professions must by definition have a body of knowledge. In many cases these bodies of knowledge have been catalogued in some way, usually as a listing of knowledge or topic areas. The Business Dictionary (2007) defines a common body of knowledge as ‘the domain of essential information, mastery over which is required for success in a field or profession.’

The body of knowledge of personal financial planning has been expressed in many ways. The CFP Board of Standards has a comprehensive list of knowledge areas that need to be addressed in registered education programs. Financial Planning Standards Board (FPSB) affiliates have similar knowledge lists which must be addressed in CFP education programs delivered by registered or accredited education providers. Regulators such as the Australian Securities and Investments Commission (ASIC) have required knowledge areas for licensing of advisors giving advice on retail financial products (ASIC, 2005). The field of personal financial planning is also well supplied with publications (Chieffe & Rakes, 1999). The intellectual content of these publications contribute to the body of knowledge of the profession. An International Organization for Standardization (ISO) standard on personal financial planning also contributes to the common body of knowledge of financial planning.

The theory of financial planning ought to be global in nature, but the practice of financial planning is territory-specific. National financial planning curricula reflect local financial product types, law and regulation. The FPSB is concerned with global consistency and the delivery of a global body of knowledge. To achieve this, the FPSB must identify technical and non-technical knowledge that a CERTIFIED FINANCIAL PLANNER professional must have, regardless of geographical location in order to competently serve clients. To this end, the FPSB must identify that knowledge which is truly global in nature and that which is regional or territory-specific, and how this knowledge can be best delivered.

This paper provides a brief descriptive analysis of the evolution of the financial planning body of knowledge globally and within Australia. This is followed by a brief overview of the accounting and internal auditing professions to determine if anything can learnt by how those professions have answered the question of global and territory specific knowledge. An analysis of recent work undertaken by the International Organization for Standardization provides a key to the way forward. The paper then examines the Australian regulatory system as an exemplar for identifying regional knowledge and then discusses ways the financial planning body of knowledge can be delineated between global and regional and how it can be delivered to a consistent standard. Finally the role of universities in contributing to the body of knowledge is discussed.

Historical perspectives

Personal financial planning commenced its evolution as a distinct field of endeavour from the 1970's and most probably from earlier beginnings. Independent practitioners formed the heart of the new profession in the 1970's (Warschauer, 2002). They were independent because they provided advice not linked to any particular product. It would seem that from this humble beginning, personal financial planning commenced its evolution into what defines the profession today. Personal financial planning has evolved from a narrow field into a profession (Eyssell, 1999).

The formation of the College of Financial Planning in 1972 was a critical event in the development of personal financial planning (Warschauer, 2002) spawning many organisations such as the Certified Financial Planner Board of Standards Inc., the Financial Planning Association and the National Association of Personal Financial Advisors. Warschauer (2002) chronicles two important events as defining the "professional" era of the profession – the formation of the Certified Financial Planner Board of Standards in 1985 and the first job analysis study of CFP practitioners undertaken by the Board in 1987.

The body of financial planning knowledge arguably commenced its global evolution with the signing of a CFP licence agreement with the International Association of Financial Planners (IAFP) in Australia in 1991. The IAFP in 1992 joined with the Australian Society for Investment Financial Advisers (ASIFA) to become the Financial Planning Association (FPA). Australia was soon followed by Japan as an affiliate of the CFP Board. The CFP Board then established the International CFP Council as a forum for its international licensees to discuss common issues and further foster the development of financial planning in their regions. New affiliate licence agreements were being signed annually and affiliates ultimately put pressure on the CFP Board to have more say and this was achieved with the formation of the Financial Planning Standards Board which in 2004 acquired ownership and control of the CFP® and CERTIFIED FINANCIAL PLANNER™ marks outside the US.

International Organization for Standardization

An examination of the work undertaken by the International Organization for Standardization through Technical Committee 222, *Personal Financial Planning* is instructive in identifying the global body of knowledge of financial planning. This work commenced in 2001 and concluded with the publication of ISO 22222:2005 *Personal financial planning – Requirements for personal financial planners* in 2005.

The process followed by ISO and the end result are both important for the FPSB's objective of identifying a common global body of knowledge. In Atlanta 2001, a group of technical experts were assembled to form the inaugural technical committee – ISO TC222. The meeting was held immediately after the CFP Board of Standard's International CFP Council meeting and comprised technical experts from many of the CFP Board's affiliate organisations. There were some notable exceptions, particularly the UK experts who did not belong to the CFP Board affiliate organisation, the Financial Planning Institute. The US had wide representation, with technical experts with an accounting bias being prevalent. The inaugural technical committee was established and quickly five work groups were formed mirroring the CFP Board's certification requirements of *process of financial planning*, *education (competences), ethics* and *experience*. These work groups were further divided into work items with work item leaders appointed. This provided an effective way of developing the standard with relatively small groups working simultaneously on the aspects which would ultimately comprise the full published standard.

ISO standards are voluntary, but serve many purposes including safeguarding consumers, and users in general, of products and services (ISO, 2007). In many ways, the consumer protection aspect of ISO has been the principal driver for a personal financial planning standard. This echoes the primary role of regulators in this field, such as the Australian Securities and Investment Commission (ASIC, 2007a).

The global body of financial planning knowledge is embedded in ISO 22222:2005 *Personal financial planning – Requirements for personal financial planners.* The standard describes both the context and process of personal financial planning. The process includes (but is not limited to) the same six-step process espoused by the CFP Board of Standards and the FPSB and all its nineteen affiliate organisations as underpinning CFP certification. The general and specific requirements for competence are all described. The specific requirements cover each of the six steps and are broken down into knowledge/understanding and skills. The standard further describes ethical principles and experience requirements – both of which are not incompatible with requirements for CFP certification.

The team of technical experts assembled to develop the ISO standard on personal financial planning have not arrived at anything markedly different from the standards which underpin the CFP® and CERTIFIED FINANCIAL PLANNER™ marks. Although it is beyond the scope of this paper to benchmark the ISO standard against the CFP standard, an examination of the FPSB's Global Competency Profile (FPSB, 2006-7) shows a high degree of compatibility. Both documents are equally informative to curriculum writers. Both documents attempt to incorporate the notion of degrees of knowledge or competence with the ISO standard's reference to the 'hierarchy of thinking' broken down into *knowledge*, *understanding*, *application*, *analysis* and *evaluation* (ISO, 2005). The FPSB's Competency Profile uses a matrix to distinguish between financial planning functions of *collection*, *analysis* and *synthesis*. The FPSB's Global Competency Profile through a comprehensive matrix arguably provides more detailed analysis of the financial planning competencies than the ISO standard. The most important point of differentiation between the two standards is one of depth in which the knowledge areas or competences need to be mastered. The ISO standard is benchmarked against level 8 of the Scottish Credit and Qualification Framework. Level 8 is described as higher national diploma or diploma in higher education. To provide some context, level 9 is an ordinary degree, level 10 as an honours degree and/or graduate diploma, level 11 masters and level 12 at doctorate level (ISO, 2005). The FPSB has benchmarked its CFP standard at upper division undergraduate or master's degree level (FPSB, 2007).

The Accounting and Internal Auditing Professions

The first common body of knowledge (CBOK) for accountants in the United States was produced in 1967 by Roy and MacNeil (Palmer, Ziegenfuss & Pinsker, 2004). Accounting as a field of study has developed over a much longer time horizon than financial planning. The evolutionary process of accounting as a field of study has created a global body of knowledge which has centred primarily on principles and standards, such a generally accepted accounting principles (GAAP). The accounting profession has largely collaborated globally on international accounting standards. However these standards are not so much about identifying a body of knowledge, but more designed to present common standards for financial reporting. International accounting standards have helped address the issue of multinational companies complying with multiple sets of standards converting financial statements to the local GAAP (Fajardo, 2007). While many countries have adopted or are moving towards adopting International Financial Reporting Standards, there have been significant problems identified including complicated nature of certain standards and the tax-driven nature of national standards (Fajardo, 2007). This may provide some lessons for the FPSB in identifying the global and regional bodies of knowledge for financial planning.

Competency studies have also been used in the fields of accounting and auditing in the US to design accounting curricula (Palmer et al, 2004). In Australia, that late Professor Bill Birkett developed a comprehensive competency framework for the major accounting bodies in the early 1990's. Professor Birkett also developed competency standards for the Financial Planning Association of Australia for financial planners in Australia and New Zealand published in 1996. The ISO standard on personal financial planning identifies general and specific requirements of competence for personal financial planners (ISO, 2005). Competency Studies are considered more extensive than CBOK studies because they are outcome-based and focus on an individual's ability to perform professional responsibilities including knowledge and skills (Palmer et al, 2004). A CBOK only considers knowledge requirements.

The Institute of Internal Auditors (IAA) provides a useful case study. The Institute of Internal Auditors is a leading source for information and guidance about the internal audit profession with more than 130,000 members the worldwide (IAA, 2007). In 2006, the IAA undertook a CBOK study to provide information about the practice of the internal audit profession world-wide (IAA, 2006). The study was conducted in the form of surveys to internal auditing and comprised a team of 15 researchers from North America, Europe, Africa and Australia. The outcome was an exhaustive literature review, survey questionnaires captured in the report *A Summary of the Common Body of Knowledge 2006* (IAA, 2006). Over 12,000 responses were received to the surveys. Responses were received from 89 IAA affiliates and internal auditors in 91 countries.

Burnaby et al (2006) undertook a survey to validate the scope of topics to be included in The IAA's Global Common Body of Knowledge Study of 2006. This survey not only validated the planned scope but also added additional topic areas for inclusion in the CBOK 2006. Given the common nature of the practice of auditing globally, there was no need to identify territory-specific common characteristics of the CBOK.

The Australian Regulatory Regime: an exemplar of country-specific considerations

Significant to the development of financial planning in Australia was the Wallis Enquiry of 1996. The Wallis Report made over 100 recommendations for regulatory reform (Bennett, 2003). Following Wallis was the Corporate Legislative Economic Reform Program, known as CLERP. CLERP became the government vehicle to progressively achieve reform in the Australian regulatory regime. This resulted in the Financial Services Reform Act (2002). The Financial Services Reform Act (2002) and subsequent release of Policy Statement 146 (PS146) by the Australian Securities and Investments Commission, established competencies for advisors providing advice on retail products was introduced (Cowen, Blair & Taylor, 2006). PS146 is now known as Regulatory Guide (RG) 146 and is currently under review by ASIC. This review is not aimed at a fundamental rethink of current policy on the training of financial product advisers, but rather to examine administration of the policy to facility more flexibility in training requirements (ASIC, 2007b).

PS146 sets minimum training standards for people who provide financial product advice to retail client and cover knowledge and skill requirements. These training standards are met by satisfactorily completing training courses listed on the ASIC Training Register (ASIC, 2007). The training courses must be in areas relevant to the advisory activities of the individual and are at either Tier 1 or Tier 2. Tier 1 is the higher level and the level that financial planners would be required to attain. Tier 1 training courses are considered broadly equivalent to *Diploma* level in the Australian Qualifications Framework (AQF) and would be roughly equivalent to level 8 in the Scottish Credit and Qualification Framework. The Vocational Education and Training (VET) system in Australia have developed specific award courses which meet Tier 1 requirements, such as the Diploma of Financial Services (Financial Planning). Several universities have individual subjects from degree programs listed on ASIC's training register as meeting Tier 1 requirements.

These minimum standards were initially developed through a process of extensive industry consultation. Practitioners, principals, educators and others with an interest in financial advising formed focus groups and other forums in a process of developing and validating these standards. The initial draft of these standards presented to the focus groups were heavily influenced by the same competency standards developed by Professor Birkett for the FPA.

ASIC PS146 (ASIC, 2005) specifies generic knowledge areas, specialist knowledge areas and skill requirements all in the context of product advice. The specialist areas cover products such as insurance (life, general and insurance broking), securities, derivatives, managed investments, superannuation. Financial planning is also listed as a specialist knowledge area covering theories behind the use of the products listed above as well issues such as the legal environment, taxation and estate planning. PS146 also specifies skills requirements which largely mirror those in ISO 22222:2005 *Personal financial planning – Requirements for personal financial planners* and those underpinning the six-step process followed by FPSB affiliates. The skill requirements cover, establishing relationships with client, identifying client objectives, the client needs and financial situation, analysing client objectives, client's risk profile, developing appropriate strategies and solutions, present appropriate strategies and solutions to the client, negotiate financial plan/policy/transaction with the client, co-ordinate implementation of agreed plan/policy/transaction, complete and maintain necessary documentation, and provision of ongoing service if required by client (ASIC, 2005). The skill requirements are not required for advisors giving only general advice.

FPSB Affiliates

Compared to other professions such as accounting and medicine, the number of financial planners is relatively small. At 31 December 2006, the FPSB reported 104,976 CERTIFIED FINANCIAL PLANNER professionals globally, comprised of 51,945 as FPSB Council members (outside the US) and 53,031 in the United States (FPSB, 2007). CPA Australia by way of comparison has over 110,000 members.

CERTIFIED FINANCIAL PLANNER professionals meet competency, ethics and professional practice standards based on an international platform of education, examination, experience and ethics/professional practice requirements referred to as the 4Es (FPSB, 2007). Topics are typically in areas such as general principles of financial planning, insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning and estate planning.

FPSB affiliates have largely adopted the US CFP Board's model of registering or accrediting education providers to deliver knowledge topic areas which prepare individuals for the CFP certification examination requirement. These knowledge topic areas essentially represent the body of knowledge of financial planning in the region of the FPSB affiliate member. The knowledge topic areas typically cover generic areas such as the process of the financial planning and those characteristics of specialist knowledge areas that are generic in nature such as the principles of insurance, principles of investment or specific concepts such as risk and return, time value of money and so forth. The topics also mirror the practice of personal financial planning in the affiliates own country. This particularly relates to types and characteristics of financial products, legislation and regulation that may affect taxation considerations, estate planning and retirement planning strategies.

CERTIFIED FINANCIAL PLANNER professionals are required to complete courses in country or region-specific topics in the body of knowledge for personal financial planning, at the upper division undergraduate or master's degree level or its equivalent (FPSB, 2007).

Many FPSB affiliates have registered private education providers to deliver their CFP education programs (FPAS, FPAM, FPSB India, 2007). In these regions the delivery of education programs by private providers is commonplace. It is also common in these countries for young people to complete studies in overseas universities such as in the US, UK, Australia or Canada. Other FPSB affiliates more closely mirror the US CFP Board of Standards by registering education programs delivered by universities. The Financial Planning Association of Australia accredits university programs at Graduate Diploma or

Masters level for advanced standing into the CFP Certification Program. University undergraduate degrees will gain entry to the CFP Certification Program and lesser qualifications at advanced diploma level have in the past also been recognised (FPA, 2007). The Institute of Financial Planners of Hong Kong has six registered education programs which are delivered by schools or institutes under the auspices of local universities. The University of the Free State, through its Centre for Financial Planning Law in partnership with the Financial Planning Institute of South Africa offer formal postgraduate qualifications providing a pathway for CFP certification (FPI, 2007). The UK Institute of Financial Planning recognises an Advanced Financial Planning Certificate or Diploma in Financial Planning as a pathway to their fast track CFP certification assessment (IFP, 2007).

It is unclear if the range or breadth of topics covered by FPSB affiliates are being delivered to the same cognitive level or depth. Benchmarking the cognitive level to a common standard and the use of a comprehensive compliance regime will assist the FPSB in ensuring its affiliates are delivery both the breadth and depth of common core topics and country-specific topics. Compliance regimes are common in relation to the delivery of education programs. Australia has the Australia Quality Training Framework (AQTF). The AQTF is the nationally agreed arrangements that ensure the high quality of vocational education and training (VET) services in Australia. The AQTF evolved from the original Australian Recognition Framework to address the inconsistencies of delivery by registered training organisations operating in the VET sector. In Australia, universities are deemed self-accrediting institutions are therefore are not subject to external audit of the quality of programs in the same way at the VET sector. However Australian universities are periodically audited by the Australian Universities Quality Agency (AUQA), as is the case in UK with The Quality Assurance Agency for Higher Education. AUQA has the responsibility of providing public assurance of the quality of Australia's universities and other institutions of higher education (AUQA, 2007). Quality Assurance Agency for Higher Education (QAA) was established to provide an integrated quality assurance service for UK higher education. The QAA (2007) distinguishes between academic standards and academic quality as:

> *"Academic standards are a way of describing the level of achievement that a student has to reach to gain an academic award (for example, a degree). They should be at a similar level across the UK.*
>
> *Academic quality is a way of describing how well the learning opportunities available to students help them to achieve their award. It is about making sure that appropriate and effective teaching, support, assessment and learning opportunities are provided for them."*

The FPSB has an opportunity to develop a compliance regime that provides assurance to the public that its affiliates are delivering the financial planning body of knowledge – global and country-specific – to a common benchmarked standard. The common benchmarked standard could be an expansive of the FPSB's fundamental and core financial planning competency matrix to include country-specific competencies and suitable guidance as to depth of mastery required by reference to cognitive tool such as Bloom's taxonomy and/or a recognised qualifications framework. Reference to compliance and audit regimes used in the vocational and education training and higher education sectors of various countries will be instructive.

Evolution of financial planning curricula in Australia and the importance of benchmarks

Education courses have played an important role in the development of the financial planning industry in Australia, 'equipping planners with the requisite knowledge and skills to practice financial planning' (Cowen et al, 2006). FPA Australia's Diploma of Financial Planning played a significant role in not only defining the body of knowledge in Australia, but also for many of Australia's Asian neighbours. Certified Financial Planner education courses in Singapore, Malaysia, Hong Kong and India borrowed heavily from Australia's Diploma of Financial Planning. FPA Australia provided support and advice to affiliates in these countries during their formative years and entered into agreements licensing several of these affiliates to use content from FPA Australia's Diploma of Financial Planning course.

Evolution of financial planning in Australia was strongly influenced by the US model and in particular the Diploma of Financial Planning offered by the International Association of Financial Planners was very much developed from education materials of the Denver-based College of Financial Planning (Cowen et al, 2006).

Concurrent to this development was the formation of Australia's first education institution specialising in finance courses, the Investment Training College (ITC). Gwen Fletcher *AM*, co-founder of ITC helped to secure intellectual property from the US which formed the basis of the Diploma of Financial Planning developed by Deakin University for the IAFP and later the FPA. This course begun with six units in 1988 an a seventh unit on *Estate Planning & Professional Responsibilities* was added in 1993 and eight capstone unit, *Financial Plan Construction & Review* was developed by FPA in association with RMIT University and added in 1994.

The basic framework of the Diploma of Financial Planning stayed essentially unchanged for the remainder of its life until it was replaced in the education market by the Diploma and Advanced Diploma in Financial Services in 2003. The FPA in anticipation of a changing education market place and in its efforts to raise the standards to practice as a CERTIFIED FINANCIAL PLANNER professional introduced the CFP Education Program in 1999. That program now known as the CFP Certification Program comprises five units, two of which are compulsory – the first unit on ethics and the last, a capstone assessment unit. The other units focus on technical and strategy development aspects and can be exempt if candidates have completed accredited studies at masters level.

The early financial planning courses offered by universities in Australia were accredited by the FPA (Australia) against topic areas covered in the Diploma of Financial Planning and the 'Birkett' competencies (Cowen et al, 2006). With the release of PS146 by the Australian Securities and Investments Commission, education providers had to meet both FPA requirements and ASIC requirements if they were to give the best outcome for the advisor completing the programs.

The FPA topics and the PS 146 knowledge and skills areas more or less covered the same areas. What was different was the cognitive level in which these topics needed to be covered. The ASIC PS146 knowledge areas (also referred to as Tier 1) are broadly equivalent to 'Diploma' level on the Australian Qualifications Framework (AQF, 2007). The FPA has benchmarked its CFP Certification Program against university masters level on the AQF. Accredited university programs at this level are exempted from CFP Certification units 2-4. This benchmarking plays an important role in distinguishing the financial planning courses delivered to a higher cognitive level, as the core topic areas are essentially the same.

Role of universities and research

Universities clearly have a role as the custodians of the bodies of knowledge of professions. In their submission to the Australian Government Department of Education, Science and Technology (DEST), the Australian Council of Professions (1997) acknowledges the role of the University as the principal guardian and repository for knowledge in present day society. Warschauer (2002) emphasises the importance universities play in the emergence of personal financial planning as a legitimate profession. Most professions are supported and in many cases defined by the university programs that educate and train new entrants. Universities play an important research role which can be used to inform or predict practice. Research therefore has an important role in adding to the body of knowledge of a profession.

Cowen et al (2006) raises the question why the oldest standing Australian universities known as the 'Group of Eight' have not been active in provision of financial planning education. Cowen et al (2006) suggest lack of academic expertise, funding and resource issues, and accreditation needs of professional bodies may be the reason. In 2007, one of Australia's first financial planning programs, the Master of Financial Planning offered by RMIT University in Melbourne is to be discontinued. While there remains speculation as to the reasons for its demise, it seems clear that a lack of enrolments was a major contributor. A probable additional contributing factor has been the dearth of qualified financial planning practitioners prepared to take on an academic career. The practice of financial planning is experiencing an unprecedented boom mainly as a result of Government superannuation and taxation policy has resulted in financial planners earning significantly higher remuneration and with better career prospects than they would as academics.

A practical way of contributing to and defining the global body of knowledge is to develop exemplars of personal financial plans prepared to CFP™ standard. The actual financial plan prepared for a client is what defines the practice of financial planning. This is not restricted to the prepared plan from a technical point of view, but also the important client interactions which extract the necessary information as input into the plan and the client's goals. Eysell (1999) emphasises the importance of maintaining long-term relationships with clients representative of all levels of the socioeconomic spectrum. Some FPSB affiliates have recognised the importance of the soft skills and have incorporated this into their CFP certification assessment requirements such as the oral presentation requirement as part of the Australian CFP certification assessment (FPA Australia, 2007). Regulators such as the Australian Securities and Investment Commission have also recognised the importance of skills as a requirement for licensing (ASIC, 2007b). Eysell (1999) also emphasises the benefits of a practicum for financial planning students as, 'an immensely rewarding and eye-opening experience'.

For the profession of financial planning to continue to grow, it is vitally important that universities embrace it as a research discipline. In Australia in particular, the education of financial planners in recent years has been dominated by vocational education institutions offering competency based programs addressing the regulators minimum licensing requirements at Diploma and Advanced Diploma levels. Given the nature of these types of programs, it would seem that much of the teaching is being delivered by individuals who may not have actually practiced as personal financial planners. This seems to have also been the experience in the US to some extent. Chieffe & Rakes (1999) make the point that many professors begin teaching financial planning without having first practiced it. Teachers who haven't practiced at all or who haven't practiced for some time will soon see their knowledge of the profession, especially product knowledge deteriorating and becoming obsolete Chieffe & Rakes (1999). The issue is arguably whether it is appropriate to have competent financial planning practitioners teaching and instructing as financial planning educators. From a practical perspective it is useful to have financial planning practitioners teaching financial planning courses, but they will have a tendency to reinforce existing practice and would not contribute to the overall development of the body of knowledge. An ideal situation would be the collaboration of financial planning practitioners with researchers to inform teaching and curricula. Teaching should be both descriptive with the help of practitioners and prescriptive with the aim of achieving a higher level of practice and guidance.

It's clear that the profession and universities must work much more closely together. Warschauer (2002) says practitioners are not reading research to better inform their practice and that simplistic models are being sustained when research suggests better models. Bruce (2007) argues that professional bodies such as the FPA Australia have a key role in working with universities in preparing new entrants to the profession. This is supported by Warschauer (2002) who says that financial planning professionals and university faculty must cooperate to improve financial planning education. Universities have a significant role to play in the development of the profession in creating decision models through research and disseminating that research to practitioners which further develops the body of knowledge and delivers competent advice to clients Warschauer (2002).

Summary and Conclusions

This paper has highlighted from an historical perspective that the financial planning body of knowledge is relatively young with humble beginnings in the US in the 1970's. Although financial planning was beginning to emerge in other regions such as Australia, it was arguably not until the 1990's that the global body of knowledge commenced its evolution with Australia followed by Japan signing CFP licence agreements with the CFP Board of Standards Inc.

The paper contends that the characteristics of financial planning are not in dispute as demonstrated by the work of the ISO Technical Committee 222 on personal financial planning. The team of global technical experts assembled to draft this standard have arguably described a standard which is not substantially different from the standards underpinning the CFP certification process.

Much can be gleamed from the accounting and auditing professions in identifying the financial planning body of knowledge. The accounting profession has focused more on GAAP and more recently on International Reporting Standards. Competency studies rather than CBOK studies have also been prevalent in the accounting profession because of their outcome-based focus. The IAA has carried out extensive surveys through its member countries engaging teams of researchers in developing a CBOK. The Australian regulatory regime provides a useful case study of country-specific considerations in developing a body of knowledge. The Australian regulator, ASIC has benchmarked its training requirements to the nationally recognised Australian Qualifications Framework. Similar benchmarking can be seen with the ISO 22222 standard.

The paper contends that a cursory look at the education and certification requirements set by FPSB affiliates suggests a range in standards. The paper suggests that benchmarking affiliate standards to a common standard supported by a comprehensive compliance regime will assist FPSB in ensuring the breadth and depth in coverage of common-core topics and country-specific topics. The evolution of financial planning curricula in Australia provides a useful reference point to how the financial planning body of knowledge has developed in a region-specific context and how nationally recognised qualifications benchmarks have underpinned financial planning standards.

Finally the paper establishes the nexus between practice and research. Key to this nexus is the role played by universities. The use of experienced competent financial planning practitioners should be used as the authors and teachers of financial planning curriculum. However this should be tempered by the understanding that practitioners will tend to reinforce current practice, where research will inform new practice. Collaboration between financial planning practitioners and researchers is required.

References

Australian Council of Professions, (1997), Available at http://www.professions.com.au/defineprofession.html, Accessed 22 July 207

Australian Qualifications Framework. (2007), Available at http://www.aqf.edu.au/aqfqual.htm. Accessed 8 July 2007

Australian Securities and Investments Commission (2005), *Policy statement 146, licensing: training of financial product advisors.* Available at http://asic.gov.au. Accessed 30 June 2007

Australian Securities and Investments Commission (2007a), Available at http://asic.gov.au. Accessed 30 June 2007

Australian Securities and Investments Commission (2007b), Available at http://asic.gov.au. Accessed 2 August 2007

Australian Universities Quality Agency. (2007), Available at http://www.auqa.edu.au/. Accessed 8 July 2007

Bennett, J, (2000), Financial Planning Down Under, *Journal of Financial Planning*, July 2000, 114-122

Bruce, K, (2007), When 40 per cent isn't good enough, *Financial Review Asset Magazine*, April 2007

Burnaby, P., Hass, S., and Abdolmohammadi, M.J., (2006), A survey of internal auditors to establish the scope of the common body of knowledge study in 2006, *Managerial Auditing Journal*, Vol. 21 No. 8, 854-868

Business Dictionary, (2007) Available at http://www.businessdictionary.com/definition/common-body-of-knowledge.html, accessed 30 June 2007

Chieffe, N., Rakes, G.K., (1999), An integrated model for financial planning, *Financial Services Review*, 8, 262-268

Cowen, J.E., Blair, W.T., Taylor, S.M., (2006), Personal financial planning education in Australian universities, *Financial Services Review*, 15, 43-57

Eyssell, T.H., (1999), Learning by doing: offering a university practicum in personal financial planning, Financial Services Review, 8, 2983-302

Fajardo *C. L*, (2007), The Move Towards Convergence of Accounting Standards World Wide, Journal of American Academy of Business, Cambridge. Hollywood: Sep 2007. Vol.12, Iss. 1; pg.57

Financial Planning Standards Board, (2006-7), *Global Competency Profile*

Financial Planning Standards Board, (2007), Available at http://www.fpsb.org. Accessed 1 July 2007

Financial Planning Standards Board of India. (2007) Available at http://www.fpsbindia.org. Accessed 8 July 2007

Financial Planning Standards Board of Malaysia. (2007), Available at http://www.fpam.org.my Accessed 8 July 2007

Financial Planning Association of Singapore. (2007), Available at http://www.fpas.org.sg/. Accessed 8 July 2007

Financial Planning Institute of South Africa. (2007), Available at http://www.fpi.co.za/. Accessed 8 July 2007

Financial Planning Association of Australia. (2007), Available at http://www.fpa.asn.au/. Accessed 8 July 2007

Goetz, J.W., Tombs, J.W., Hampton, V.L., (1999), Easing college students' transition into the financial planning profession, *Financial Services Review*, 14, 231-251

Institute of Financial Planners of Hong Kong. (2007), Available at http://www.ifphk.org/. Accessed 8 July 2007

Institute of Financial Planning of the United Kingdom. (2007), Available at http://www.financialplanning.org.uk/. Accessed 8 July 2007

Institute of Internal Auditors, (2006), Available at http://www.theiia.org//research/common-body-of-knowledge/about-cbok/?search=CBOK, Accessed 1 July 2007

Institute of Internal Auditors, (2007), Available at http://www.theiia.org/theiia. Accessed 1 July 2007

International Organization for Standardization, (2005), ISO 22222:2005 *Personal financial planning – Requirements for personal financial planners*

International Organization for Standardization, (2007), http://www.iso.org/iso/en/stdsdevelopment/MeetingCalendarList.MeetingCalendarList, accessed 30 June 2007

Palmer, K. N., Ziegenfuss, D. E., Pinsker, R. E., (2004), International knowledge, skills, and abilities of auditors/accountants: Evidence from recent competency studies, *Managerial Auditing Journal*; Volume:19 Issue:7; 2004

The Quality Assurance Agency for Higher Education. (2007), Available at http://www.qaa.ac.uk/aboutus/qaaIntro/intro.asp. Accessed 8 July 2007

Warschauer, T., (2002), The Role of Universities in the Development of the Personal Financial Planning Profession, *Financial Services Review*, 11, 201-216

Making Financial Planning Education Global for Global Standards of Delivery and Competence

by

KP Bose Dasan

Financial Planning Association of Malaysia

This is indeed a daunting task. It is hard to imagine for politics not to enter it in full force. Are financial planners a national treasure? Global education is always welcome around the world except if there is a race, religion or creed bias. Even then education has transcended many religious prejudices. Almost every nation has singled out education to bring out the best in its people. So, can financial planning, or should I say, how can financial planning be taught as a global curriculum around the world.

My initial reaction to this issue was as follows:

Alas! A truly noble venture, a venture I feel especially glad and fortunate to participate, and for which I feel thoroughly qualified. Great is the body of knowledge in financial planning that already exists in America and elsewhere but still the quest for a global financial planning curriculum.

Is financial planning beyond borders? Is it like mathematics and statistics, universal and standard? Can this knowledge be taught and examined like the CFA? The answer as FPSB already knows is yes and no. There are quantitative aspects that are universal. There are also qualitative aspects that are universal.

However, man and his environment are different in different parts of the world. Man is separated by his culture, customs, religion, and language. He is even more separated by the laws through which he governs his society. Is man's predicament universal? The one big thing that comes to my mind immediately is the supportive role of the family. How big and important is the immediate and extended family to an individual? The western and eastern society has different cultural norms as regards this. Are the goals of individuals the same in different parts of the world? Is the society's and the government's role as regards social welfare the same in different parts of the world? How different is the tax structure around the world? Are the governments very Keynesian or more laissez faire. Are capital gains taxed in these countries? Are defined contribution plans the only available retirement scheme in most countries?

I have been engaged in the teaching of financial planning for about 12 years. If I examine my own understanding of the subject there is clear evidence that it improved by leaps and bounds when I started teaching the subject. Here lies an early clue as to how to deliver the subject knowledge. Get everyone to teach it.

The pedagogy of learning has improved vastly over the years. I recognize the gradient scale to mastery of a subject. We begin with confusion of the subject matter being studied. Our first step is to duplicate the material read. To read and understand it as it is written. Our next step is to achieve understanding of the subject matter. We then have cognitions, or a realization about the subject. Only then do we develop into the fourth stage of judgment, our ability to think, create, innovate and decide.

Financial planning practice is the same way. While many pass through the rigors of study and examination they find it difficult to practice financial planning. This would be the same for many professional studies. The learning and examination procedures do not give the students the time to reach the judgment stage. Most of the other professional disciplines have solved their situation by enforcing a period of internship. The doctors have two years and the lawyers at least six to nine months. Does financial planning require this? I dare say it does. Can it be enforced? I do not think so.

The financial planning standards are a difficult thing to enforce. There are too many variables and anomalies. Firstly financial institutions which are the manufacturers of financial products follow their own specifications and distribution channels. Some contractual arrangements are most inefficient for representatives.

The degree to which government regulatory agencies are willing to be involved and enforce regulation and still stay loyal to the needs of the people varies in different parts of the world. The effective demand for financial planning by the people at large, which assures survival for financial planners, and the level of consumer awareness of the benefits of financial planning, is also largely at variance.

All told the tax structure, the laws that govern the state, the financial planning environment present a great challenge to the globalization of financial planning education and practice. These are the three areas I would focus to bring about a global framework to financial planning. (**This formed the abstract submitted to FPSB**)

Now with more time to hand I have decided to look at it through the eyes of an educationist and uncover some universal education issues. I have thoroughly enjoyed reading the works of L Ron Hubbard, American writer and educator, on education, and I quote **only** from his simple but phenomenal book, The Basic Study Manual (BSM). This book is available at all Applied Scholastic centers around the world. I would like all educationists to hold their judgment until the end of my essay. I hope I have your agreement on this?

Why study?

"To study is to apply our mind to something, or to read and examine for the purpose of learning and understanding. Therefore we study to apply the data or to do something with the data studied (BSM)." Passing exams have held our attention for a very long time. While passing exam is an immediate and important need the real reason for studying in the first place is to do something with the data. Therefore in attempting the CFP certification program the ultimate aim is to want to practice with the data learned.

It is very easy to see this rule violated from the perspective of the student as well as the material supplied. At every turn of the page the student asks, how can I apply or use this data? This is an important viewpoint. It is very important to treat financial planning as a very practical subject that requires the same ideals as a medical doctor, to heal. And the data must be supplied and delivered as a learnable and doable subject with application in mind.

Do you know it all or is there something to study?

"A student who feels he knows it all faces his first obstacle to learning (BSM)."
Financial planning, in my humble and simple observation has been one of the most misunderstood subjects in this world. I am sure it is the same in every country, even Ministers and elected Representatives make mocking statements as to what financial planning is. The student must realize that there is something to know about financial planning. There is something to study about it. It is a distinct body of knowledge.

There is an association or recognition that the letters CFP brings distinction and career opportunities but is financial planning just a collection of data on different subjects or is financial planning a distinct field of study. I bet many would be baffled at this. We hold out the six step financial planning process as the bastion of financial planning, and distinguish ourselves from the single solution agents. Many financial institutions still hold the view that as long as you are dealing with **a** financial product or service you are involved in financial planning. You can see them pleading a case that their tied agents have financial planning in their heart. Financial planning is seen by some as an inroad to peddle more products. A little tax, insurance, investment or estate planning knowledge can help me get involved in more products or services to promote. Am I studying for CFP, to understand how holistic financial planning works, or to get the license to sell more products or services?

One of the first tasks of the panel should be to determine the specific attributes of learning financial planning as a subject, distinct from the various different subject areas. What is unique about the study of financial planning? Is financial planning a collection of subjects or does it have something of its own. Or we can continue with our analogy to medicine. It is not just one thing but several subject areas. However, if we do not study all the various parts together we cannot begin to handle the patient or client. So one conclusion that can be drawn is that financial planning is something that involves many subject areas that involves a natural person and they must all be studied together, at least to a certain degree, to give himself the professional name, financial planner just like a doctor in general practice. There are many parts to a man and therefore before you can examine him you must know something about all of him, or all about the situation he is in. “A financial planner has the distinct ability to evaluate all aspects of a person’s financial condition and situation and provide general advice or be able to direct the client to seek appropriate specialist advice. (KP BOSE)”

The Global curriculum must encompass all aspects of financial planning even if there are large areas like in retirement or estate planning that is country specific.

The three barriers to study (BSM)

The existence of this fact alone makes me support the global financial planning curriculum effort. It would be difficult to have all the financial planning associations of the world to adopt good pedagogy. Therefore the time, effort and resources are better placed with one institution taking immense pain to get the education material right.

It is an amazing discovery that there are three identifiable barriers that blocks a person’s ability to study and thus his ability to be educated. Knowing and understanding these barriers will greatly increase a student’s ability to study.

“The first barrier is the absence of mass. The mass of a subject refers to the parts of that subject, which are composed of matter and energy and which exist in the material universe. Studying the theory without the mass produces some nonoptimum physical reactions (BSM).” In financial planning how can we offer mass of the subject to the student? Is the written financial plan the mass for the subject? Or is the mass, the interview process, the fact finder, the client-planner interaction and communication? Or is the mass, all aspects of a man’s financial environment that encroaches on his survival and well-being. But it is clear that the education process should produce all paraphernalia of the industry to give more mass to the subject. There are objects related to this study. With increased sophistication in the multi-media environment this can be achieved.

“The second barrier is that of too steep a gradient. A gradient is a gradual approach to something taken step by step, level by level, each step or level being, of itself, easily attainable – so that finally, quite complicated and difficult activities can be achieved with relative ease. When one hits too steep a gradient in studying a subject, a sort of confusion and reelingness results. Therefore to remedy this we have to cut back the gradient. (BSM)”

The question relevant to financial planning is; are our materials prepared on a gradient scale? Is the confusion in writing financial plans the product of too steep a gradient? Is there something about the fact that each subject is so deep that students cannot write plans because they do not have full mastery of the subject matter? To have financial planners confident in writing plans they have to master each area of concern being handled. I do not think our examination process around the world handles this aspect. We are happy to test some theories on him and leave him to pasture in practice. So to have a supervisor trained in the art of coaching and tutoring and to insist on a period of internship may be necessary. This is not universally practiced in the different countries.

"The third and most important barrier to study is the misunderstood word. A misunderstood word is a word which is not understood or wrongly understood. Confusion or inability to grasp or learn comes after a word that the person did not have defined or understood. It is the misunderstood word that establishes aptitude and lack of aptitude (BSM)." With such importance being placed on misunderstood words it is important that our curriculum builders are cognizant of this. Financial planning is a practical subject and therefore to improve the ability of certificants to practice financial planning we must make sure that misunderstood words do not enter in his study. A global approach will ensure that the nomenclature of financial planning are clearly defined and explained.

A key concept in education today is 'metacognition'. With the three barriers to study a student especially with the help of a coach is able to evaluate his own progress. Final exams pass judgment on the student but also allow rote-learning, and a memorizing student to pass through. How much of the material does the student understand? Can he apply what he has studied? But if understanding is tested every step of the way by the student himself then the final outcome of judgment over materials studied will be achieved. The student asking himself, "how much of this material do I understand, or why am I confused over this," will help himself achieve the doingness of the subject studied.

There is a big gap between passing the CFP modules and the ability to write plans. It is time for the respective country associations to insist on a period of professional internship with practicing financial planners. It is time to rid the industry of the thinking that as long as you are involved in a financial product or service you are practicing financial planning. Financial institutions who manufacture products must recognize this holistic aspect. They must ask themselves, "Are their agents, financial doctors." If their agents are like medical representatives, they must admit it openly and let the public deal with the real financial planners. There is tremendous benefit in manufacturing a good financial product or service but do not call it financial planning. "Financial planning brings about allocational efficiency of the very limited resources of a client. It brings about judicial investment based on the triple confluence of risk, return and personal financial circumstances. There is never just one goal or objective to fulfill. (KP BOSE)" If an insurance or unit trust agent can fully understand this he will refrain from calling himself a financial planner. "A financial planner is one who has developed judgment over the matching of products with the client's financial position. (KP BOSE)" FPSB must get agreement from the whole industry on this, planners, institutions and regulators.

Principles and values must drive standards. Financial planning must become a learned profession respected by the people of the world. Like a doctor he first asks, 'what seems to be the problem or how may I help you. And not, 'I have this wonderful product" How far away from this ideal scene are we? There will be tremendous filtration once many agents realize that money is their object and not solving some financial jigsaw. They will be happy to tie themselves with the manufacturers and penetrate the market. All we want is for them to do the right thing and call themselves a single solution provider, vendor or adviser; a unit rust adviser or insurance adviser, representatives of the manufacturers having to meet certain targets for themselves and their principals. Let the true financial planner evolve to solve the financial jigsaws of the public.

A CFP is not necessarily a financial planner. A financial planner is one who writes financial plans for a living. He, however, must assist the client in implementing the plan. Everyone who has an aversion to writing plans should not hide behind the designation, CFP. A look at FPSB's snapshot on financial planning fundamentals and components states categorically; it is all about creating a financial plan. Having said this, the teaching modules start at point zero and bring the basic subjects to the attention of the students. The final module is so far away from producing anyone who is envisaged in the FPSB's financial planning blueprint. That person who can perform all the glorious things of a true financial planner is out there but not in the common vicinity of ordinary people. And the financial institutions with their huge advertising budget have not helped either. Only a period of internship and some abstinence by the players in the field to abstain from calling everyone and everything financial planning can bring about a change. Ordinary agents know what they want. On the ground this is so easy to see. Most want to make money selling. But it is so easy to get the 'ensemble' of a financial planner. Who would not want it; the respect of a financial planner and the rewards of a financial salesman. Please everyone let us come to terms with this. The financial planner of today is mostly a glorious celebrated financial salesman. In a very recent survey by an insurance company in Malaysia it was stated that only 11% of the participants were comfortable talking to personal financial planners about retirement. This financial institution was just launching a hybrid insurance scheme to handle the poor retirement situation of Malaysians. Do you want to laugh or cry? This whole verbose passage is to make the point that the education is so far flung from the real world. Where ethics should be the bedrock of practice, we find money greed and power corrupting the scene. It is why therefore I support the global education forum and at least in the education part we can stay honest with our ideals.

<u>What are country specific materials in financial planning?</u>

As a tax consultant I have evaluated the tax laws of several countries and find great differences in them. Malaysia for example is a tax haven for capital gains. There is no tax on any type of capital gains including real property gains. All kinds of assets, including businesses, can be bought and sold without any tax consequences as long as they do not form a business or trade activity. Malaysians in employment have only one central provident fund that is very favorable. The Malaysian average savings rate is about 38% thanks mainly to this statutory provident fund. Employer contribution of 12 to 19 percent of salary is not taxed and income accrued in the fund is also tax exempt. There is no tax upon distribution either. In USA and Australia contributions to these superannuation funds are taxed favorably but are nevertheless taxed and the distribution also suffers tax in most situations. However, in Malaysia there are no pension funds for the private sector or Individual Retirement Accounts. There are very little other retirement options.

Therefore, I have found that retirement planning is very country specific. The level of sophistication is different and studying US retirement options for example can be very challenging for second and third world countries. However, retirement planning can be theoretically discussed within the context of financial planning.

Estate planning has also to be singled out. Countries like Malaysia do not even have an Estate Duty or Gifts tax. They also do not have laws that give rights of survivorship. The legal fees are not that horrendous as in the States but bureaucratic inefficiencies are rampant. The culture is parents in business hold on to their equity and position until health or death invades. Children do not have to plan to takeover the business by buying their parents out; they simply wait for their eventual demise. Again the sophistication in estate planning is very different. I remember studying the American situation and a great part of the story was estate duty.

It therefore seems plain that the three components of financial planning that remain largely country specific are tax, retirement and estate planning. But I also strongly advise that the global curriculum must incorporate these areas in the education. The students will however, need to study further, the application of these subjects using country specific data.

<u>What are aspects of financial planning that can be global?</u>

Looking at FPSB's blueprint on financial planning it can safely be said that the first three components of financial planning; financial management, asset management and risk management can be globally delivered. The first module sets the tone and the ideals of financial planning. The six step financial planning process, time value of money, personal financial statements, cash-flow management, priority funding, and the impact of the financial environment will set the scene for the practice of financial planning. The asset management module is quite universal. I may have had reservations about risk management but the world is dominated by a few large insurers who seem to have their branches all over the world. Therefore the solution and types of risk management products available is universal.

Fact finding skills are critical to the process and so are ethics and communication skills. I know we can develop international standards on this.

The financial planning components of tax, retirement and estate planning have laws as their base. So each country has very specific laws regarding these components. But I strongly advocate doing an international version of these areas to show the importance of such areas to the betterment of an individual and his family.

Conclusion

My conclusion must be an apology. We were asked to just spell out the topics that can be globally delivered and areas that remain country specific. We were also asked to comment on improving the delivery of financial planning education. My humble apologies if that was not pervasive. My preoccupation with certain issues was highlighted but I do hope that some of my comments merit attention. I categorically support, even if my bread and butter lecturing fees may suffer, the development of an international curriculum to safeguard the standards of the CFP certification. The material and the delivery can be improved as I have pointed out. The practice of financial planning is however, another story. Politics, economics and social systems of each country will bear heavily on its practice. However, it must start right with education. To this extent I applaud FPSB for this important and significant endeavor.

The Spaghetti Theory

Or the Necessity to Separate the Analysis of a Personal Financial Plan from Possible Solutions to the Problems Unveiled

by

Patrick Dufour, CFP®

Director FPSB, Vice President CGPC France, President ASP Consulting

1. *Introduction*

There are three perfectly distinct professions concerning personal finances: brokers (whether in financial products, real estate or insurance), financial advisor and financial planners.

In the first case, the process is limited to sales (possible solutions are limited to the products presented by the professional). The second thinks only in terms of asset allocation. The last introduces a process built on a global vision of the situation with no a priori thoughts on the outcome.

Financial Planning has been defined since December 2005 with the publication of ISO norm 22222 as a 6 step process. This method rests on the idea that the knowledge of a client's situation is transversal, and therefore relies on the study of the cross relations between each elements of client's present situation.

The general theory of systems greatly inspired the development of this process. An essential element of this process is the indispensable separation between the 3 fundamental phases: analysis, diagnostic and recommendation. Some professionals find it difficult to understand and apply this separation, and to see the benefits of a deepened analysis:

- better knowledge understanding of their client and his needs
- relevance of their recommendations
- increase interest and confidence on the part of the client.

The spaghetti theory was invented during a day of training during which professionals failed to see the importance of this separation and preferred to solve one problem after the other as each came along.

2. *Systemic*

One of the great challenges of the end of the 20th Century has been the capacity to understand and work in complex situations.

Man discovered he needed to make decisions in an environment in which he could not apprehend one by one every element and their interaction. He has had to adapt to that environment in order to carry on forward.

The greatest thinkers, economists and philosophers of the 20th Century, including several Nobel Prize winners have considered this particular approach.

Systemic is against the Cartesian approach: until then, all scientific approach followed the Cartesian method, which involves decomposing a situation into basic elements (for instance, the electron to explain electronics) and look at a finite number of elements and their interaction. The principle is: **the whole is the sum of all the elements**. This method allowed a number of great scientific discoveries.

The Cartesian method has found its limit in the face of the ever increase amount of information available to the world. Researchers, regardless of their individual field of expertise, have developed a new way think, understand and make sense of domains where all is not quantifiable. We now face a situation where "the whole is superior to the sum of all elements".

Michel SERRE, French philosopher of sciences and a professor at Stanford University, defined complexity as **"a state, a system in which the elements and their liaison in interaction is immensely large or even inaccessible".**

Systemic sprung out of this necessity. The basis of this method is a process by which one creates a model that allows reasoning on the dynamic, the quantitative and the qualitative, in full knowledge that one will never access everything in detail but that he has to think globally.

It is necessary, however, not to mix up the complex and the complicated. The complicated can be deciphered, with the right time and means. The complex comes in opposition to transparency, predictability and simplicity: not even the most powerful processor will ever be able to take into account all the elements and their interactions. Systems are organised at different levels. Complexity stems out of an understanding of how these levels work rather then of the number of elements: a dune of sand contains a vast number of elements, but it is simple to observe as there is no sophisticated organisation to discover. On the other hand, the same number of electrons is unpredictable, and therefore complex to understand.

3. *The systemic fundamentals*

The two major characteristics of systemic are a global approach and interactions.

We must look at the system as a whole, and observe the consequences of the interaction of the internal elements and how these exchanges affect the outside.

- *the steps of the process*

In order to successfully observe a system, understand it and be in a position to intervene, systemic determines a number of steps to follow scrupulously: define the system, model its behaviour, determine its strengths and weaknesses, use simulations to determine the most appropriate scenario and control regularly.

These steps will be more elaborately defined in the next paragraph.

- *Starting points :*

Accordance with Carnot's 2nd law of thermodynamic: a system has a natural tendency to move towards the greatest entropy. This means that a system left to itself, with no interaction with the outside, will not improve and is bound to disappear as a result of increased disorganisation. It leans towards the greatest chaos (as it is not regulated and does not interact and exchange with any outside element). For instance: exchange freely the heat produced by a nuclear reactor to create electricity or slow down particulates with heavy water (to control reaction speed) otherwise, Tchernobyl is just around the corner! In Financial Planning, the financial situation of a client will tend to degenerate when it is left to its own device: an unmanaged portfolio of securities will generate losses or will stagnate through lack of exchanges with the outside (investments in real estate, in securities or in insurance)… This makes an argument for the financial adviser for regular audits of a client's situation (that will tend towards chaos). We observe a similar phenomenon in a teenager's bedroom: tendency towards mess due to lack of exchanges between the said bedroom and the outside: washing machine, cupboards and bins.

- *Ends*

A system is complex in order to satisfy an end. The understanding of a system will therefore rely on the question: what is it there for? In Financial Planning, we must ask "why?" before we do anything else.

- *Regulation*

A system has a single virtue; its ability to regulate itself in order to satisfy a common objective.

At the end of the analysis, we check for any possible malfunctions in the regulation mechanism. That will be the diagnostic of the present client situation.

- *Exchanges*

An “open” system exchanges with the outside. It has a tendency to reject what is useless and to incorporate what is useful to it. The excess produces internally is stored in reservoirs.

In Financial Planning, we will consider buying or not a new tax shelter according to its usefulness we think it may bring and this without the intervention of the advisor. Following the same pattern, we can consider the securities portfolio as the reservoir.

- *Feed back loops*

A system is working on a feed back base.

The exchanges take the form of entries and exits of the system. “The feed back is the mechanism that allows for information related directly to exits to be sent back to the entry in data format” (G. Donnadieu and M. Karski, La systemique) and then adjust the entry level.

A logical chain will link causes and effects, allowing us to observe a before and an after.

A loop must never be open: it must always be kept in its entirety.

In Financial Planning, the loop might be, for example, the link between income and tax : any increase in income will be taxable. It is necessary to moderate this increase so that it remains a source of enrichment, and not cause impoverishment.

These loops will be studied more carefully with the spaghetti theory.

- *The coexistence of problems and solutions*

This is the result of both the inner workings of the loops and the self-regulation of the system. The causes of the failures and the solutions to restore the functioning mechanism are deeply intertwined, and the process consists precisely in separate them. By working on understanding the system, we can highlight the way the malfunctions are regulated within the system. In a systemic study, we admit to never being able to quantify everything or reach a perfect model. However, the systemic study will highlight **tendencies**: comparing the various scenarios and determining the **OPTIMUM** amongst all the tendencies, in full knowledge that we never reach an absolute.

4. From systemic to Financial Planning

It is now easy to see how systemic can be applied to Financial Planning. We face a complex, open system. Let us now see how systemic can help the financial planner in his work at the service of the client.

The process described by theoricians of systemic to define the organisational levels of a complex system follow these steps:

- *Step1 : Describing the system*

First, it is necessary to define what the observation rests upon. A complex system is an open system: that is to say, exchanges take place outside the system.

In Financial Planning, the priority will be to define the envelop of the system: what goes inside and outside. Are we looking at the situation of a singleton, or a couple? Do we have to include the client expectancy of an inheritance or a large added value on his shares of his corporation?
Then, we proceed to describing what is inside the system: this is the phase of data collection. (family, income, debts, assets, insurance…).

- *Step 2 : Modelisation*

From the collected data, we must try to highlight the interactions between the elements within the system, and their dependency on external exchanges. This involves putting the ordering the elements qualitatively, quantitatively and determine the dynamic (introduction of a time factor).

In Financial Planning, this corresponds to what is referred to as the analysis **phase**. In this phase, we assemble elements according to affinity (real estate with real estate etc…). Then we quantify the internal and external interactions (including budget, return on each asset…). Exchanges with the outside materialise in equities value (cf Stock Exchange) at the time of the analysis. How is it going to evolve over time if left to itself: retirement budget, budget in case of death, inheritance tax, evolution of employee benefits…?

This model ends with the an observation of the capacity of this system to function: determining its strengths and weaknesses. This is the **diagnostic.** As in medicine where the practitioner can only formulate a diagnosis and order appropriate treatment once he has received the results of the blood tests, X-rays, MRI, CAT scan… necessary to get a global vision of the patient's condition, and limit the process to a single question answered by the patient;, to a single symptom.

- *Step 3 : Processing the model*

Starting with the workings of the model, we are able to process it through a succession of simulations so as to observe the way the system reacts to changes in the organisation or changes in the levels of the organisation. This is how we understand the definition of complexity: at this stage, no single parameter can be altered with affecting the entire system, leaning towards a greater level of mess.

In Financial Planning, this is the phase of advice giving. Trying to lower taxation by use of some tax shelter may drive to higher risk on investment, lowering investment in retirement plan, increasing estate taxes… These simulations highlight a number of unpredicted or parasitic reactions.

- *Step 4 : Selecting the appropriate scenario*

From the simulations, we determine the best way to modify the model that will lead the system into a state of lesser entropy (minimise the chaos).

In Financial Planning, this involves putting in action the defined strategy, with the cooperation of the client.

- *Step 5: Controlling the feed back.*

It is necessary to keep an eye on the altered system to check that the adopted scenario is still adequate. The system remains influenced by its inner interactions that can be managed, but that may have changed. It is also influenced by the outside.

In Financial Planning, this step is the updating of the plan: the internal connections can change (changed of the internal situation such as the birth of a child, a change in professional situation…) and the interconnection with what is outside the system (changes in tax law…)

Financial planning is defined as a six-step process. We have only reached five. Add, prior to these, the conditions of first contact with the client, and the six steps requirement of the ISO norm 22222 and the CFP certification is met.

5. The importance of analysis

From these considerations on the systemic process emerges the importance to respect these steps. More importantly, it is highlighted that the two essential phases are data gathering and an accurate understanding of the working of the model (understanding the feed back) that the system that is a given client’s present situation represents.

Experience shows that the more in depth the knowledge of the workings of a person’s patrimony, the better one sees the causes and effects of its malfunctions.

6. The Spaghetti theory

Below is detailed a practical part, applied to financial planning, nicknamed: “the spaghetti theory”.

- Financial plan as a system

First question: can a financial plan be considered as a complex system?

This is indeed an environment in which we can identify an inside and an outside to the system.

We can choose and describe the elements that will be part f the system

- The family : Mr, Mrs, the children
- The flows : incomes and expenses
- The reservoirs : assets , debts, employee benefits

And what belongs to the environment:

- Civil code
- Tax law
- Stock exchange
- Social laws
- Shape and tendencies of the economy
- Globalisation of exchanges…

- A plateful of spaghetti

The whole of the data and the feed back loops is viewed as a plate of spaghetti.

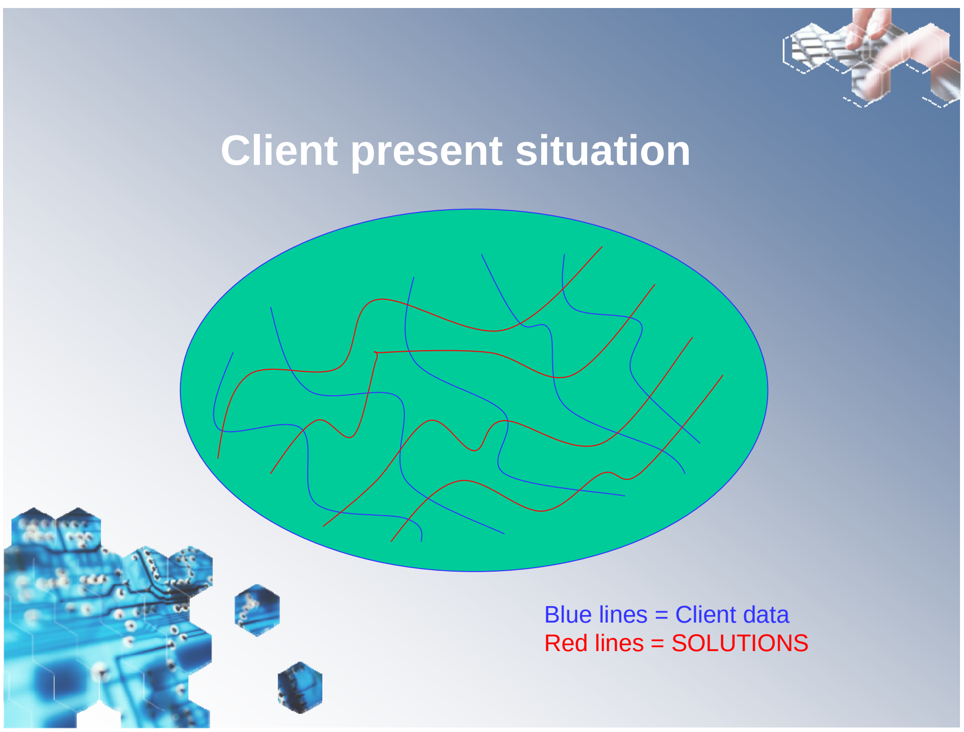
The plate represents the boundaries of the system (inside = what concerns the individual – outside = the environment the system interacts with).

There is already a great amount of freedom in some of the choices: will the plate contain one individual or an individual and his family, more or less extended. Are we working on a saucer, and plate or a dish? This first choice is fundamental to ensure the accurateness of the subsequent reasonnings.

Similarly, is the professional tool and insider, or an outsider?

These preliminary choices are crucial to then define the regulations that will be brought in: we can affect the internal elements only, whereas the outside elements can be either assimilated or rejected, but not tempered with. (Are the bolognaise sauce and the cheese part of the system, or are they part of the environment, from which they can be added to taste?)

And then, we have the spaghetti. There are two categories of spaghetti: blue and red. (see picture).



- Defining the blue spaghetti

The blue spaghetti represent the situation of the client.

Each spaghetti represents a theme in the client situation.

For example: one of the spaghetti represents the professional situation of the client:
- status
- income
- sector
- ….

If we pull on the spaghetti, we realise that it is tied with sub-ensembles (the cheese threads binding different spaghetti together). Every basic information sends us to a particular feed back process that provides us with information about the consequences of the processed information.

We will be able to distinguish between the spaghetti themed gifting, assets, debts… with, each time, more feedback that will allow for a greater, finer understanding of the situation.

- The red spaghetti

Another type of spaghetti is found on the plate, and those are red.

They represent a sort of referential of everything that can exist in a client situation.

One spaghetti is life insurance, another gifting etc…

Why are they in the plate?
-Maybe because the client already incorporated it to his plan: we need to take it, and use it to its greatest capacity
- Maybe because the used work method (such as the ASP consulting method) tests the existence of this particular solution in the client's inventory
- Maybe because it is part of the experience or expertise of the professional
- Maybe because it is part of a current trend

- Processing the client's objectives

There remains one question: upon meeting his financial planner, the client comes with a specific focus, an objective in mind: pay less taxes, increase his retirement income…

This is the heart of the problem: do I act as an adviser, or a seller of solutions?

How might the Financial planner reconcile the client's satisfaction, his personal interest (answering a client's demand almost guarantees a sale), professional ethics and respect for the regulations.

In the systemic approach, and therefore in the ISO or CFP process, the essential is to identify the real needs of the client, therefore the needs the process will unveil, not those that the client feels are essential to him.

We must bear in mind that the client will tend to work emotionally (he sees the tip of the iceberg: he pays to much taxes, he won't have enough money for his retirement…) and not see the real source of the problem (hidden part of the iceberg). These considerations must be kept for last, during the presentation of the solutions only, so that they do not occult the analysis. They must never enter the system or even the environment outside the system.

- Working on the blue spaghetti

Applying the process: the work of the professional.

Let us look back at our plate of spaghetti: the whole ensemble seems complex, with an intertwinement of blue and red spaghetti with seemingly no order or organisation.

We need to separate the red from the blue: this is the analysis of the situation of the individual.

The work consists in taking a first blue spaghetti, and gather all the information available before moving to the next spaghetti, placing it on the edge of the plate. The gathered information will either be basic or induced data.

Example: Let's take the "professional activity" spaghetti (see picture). First, we must gather the **basic information**:

- Professional status: employee (at what level), independent worker…
- Income
- How long has the client bee in his current job
- Field of activity

Starting from those basic data, we can start finding a **second degree** of data:

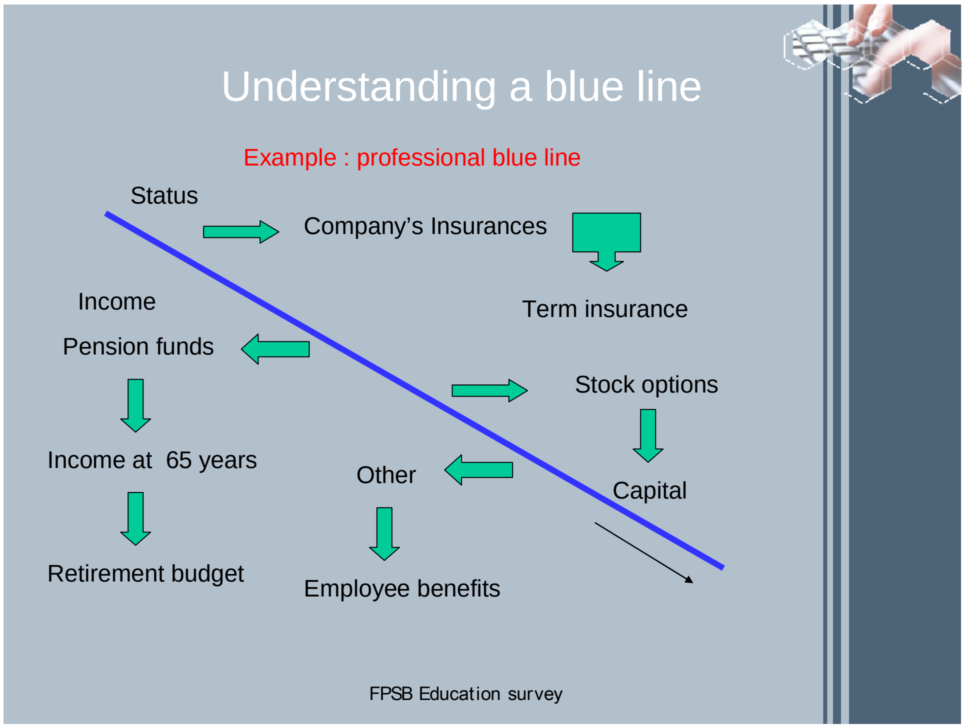
- Income + status + sector + number of children = level of lump sum paid in case of death or disability, income if obliged to stop working for a while (illness, accident…).
- Income + status + sector = level of investment in pension funds.

We can then cross those first and second degree informations and find some **third degree** data:

- Income + status + sector + pension funds + career history = retiring income

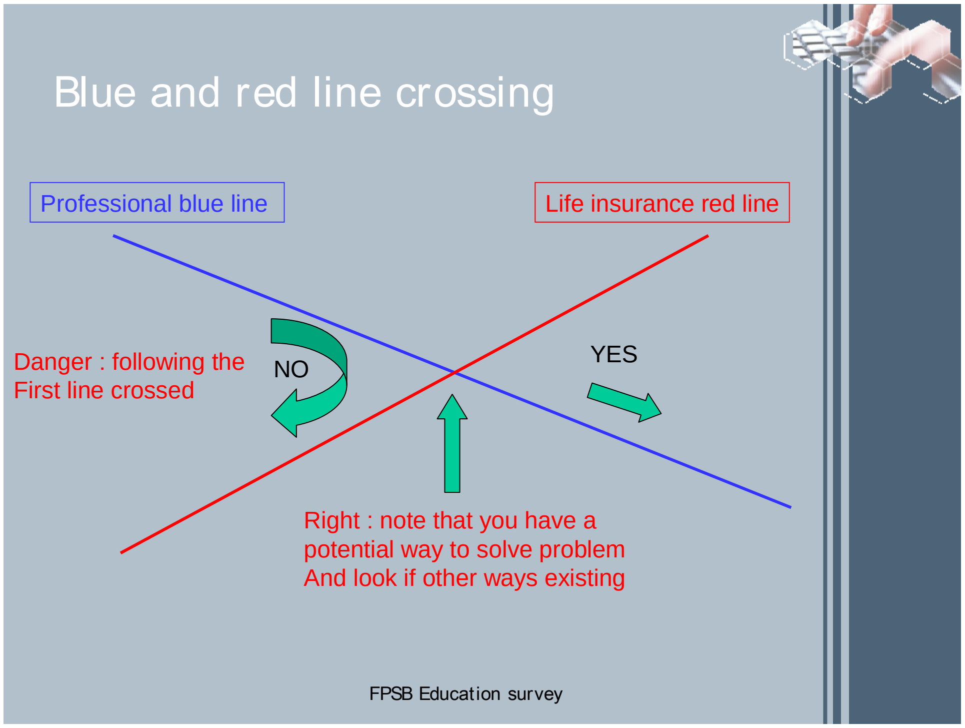
The result can then be assembled with other information in order to reach a **fourth degree** that might be the family's budget at the time of retirement.

During the unfolding of this analysis, a number of questions about, and malfunctioning of, the system will appear. The principle of the analysis is to allow for an objective reading of the system. We must remain focused on the understanding of the situation, understand the workings of the individual's "patrimonial" system. The analysis phase must never lose this perspective. We must decipher, not judge. Only the final, global vision will allow us to define the faults in the regulation, an this can never be done while reading and determining the model.



- Crossing of the blue and a red spaghetti

This is where the difference between a sales-oriented approach and an advice-oriented, Financial Planner's approach become apparent. When a blue spaghetti crosses path with a red spaghetti (see picture), it is tempting to simply follow the road to the solution.



When looking at the information delivered by a blue spaghetti, at some point we cross the path of a solution to one of the problems encountered. For instance: we discover that the client has not constituted supplements to his income in view of his retirement, doesn't have an insurance protecting his family. The red spaghetti representing additional retirement income or term insurance will come in to tempt the Financial Planner.

The mistake would be to jump straight to the solution, follow that path immediately. This would solve a small problem only, without considering its implication in a bigger scheme, a bigger problem. In our picture, this is illustrated by a right turn when crossing the first potential solution to a partial problem. This is a broker behaviour not a financial, planner one. The only thing you can do is take notice of this possible solution for a later consideration and go on discovering all data from first to fourth degree we can find without stopping before having studied all aspects.

You must leave the red spaghetti on the border of the plate and you will come back later and pick up the useful ones after deciding what was the most important weakness to enforce. The red spaghetti will be then a collection of "chemicals" among which you will select to restore client's heath.

Shari'ah Financial Planning Concept

by

Muhamad Ichsan and Jafril Khalil

IFP Indonesia

Introduction

Islam is a comprehensive, integrative and holistic religion that governs all aspects of life, major and minor, personal and social, spiritual and materialistic and relates this worldly life to the Hereafter. This means that we need to practice Islam while we perform our business and economic activities. Muslims are encouragee to plan for their life and put efforts to achieve the goal settings then ask help from Allah. The final stage is tawakal for what the result and takes it as the destiny bestowed by Allah.

In Islam, financial planning is not just merely a process of acquisition and accumulating wealth but it has a broad definition which relates to the concept of vicegerent (*kalifa*). As the khalifah or vicegerent of God on earth, man is gifted with certain powers, which other creatures of God do not possess. For example, he possesses (within limits of course) intellectual faculties. The duty of man as God's khalifah is to make use of all the blessings of God on earth to his own benefit. For this, man is given freedom, that is, freedom of choice and action (also within limits). It is because of man's special faculties and his freedom that he becomes the best of God's creatures.

Therefore it is important to introduce the principle of Islamic Finance before getting into a more specific matters such as risk sharing concept in insurance and the Islamic investment principles.

Principles of an Islamic finance

The basic framework for an Islamic financial system is a set of rules and laws, collectively referred to as *shariah*, governing economic, social, political, and cultural aspects of Islamic societies. Hence, every source of an Islamic finance should absolutely be based on the *Shari'ah* discipline.

Shari'ah discipline originates from the rules dictated by the *Quran* and its practices, and explanations rendered (more commonly known as *Sunnah*) by the Prophet Muhammad. Further elaboration of the rules is provided by scholars in Islamic jurisprudence within the framework of the *Quran* and *Sunnah*. The basic principles of an Islamic finance can be summarized as follows:

Prohibition of interest. Prohibition of *riba*, a term literally meaning "an excess" and interpreted as "any unjustifiable increase of capital whether in loans or sales" is the central tenet of the system. More precisely, any positive, fixed, predetermined rate tied to the maturity and the amount of principal (i.e., guaranteed regardless of the performance of the investment) is considered *riba* and is prohibited. The general consensus among Islamic scholars is that *riba* covers not only usury but also the charging of "interest" as widely practiced.

Riba is forbidden in the Quran,the tradition of the Prophet (pbuh) (sunnah) and con sensus (ijma').in the Quran, the strongest prohibition is provided in the versist (2:275-279). Allah says "…but Allah hath permited trade and forbidden Riba"(2:275).

There are many proves of the prohibition of riba in the sunnah of the Prophet (pbuh). Among them is the hadits"avoid the seven grave sins…" among with he mentioned divouring riba (hadits narrated by Muslim on the autority of Abu Hurayrah).

The Islamic nation is in consensus over the prohibition of riba. In this regard Al-mawardi said: "to the point that no legal system (shari'ah) has ever permited it."

This prohibition is based on arguments of social justice, equality, and property rights. Islam encourages the earning of profits but forbids the charging of interest because profits, determined ex post, symbolizes successful entrepreneurship and creation of additional wealth whereas interest, determined ex ante, is a cost that is accrued irrespective of the outcome of business operations and may not create wealth if there are business losses. Social justice demands that borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity.

Risk sharing. Because interest is prohibited, suppliers of funds become investors instead of creditors. The provider of financial capital and the entrepreneur share business risks in return for shares of the profits.

Money as "potential" capital. Money is treated as "potential" capital--that is, it becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money, but only when it acts as capital, not when it is "potential" capital.

Prohibition of speculative behavior. An Islamic financial system discourages hoarding and prohibits transactions featuring extreme uncertainties, gambling, and risks.

Sanctity of contracts. Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard.

Shariah-*approved activities.* Only those business activities that do not violate the rules of *shariah* qualify for investment. For example, any investment in businesses dealing with alcohol, gambling, and casinos would be prohibited.

Basic instruments

Islamic markets offer different instruments to satisfy providers and users of funds in a variety of ways: sales, trade financing, and investment. Basic instruments include cost-plus financing (*murabaha*), profit-sharing (*mudaraba*), leasing (*ijara*), partnership (*musharaka*), and forward sale (*bay' salam*). These instruments serve as the basic building blocks for developing a wide array of more complex financial instruments, suggesting that there is great potential for financial innovation and expansion in Islamic financial markets.

Murabaha**:** This is the sale of a commodity at a price which includes a stated profit known to both the vendor and the purchaser. This can be called a cost plus profit contract. It means: it is the transfer of the object he obtained through a prior contract in exchange for the original price plus a profit margin. He may be paid at the time of contract or the price can be paid back by the buyer in deferred payments. Under Murabaha, the Islamic bank purchases, in its own name, goods that an importer or a buyer wants, and then sells them to him at an agreed mark-up. This technique is usually used for financing trade, but because the bank takes title to the goods, and is therefore engaged in buying and selling, its profit derives from a real service that entails a certain risk, and is thus seen as legitimate. Simply advancing the money to the client at a fixed interest rate would not be legitimate. It is important to note that only a legitimate profit in addition to the actual price is considered lawful under Islamic law. Any excessive addition on account of deferred payments will be disallowed as it would amount to a payment based on the value of money over time i.e. interest.

(Murabaha) cost – plus saless is legally permissible contract by the testimony of the majority of the majority of the jurists and companions of the prophet (phub). There are many versist in the Quran that explicitly permit sales in general.e.g.”and Allah hath permited trade “(2:275)

Ijara Wa Iktina**:** Equivalent to the leasing and installment-loan. Leasing is designed for financing vehicles, machinery, equipment, and aircraft. Different forms of leasing are permissible, including leases where a portion of the installment payment goes toward the final purchase (with the transfer of ownership to the lessee). These techniques as applied by Islamic banks include the requirement that the leased items be used productively and in ways permitted by Islamic law.

The majority of the jurists based there are permission of the lease contract on the Quran, the sunnah and the consensus of the muslim: The Quranic proof is drive from the versist “And if they suckle your offspring, give them their recompense” (65:6), as well as the story narrated about one of the two daughters af Shu’ayb (pbuh): “said one of them: ‘O father, hire him on wages, for truly the best to employ is a strong and trustworthy man’. He said: ‘I intend to wed one of my daughters to you, on condition that you work for me for eight years, and if you complete ten full years, that will be a grace from you’.(28:26-27).

The proof from the sunnah is drive from the hadits”pay the hired worker his wages before sweat dries of”. (Narrated on the authority of Abu hurayra)

<u>Mudaraba (Profit Sharing Agreement)</u>**:** This implies a contract between two parties whereby one party, the *rabb al-mal* (beneficial owner or the sleeping partner), entrusts money to the other party called the *mudarib* (managing trustee or the labour partner). The mudarib is to utilise it in an agreed manner and then returns to the rabb al-mal the principal and the pre-agreed share of the profit. He keeps for himself what remains of such profits. The following characteristics of mudaraba are of significance:

- The division of profits between the two parties must necessarily be on a proportional basis and cannot be a lump-sum or guaranteed return.
- The investor is not liable for losses beyond the capital he has contributed.
- The mudarib does not share in the losses except for the loss of his time and efforts.

Definition of mudharaba is as a partnership with one party providing capital and the other providing label. There is a consensus among jurist that silent partnership is permited and based there are ruling on proofs from the Quran, sunnah, consensus of the muslim and ruling by analogy. Proofs are drive from the Quranic versist:”others traveling through the land seeking of Allah’s bounty” (73:20),

Hadist narrated by Ibnu Majah that the Prophet (pbuh) said: “there is blessing in three transactions: credit sales, silent partnership, and mixing wheat and barley for home, not for trading.

Consensus on the validity of this contract was established by tradition of the copmpanions of the Prophet (pbuh) invested or funs money in a silent partnership and nobody criticize their action.

Briefly, an Islamic bank lends money to a client - to finance a factory, for example - in return for which the bank will get a specified percentage of the factory's net profits every year for a designated period. This share of the profits provides for repayment of the principal and a profit for the bank to pass on to its depositors. Should the factory lose money, the bank, its depositors and the borrower all jointly absorb the losses, thereby putting into practice the pivotal Islamic principle that the providers and users of capital should share risks and rewards. Mudaraba agreement is identical to an investment fund in which managers handle a pool of funds. The agent-manager has relatively limited liability while having sufficient incentives to perform. The capital is invested in broadly defined activities, and the terms of profit and risk sharing are customized for each investment. The maturity structure ranges from short to medium term and is more suitable for trade activities.

Musharaka: This is a partnership, normally of limited duration, formed to carry out a specific project. It is therefore similar to a western-style joint venture, and is also regarded by some as the purest form of Islamic financial instrument, since it conforms to the underlying partnership principles of sharing in, and benefiting from, risk. Participation in a musharaka can either be in a new project, or by providing additional funds for an existing one. Profits are divided on a pre-determined basis, and any losses shared in proportion to the capital contribution.

Sales contracts. Deferred-payment sale (*bay' mu'ajjal*) and deferred-delivery sale (*bay'salam*) contracts, in addition to spot sales, are used for conducting credit sales. In a deferred-payment sale, delivery of the product is taken on the spot but delivery of the payment is delayed for an agreed period. Payment can be made in a lump sum or in installments, provided there is no extra charge for the delay. A deferred-delivery sale is similar to a forward contract where delivery of the product is in the future in exchange for payment on the spot market.

Risk Management

In Islam the concept of Insurance is slightly different with the conventional in performing the concept of mutual cooperation or Takaful under the umbrella of Tabarru’ (Donation). Takaful is an insurance concept which is grounded in Islamic Muamalat, observing the rules and regulations of Syariah.

In principle, the Takaful system is based on mutual co-operation, responsibility, assurance, protection and assistance between groups of participants. In its simplest form, a takaful scheme can be seen as an arrangement made possible by a group of people with common interest to protect each other from certain defined mishaps through a collective pooling of their resources. This system was adopted by the Islamic academy of jurisprudence (majma al-fiqh) in Makkah Mukarrama in preference to the conventional system as the latter was found to contravene many of the norms of the Sharia. A conventional contract was considered a contract of exchange under a 'buy and sell' agreement containing, in one form or another, elements of chance, gambling and interest.

The essentials of a takaful business are that it is managed by a trustee or a company that functions according to Islamic principles with regular scrutiny and review of Sharia advisors. A takaful scheme must be based on shared responsibility, joint indemnity and common interest of the people participating in the scheme. As contributions can never be exact there is an element of over- or under-charging. The system of profit sharing corrects any such over-charging and mitigates the element of uncertainty in the pricing structure. The effect of under-charging can result in losses that are firstly offset against future surpluses and secondly through interest free loan from the shareholders. For their risk exposure, the surplus is shared between them and the participants on an agreed basis in keeping with the financial strength of the reserves of takaful fund. Lastly, the fund must be invested in assets, which are not forbidden in Islam and do not derive benefit from usury (riba) in any form.

The purpose and terms of entering into a takaful scheme are made clear at the outset. The foremost is about the contribution that is made to the scheme. The contributor loses the right over one's individual contribution in return for a pledge of solidarity that each contributor makes collectively for an amount of money or "benefit" that is definitely payable to any one or more of them if and when they experience one of the pre-defined mishaps. These mishaps can be natural disasters, calamities, accidents etc that can happen to anyone, leading to dire financial and social consequences. All participants have a common interest to protect their livelihood thereby financially protecting their families and businesses.

Islamic insurance or course, differs from that of conventional. This is because an Islamic insurance policy must operate based on the concept of *al-Mudharabah*, a profit sharing scheme and must be free from the elements which are illegal in the eyes of *Shari'ah*. Thus, here is given a proposed model for Islamic insurance policy which is different from that of the conventional one**.**

1. An insurance contract binds the insurer only on unilateral basis that the insurer is under an obligation to provide a compensation against the loss to the subject matter of the policy, while the insured not be forced if he does not want to continue the payment of premiums. But it is necessary to the insured to continue the payment of premiums in order for claiming benefit over the policy. If the insured discontinues the payments of premiums, the paid-premium should not be forfeited.

2. An Islamic model of insurance policy is based on the fundamental principle of mutual co-operation and solidarity, as ordained by Allah) SWT) Allah (SWT) mentioned to this effect :

"Sustain a mutual co-operation among yourselves in the righteousness and piety[1]*".*

3. A Shari'ah based insurance policy does not involve unlawful element of usury (Riba), but it is based on the profit-sharing financing technique of al-Mudharabah, whereby the insured pays the premiums to the insurer (insurance company) who will run a business by the cumulated money, the profits arising from such transaction will be shared by both the insurer and the insured accordingly.

[1]*Al-Quran*, at 5:2.

4. In an Islamic model of life insurance policy, however, the nominee(s) is not an absolute beneficiary(s), but a mere trustee who is under an obligation to receive the benefits over the policy and distributes them among the legal heirs of the deceased in accordance with the principles of *'Mirath'* (inheritance) and *'Wasiyah'* (bequest)

Generally, the scope of an Islamic insurance policy is very wide and flexible. Such wider scope and flexibility are just for the purpose of *Inter Alia* to ensure a smooth life in the society which is of course in line with the following sanction:
"….. Our Lord, give us happiness in this world and happiness in the hereafter….."[2]

In spite of the wider scope and flexibility of the Islamic insurance policy, there are certain limitations set by the *Shari'ah* in order to purify the transactions. For instance, Allah (SWT) prohibited any kind of cumulation of profits and wealth by way of unjust enrichment.

In short, the limitation imposed by the *Shari'ah* to an insurance policy are as follows:

1. A contract of insurance should not involve a single element of *'Riba'* in its investment activities or any other activities organised by the insurance company. This is because besides it is being totally forbidden in Islam, it *Inter Alia*, creates the sense of selfishness, miserliness, greed, and malevolence, at the individual level and hence *Haji Azlan Khalil* accepts the view of *Khan M.V.* that the institution of '*Riba'* could lead to miserable, unstable society. Allah (SWT) warns the believers against involving *'Riba'* in their transactions. He (SWT) says to the effect:

"O ye who believe! Do not involve with usury, double and multiple….."[3]

2. An insurance business should be based on the principle of *al-Mudharabah* financing technique as an alternative to the principle of the fixed-rate interest.
3. The nominee(s) in a life insurance policy is not an absolute beneficiary(s) as under the conventional system. Such nominee(s) is only a mere trustee(s) whose obligation is to receive the benefits over the policy and distribute them among the legal heirs of the deceased (insured) in accordance with the principles of '*al-Mirath'* and '*al-Wasiyah'*. Such responsibility is shouldered by the nominee(s) and is just for the sake of enabling the heirs of the assured to enjoy a fair distribution of the benefits of the policy.

[2] *Al-Quran*, at 2:201.
[3] *Al-Quran*, at 3:130.

4. An insurance contract is only enforceable if it does not contravene with any of the principles of *Shari'ah.*
5. Every individual in the society has a freedom of buying an insurance policy.
6. An insurance contract does not aim at gaining something as it is a mutual transaction aimed at fostering the sense of mutual co-operation among the parties to the contract in order to establish brotherhood and solidarity among them. Thus, in an insurance policy, there is a mutual co-operation between both parties whereby the insured undertakes to pay the premiums throughout the period of the policy while the insurer undertakes, in return, to provide the insured with the necessary material protection against an unexpected risk, danger or loss. Allah (SWT), in the Holy Quran, has enjoined such mutual co-operation to be established among the people. He (SWT) says to the effect:

"…… And co-operate one another in righteousness and piety….."[4]

7. A contract of insurance is enforceable should it be entered upon a speculation of a risk on a particular subject matter.
8. If either party to the insurance contract has the intention of gaining instead of establishing mutual co-operation, the transaction will become morally and spiritually unlawful. Hence, it is also required from both parties to the contract to instill in their hearts purity and sincerity in order to abide the principle of mutual co-operation as enjoined by the Holy Quran at 5:2.
9. The fundamental aspects of insurance must be controlled and supervised by Dewan Pengawas Syariah (Syariah Board of Compliance) on the *Shari'ah* rules and nothing should be left, unchecked. Such a wise move is aimed at ensuring the legality and fairness of all the transactions conducted by the insurance companies, since insurance businesses are considered as *'Amanah'* or trusts, whereby the insurance companies undertake to protect the insured from future unexpected losses, damages, risks or perils.

Investment Planning (Asset Management)

Saving refers to a part of money that is not spent on consumption. Meanwhile investment refers to the expenditure that is not for the consumption but for the purpose of capital appreciation, and on creation of a new capital. In Islam, basically, the Syariah way of investing is that it must no be any of the following:

1. Operations must not be based on riba' (interest) such as activities of financial institutions like commercial and merchant bank and finance companies which not comply with the Islamic principle. In Surah Al-Baqarah (275-281) Allah has prohibit riba:

[4] *Al-Quran*, at 5:2.

"…But Allah hath permitted trade and forbidden usury (riba)…."

(Surah Al-Baqarah, verse 275-281)

2. Operation involving with gambling. This is where one gets something at the expense of the other and the person get suffer of losing asset and dignity.
3. Activities involving the manufacture and/or sale of haram (forbidden) products such as liquor, pork, and meat not slaughtered according to Islamic rites; any other activities against the Islamic teaching such as pornography
4. Operations containing elements of gharar (uncertainty) such as the conventional insurance business.
    - There are companies with activities comprising both permissible and non-permissible elements. Syariah Council has applied several additional criteria for these companies:
        1. Core activities of the company must be activities which are not against the Syariah as outlined above and haram element must be very small compared with the core activities.
        2. the public perception or image of the company must be good
        3. core activities of the company have importance and maslahah (benefit in general) to the Muslim Ummah (nation) and the country and the haram element is very small and involves matters such as umum balwa (common plight) uruf (custom) and the rights of the non-muslim community which are accepted by Islam.

There are several channels of investment such as Wadiah Saving Account, Mudharabah Current account, Mudharabah Investment Account, Unit Trust, Takaful (with saving elements) Islamic Bond via unit Trust Islamic Equity (stock Market) Property and etc.

Zakat (Purification of wealth)

Cleansing one's assets is not yet known in the conventional financial planning. For the conventional concerns more with wealth creation, wealth accumulation, wealth protection, and wealth distribution. Wealth purification or cleansing assets is very fundamental concept in Islamic financial planning. In Islam, in fact, it has been acquired in various forms and occasion. Qur'an as primary source of Islamic way of life (shari'ah) states "*Of their goods, take alms, that so thou mightiest purify and sanctify them; and pray on their behalf. Verily thy prayers are a source of security for them; and God is One Who Heareth and knoweth*" (Qur'an 9:103).

Linguistically, Zakaat has two meanings: purification and growth. Technically, it means to purify one's possession of wealth by distributing a prescribed amount to the poor, the indigent, the slaves or captives, and the wayfarer.

Zakat is the third pillar of Islam. It has been defined as an act of worship through expenditure of Muslim's property or wealth upon the full possession and above a certain limit. In religious terminology of Islam two more terms also occur for zakat. They are alms (*sadaqa*) and spending in the name of Allah (*infaq fi Sabilillah*). The term of *Sadaqa* comes from the word (*sidq*), which means righteousness and sincerity in the giver, but also proves that he has these virtues in him. Similarly, *Infaq fi Sabilillah* means spending in the service of Allah. The ultimate objective of zakat is to win God's pleasure. Zakat has been called spending in the name of God as it is indicative of its real spirit.

So far as the qur'an is concerned it uses all the three words in the same sense and connotation. Whatever is spent to please God is *zakat* (poor due), *Sadaqa* (almsgiving), and *Infaq fi sabilillah* (expenditure in the service of God) at the same time. It is immaterial whether this expenditure relates to the legal tax (zakat) or voluntary alms. None of the words is meant to denote specific meaning of legal or voluntary alms and can be used alternately. It is for obvious reason that the attention of the qur'an and sunnah is focused on the real of objective and purpose and not on the legal aspects of the matter they are dealing with. In Islamic jurisprudence *zakat* is the expenditure that is legal and compulsory while the terms almsgiving (*sadaqa*) and spending in the service of God (*infaq fi sabilillah*) are used exclusively for voluntary alms.

Zakaat is obligatory upon a person if:

- He or she is an adult, sane, free and Muslim.
- He/she must possess wealth in excess of specified minimum (Nisaab) excluding his or her personal needs (clothing, household furniture, utensils, cars etc. are termed article of personal needs).
- It should be possessed for a complete lunar year.
- It should be of productive nature from which one can derive profit or benefit such as merchandise for business, gold, silver, livestock etc.

The amount of wealth which makes one liable for Zakaat is called Nisaab. The Nisaab as fixed by Rasulullah (sallallahu alaihi wassallam) is as follows:

	Grams	Tolas	Grains	Troy Oz.
GOLD:	87.48	7.5	1350	2.8125
SILVER:	612.36	52.5	9450	19.6875

Nisaab of cash, stock or bonds, other cash assets is the equivalent amount of Gold or Silver. Nisaab is calculated by adding up the cash value of all the assets such as gold, silver, currency etc. and if it is equal to or in excess of the minimum Nisaab as specified in the above table, the Zakaat is due at the rate of 2.5%.

The payment of Zakaat is compulsory on the excess wealth or effects which is equal to or exceeds the value of Nisaab, and which is possessed for a full Islamic year. If such wealth decreases during the course of the year and increases again to the value of Nisaab before the end of the year, the Zakaat then must be calculated on the full amount that is possessed at the end of the year.

<u>Types of wealth on which zakaat is imposed:</u>

1. Gold and silver, in any form
2. Cash, bank notes, stocks, bonds etc.
3. Merchandise for business, equal to the value of Nisaab
4. Livestock
5. On income derived from rental business

<u>Calculation of zakaat:</u>

1. To calculate Zakaat on jewelry etc. one must first determine the gold or silver content and then calculate the Zakaat according to current market price.
2. If the Gold possessed is less than 87.48 grams or if silver possessed is less then 612.36 grams, but the value of both combined is equal to or exceeds the Nisaab of either Gold or Silver, the Zakaat will be due.
3. In the event of an article not being of pure gold or pure silver, but containing a mixture of other metals and the gold or silver content is more than the other metal, it will be regarded as gold or silver and Zakaat will be due. But in the case where other metal/s is of greater quantity than either gold or silver, Zakaat will not be due on this article.

4. For stocks (shares held in a company), Zakaat is calculated based upon the current market value. As machinery, land, fixtures and fittings, furniture, buildings etc. are exempt from Zakaat, one is allowed to subtract these from the total asset. This could be obtained from annual reports. For example, if one has shares worth $1000 and machinery, land etc., are worth 5% of the total asset, then deduct $50 for these assets, afterwards deduct the liabilities of the company proportionately to the percentage of shares held. Zakaat must be calculated on the balance.

Distribution of zakaat:

1. Zakaat should be given as soon as possible after it becomes due.
2. All of the Zakaat can be given to one person or to several persons.
3. A poor man cannot be paid for his work from Zakaat nor can Zakaat be given in payment of services, except to the people appointed by the Islamic government to collect Zakaat.
4. Zakaat will only be valid if the recipient is made the owner of that amount. If, for example, a few needy persons are fed a meal from Zakaat money, then Zakaat will not be fulfilled as they were not made owners of the food.
5. Zakaat cannot be given for the construction of Masjid, Madrasah, Hospital, a well, a bridge or any other public amenity.
6. Zakaat can be paid in kind from the same merchandise on which it is due, or alternatively, it could be paid in cash .

Types of wealth on which zakaat is not imposed:

1. On any metals other than gold or silver
2. Fixtures and fittings of a shop, car, trucks or any delivery vehicle etc., which is used in running business.
3. Diamonds, pearls, other precious or semi precious stones which are for personal use.
4. There is no Zakaat on personal residence, household furniture, pots and pan, personal clothing, whether they are in use or not.
5. There is no Zakaat on a person whose liabilities exceed or equal his assets. (Home Mortgage in this country is not to be counted as personal liability for the Zakaat purpose).

Recipients of zakaat:

The recipients of Zakaat, according to Qur'an are as follows:

"Alms are for the poor and the needy, and those employed to administer (the funds); for those whose hearts have been (recently) reconciled (to truth); for those in bondage and in debt; and for the wayfarer: (Thus is it) ordained by Allah, and Allah is full of Knowledge and Wisdom." (Qur'an 9:60)

1. FUQARA: people who are poor and who possess more than their basic needs but do not possess wealth equal to Nisaab.
2. MASAKEEN: people who are destitute and extremely needy to the extent they are forced to beg for their daily food rations.
3. AL-AMILEEN: people appointed by an Islamic Government to collect Zakaat.
4. MU-ALLAFATUL-QULUB: persons who have recently accepted Islam and are in need of basic necessities who would benefit from encouragement by Muslims which would help strengthen their faith.
5. AR-RIQAAB: slaves who are permitted to work for remuneration and have an agreement from their masters to purchase their freedom on payment of fixed amounts.
6. AL-GHAARIMEEN: persons who have a debt and do not possess any other wealth or goods with which they could repay that which they owe. It is conditional that this debt was not created for any un-Islamic purpose.
7. FI-SABILILLAH: persons who have to carry out an obligatory deed which has become obligatory on them and subsequently (due to loss of wealth) are unable to complete that obligation.
8. IBN-US-SABEEL: persons who are travelers and during the course of their journey do not possess basic necessities, though they are well to do at home. They could be given Zakaat in order to fulfill travel needs to return home.

Estate Planning (*faraid*)

Islam depicts the comprehensive way of life in which distribution of estate is regarded significantly as God says clearly in the Qur'an

"*God (thus) direct you as regards your children's (inheritance): to the male, a portion equal to that of two female; if only daughters, two or more, their share is two third of the inheritance; if only one her share is a half. For parents, a sixth share of the inheritance to each, if the deceased left children: if no children, and the parents are the only heirs, the mother has a third; if the deceased left brothers (or sisters) the mother has sixth (The distribution in all cases is) after the payment of legacies and debts. Ye know not whether your parents or your children are nearest to you in benefit. These settled portions ordained by God; and God is all knowing, all-wise*" (4:11).

God further says

"*In what your wives leave, your share is a half, if they leave no child: but if they leave a child, ye get a fourth; after payment of legacies and debts. In what ye leave, their share is a fourth, if ye leave no child; but if ye leave a child, they get an eighth: after the payment of legacies and debts. If the man and woman whose inheritance is in question, has left neither ascendants or descendants, but has left a brother or a sister, each one of the two gets a sixth; but if more than two, they share in a third: after payment of legacies and debts; so that no loss is caused (to any one). Thus is it ordained by God; and God is all knowing, most Forbearing.*" (4:12).

These two verses from surah An-Nisa give the guidelines of estate distribution for Muslims. It is very definitive and no room for speculating the issue. These portions are basically the due for the deceased's ascendants, descendants, and spouses. The second verse in fact deals with portions of the deceased's brothers and sister, provided there are neither ascendants nor descendants.

<u>Wasiyah</u>

Wasiyah is a legal documentation which outlines on how you wish your assets to be distributed upon demise Wasiyah or will is one of many acceptable modes of wealth acquisition and disposal in Islam. Wasiyah is similar to gift, though with certain differences. It is executed after demise of the benefactor and takes the form of gift of wealth, useful items [like mosques, estates etc] or even that of debt etc. The total of Wasiyah given cannot be exceeded than 1/3 of total assets. The eligible or legal heirs are not entitled for Wasiyah.

Wasiyah should be in writing. It must be signed by the Testator (will maker) and witnessed by at least two persons. In Islam, Wasiyah does not necessarily bi in writing but it must be witnessed by two persons.

<u>Waqaf</u>

Waqf in Arabic language literally means hold, confinement or prohibition. The word of Waqf is used in Islam in the meaning of holding certain property and preserving it for the confined benefit of certain philanthropy and prohibiting any use or disposition of it outside that specific objective. Waqf is a religious endowment, a property giving revenues, as regulated by Islamic law. The position of Waqf is the same category of sadaqah or tabarru'.

Waqf legal definition includes two conditions. The first condition is to dedicate one's property rights to any public service and prevention of its re-ownership by others; and the second condition is the perpetuity of this dedication.

The property must be in real or which has some meaning of perpetuity. The property should be given on the permanent basis. Some jurists approve temporary Waqf only in the case of family Waqf. The example of family Waqf is the condition that the fruits and revenues of their Waqf are first given to their own children and descendants and only the surplus, if any, should be given to the poor. If a person sets up a Waqf for his children, he must treat males and females equally, because he has included all of them in that, which implies that they all have equal share. Just as if he were to give something to them, it should be shared equally among them, so too if he sets up a Waqf for them, they should have equal hares.

The Waqf founder should be legally fit and able to meet the purpose of Waqf. The purpose of the Waqf must be in ultimate analysis be an act of charity. Hence the Waqf on the rich alone is not permissible because it is not charity. The revenues from the Waqf finance mosques, and another religious institution. Hence, the Waqf is considered as a part of the mosque or the institution.

Hibah

Hibah is an Arabic term, derived from the word '*habubah*', which literally means 'passing' or 'blowing'. In the religious term it means giving one's wealth to others without the expectation of any replacement or exchange with the transferring effect on the ownership. Thus once a *hibah* is executed, the giver cannot take it back. Like waqf or other charity, *hibah* is the transfer of property from the giver to the recipient during his lifetime. However hibah in general sense may include *Ibra'*, *sadaqa* and *hadiyah* which respectively means release from; releasing one's wealth from his ownership, alms giving; giving part of his wealth to needy, and reward which needs an exchange.

Hibah is the third dimension in estate planning structure; complementing *faraid* and *wasiyyat* (will). Hibah may come into discussion when the rule of *faraid* does not allow some heirs to get the right of inheritance and *wasiyyat* was not made on him when one is facing the death. It is known that the rules of *faraid* only apply to Muslims; in the case of different religions between the heirs and the deceased, the heirs will not get anything from the inheritance. Thus *hibah* may solve the particular circumstances by giving certain portion of his wealth to the heirs who have different religion and particular blocked heirs (heirs who are not entitled to get inheritance, being blocked by other heirs) before he passed away.

Furthermore, in the case of father who wants to give his son more than what he supposes to get in estate planning, the only choice he has is to execute *hibah*. If he chooses to do it under *wasiyyat* (will writing), the son is only entitled to one third of the estate. So if the father feels that the son is entitled to get more than a third and wants to ensure that he receive it, the only way is *hibah* in his lifetime. If this *hibah* is executed in time where he is about to die, it may be in the form of will writing (*wasiyyat*). Thus it recommended appointing a professional trustee to execute the *hibah*. Even though the *hibah* belongs to the recipient technically, it is trustee who will manage, maintain or dispose of it. One can put condition on the trustee that the *hibah* is given to the recipient only upon the death of the giver. By doing this, one not only expedites the process of distribution, as the *hibah* will not be subjected to the laws of *faraid*, the estate is protected as well. Therefore it will allow the son to legally own the property. As a result, *wasiyyat* and *hibah* are devices that we can use to provide for the distribution of our estate upon our death

Concluding remarks

In Islam, accumulation of wealth is allowed and in some circumstances mandatory. However, wealth should not be abused and must be managed and be planned properly, as Allah has laid down very clearly injunctions on how wealth should be acquired and spent. Above all, wealth is a form of trial by Allah to His servants; whether they follow His injunctions regarding wealth acquisition and disposal and as such the owners are going to be fully accountable on the day of hereafter.

Financial Planning Education: Global Standard Framework

by

So-hyun Joo, Ph.D.

Financial Planning Consultant

Introduction

The field of financial planning was officially introduced to Korea in the year 2000. During the past seven years the field and the profession of financial planning has grown dramatically: as of July 2007, there were about 12,377 associate financial planners (pre-certification of CFP® which are unique in Korea) and 1,392 CFP® certificants working in Korea. The future of financial planning industry in Korea is even more promising. The current market situation and demographic outlook are favorable for financial planning industry. The Korean government has proposed several financial market modernization acts (e.g., Capital Markets Consolidation Act) to accelerate financial service sector development and globalization. As the Korean financial market system gets more complex, new products are introduced on a daily basis. Laws and regulations are difficult for individual consumers to digest. These new and complex circumstances make financial decision making complicated, thus the needs for professional help becomes essential.

In terms of the demographic outlook, Korea has already entered into an aging society (7% of its population are those who aged 65 or older) and is expected to be an aged society (14% of the population are aged 65 or older) by the year 2019. Therefore, funding for a retirement period is one of the most serious financial planning issues for Koreans. Like Americans, Koreans prepare their retirement using a three-way system: government assistance, employer-provided pensions, and personal savings. Among these three options, personal savings play a significant role in retirement preparedness, and this adds to the significance of professional financial planning. The needs for financial planning are greater now than ever for Koreans.

To provide quality financial planning services to its constituencies, the financial planning industry needs to produce competent financial planning professionals. Currently, in Korea, Certified Financial Planners™ provide the highest level financial services to financial planning clients. To ensure its standardized service quality, education and the certification process need continuous quality control. The purpose of this paper is to discuss an effective financial planning education framework and delivery mechanism. To help understand the Korean financial planning environment, the global and local (territory specific) financial planning characteristics will be discussed first.

Global Aspects of Financial Planning

Globally accepted and used financial planning characteristics include the definition and the process of it. Financial planning in Korea is not original; instead, the concept and process of financial planning were introduced through the model practice in the U.S. Naturally, the definition and the process that were developed in the U.S. are used in Korea. This section discusses these two – definition and process - global aspects of financial planning and their local characteristics and challenges.

The Definition (Concept) of Financial Planning

One of the aspects of financial planning that is truly global is its concept. In Korea, the global definition of financial planning (the process of meeting life goals through proper management of personal finances) is used and promoted. However, financial planning is often confused with “asset management” by most Koreans. People often think financial planning is for the rich, for those who have assets to manage, and for those who have access to professional services. Also, many Koreans think financial planning as a free service associated with certain financial products sales. By their culture, normally Koreans expect and take financial advice free of charge. Additionally, as an IT-leading country, most Koreans think that they can obtain financial information anywhere, anytime with online help for free. Moreover, financial planning is sometimes misunderstood as a way to grow money quickly – in Korea this is called “money technology.” From financial planning practitioners, people want to get “hot” products (stocks, mutual funds, or real estate) and advice, not a comprehensive financial plan. As mentioned earlier, comprehensive financial plan is viewed as something for those who have excessive assets. For the global standard promotion, this misunderstanding about the financial planning concept is one of the challenges facing Korean financial planning development.

Financial Planning Process

Another aspect of financial planning that is truly global is its six-step process. Under the global financial planning concept, financial planners follow the six-step process to help their clients reach their life goals. Even though each country is different economic and financial developmental stages, the personal finance topics that need to be incorporated into a successful financial plan (i.e., risk management, investment, retirement planning, credit management, estate planning, etc.) are universal. In general, people need to be covered for similar financial planning issues (e.g., asset protection, asset accumulation, and asset distribution), and the six-step financial planning process is the most efficient, effective, and proven process to reach their life goals.

One of the challenges for the Korean financial planning industry, with respect to the six-step process, stems from the fact that the fee for a comprehensive plan is not yet universally introduced to most Koreans. As mentioned in the previous section, Koreans consider a piece of advice to be a free service; comprehensive financial plans are extensively free service for certain cases. In some degree, some practitioners take this approach (provide free advice and plan) to be compensated with certain level of commissions. Active promotion of financial planning concepts and the process through various literacy programs and public announcements will be an essential part to Korean financial planning industry development.

Local Aspects of Financial Planning: South Korea's Case

Financial planning has its local aspects (characteristics) to respond to its culture and the economic environment's uniqueness. In this section, territory specific financial planning aspects are discussed in two different categories: financial planning topics and the certification process.

Territory Specific Topics

Laws and Regulations. Needless to say, each country has its specific financial laws and regulations. Korea also has its specific laws and regulations that cover macro- and microeconomic systems. Basically, Korea has similar personal finance related laws and regulations to the U.S.: consumer protection, market transaction, industry standards, antitrust, and regulations for certain activities by professionals (e.g., equity and insurance sales). However, Korea does not have advanced investor protection laws, financial professional regulations, and advanced retirement income security laws. The meaning and responsibility of "fiduciary" is not as strong as in the US. The laws and regulations are also incorporating globalization needs. Recently, Korea and US signed a Free Trade Agreement which is anticipated to be passed by the Congress. Also, various other Free Trade Agreements are under considerations: Korea and EU, Korea and China, are two examples. These newer regulation proposals provide a new environment for the financial planning industry. Considering the fact that Korea's financial market is heading toward global competition, Korean financial planners' global standard qualification is essential.

Ethical Standards. Each country also has its own culture, norms, values and rules, and these cultural differences require specific ethical standards and communication skill sets. The financial professional ethics could be universal and the universal ethical standards could be utilized by various member countries. These global standards provide guidelines for the local environment and the local specific standards should be incorporated into the local financial planning ethical standards. For example, certain ethical standards need to be more explicit (e.g., fiduciary responsibilities for Korean financial planners) in order to respond to local culture circumstances.

Communication Skills. Cultural differences make financial planning communication unique for each country. Certain communication approaches are more susceptible for Koreans. Financial product marketers use various emotional strategies for Korean consumers. For example, recently, the life insurance industry has used very strong paternalistic family values that stimulate the emotional responsibilities of fathers for life insurance needs. Communication skills for financial professionals, especially for financial planners, are essential because financial planners need to see a comprehensive financial plan and invaluable professional advice which are considered as a high level credence goods.

Value Priority. For Koreans, values that influence the meaning of money or money management are different from those for Americans. Koreans have strong family values, and support for their children is one of their top priorities. Koreans also have a strong desire to own their own house like Americans; however children's education has stronger meaning. Educating their children is placed before their own retirement and sometimes educating their children is viewed as their retirement planning. Therefore, supporting their children is one of the key personal finance topics for Koreans. During their 30s and 40s, Koreans have the greatest cash flow needs for children's education and in their 50s and 60s, the cash flow needs are even greater to support their grown up children's marriage. This is one of the unique financial planning topics that are territory specific.

Real Estate Planning. In Korea, real estate planning is included as a financial planning topic. Typical Korean households have the majority of their assets in real estate (over 70% of the household assets are real estate). The real estate market in Korea is unique and has been one of the most popular investment options for Koreans. Traditionally, as an agricultural society, Koreans have a very strong preference to owning a piece of real estate. Coupled with the strong preference for real estate, the instability of Korean financial market (especially with the Asian financial market crisis in late 90s) has made real estate a very attractive investment option. The average investment return for real estate has been larger than that of stock market. Certain housing prices (High-rise condominium style housing has been most popular. In Korea this type of housing is called an Apartment and these Apartments are owned individually) have tripled in price since 2001. Therefore, financial planners have to have a competency in real estate planning and this topic is included in CFP® certification process in Korea.

<u>Territory Specific Certification Process</u>

Associate Financial Planner Korea™ Associate Financial Planner Korea™ (AFPK®) certification precedes the CFP® in Korea. In Korea, applicants for the CFP® should have the AFPK® to be eligible to sit on the CFP® exam. To acquire AFPK® certification, applicants must complete certain educational requirements (however, there is no degree requirement) from FPSB Korea granted educational institutions, pass a 4-hour exam, and sign an ethics agreement. AFPK® certificants also need to take continuing education; 20 hours for every two years. AFPK® exam topics are the same as the CFP® exam but on a basic level without financial planning case questions.

Educational Institutions. In Korea, financial planning education for professionals is delivered by FPSB Korea granted institutions. These institutions include private professional educational institutions and some higher education institutions. Even though there are several universities and colleges which teach financial planning (and registered with the FPSB Korea), currently no universities or colleges grant degrees in financial planning. Due to its relatively short history of financial planning, educational development, especially in higher education institutions, needs further progress.

Global Standard Framework

It would be very hard for The FPSB to supervise (or monitor) the country (or territory) specific financial planning areas. Instead of supervising, The FPSB should prepare a mechanism that ensures an autonomous yet standardized quality control framework and recommended delivery methods. The following diagram will depict one of the possible alternatives of global standard framework.

As shown in the diagram, The FPSB, Local FPSBs, and local educational institutions work together to reach a common goal of preparing competent financial planners. To reach this goal, The FPSB needs to promote the financial planning concept through global promotional activities. These promotional activities include various events such as financial planning conferences, publications activities, seminars, and educational forums. The FPSB also needs to elaborate the six-step financial planning process and develop competent educational standards. From the elaboration of the financial planning process and educational standards, The FPSB can provide global financial planning education guidelines to the Local FPSBs. One of the unique characteristics of financial planning process is that it can be learnt through practicum experiences from experienced mentors. The FPSB could develop global mentoring programs for Local FPSBs worldwide.

The Goal: Prepare Competent Financial Planners

The FPSB

Objectives	**Activities**
• Promote Financial Planning Concept • Elaborate FP Process (6-step) • Develop Competent Educational Standards	• Global Promotion through Media and Other Activities • Review, Revise, and Update the 6-step • Organize Education Advisory Panel

- Provide global financial planning education guidelines
- Provide global mentoring internship opportunities

- Affiliation report and renewal
- Report (and explain) localized educational curriculum guidelines

Local FPSB

Objectives	**Activities**
• Localize the FP Concept • Standardize the FP process for the Territory • Prepare Comprehensive Curriculum Guideline	• FP Awareness Campaign and Public Education • Develop Localized Topic List and Specific Guidelines • Analyze Local Financial Planning Job Tasks

- Provide guidelines for the education contents and delivery
- Provide local mentoring and practical training opportunities

- Registration and renewals
- Provide evaluation feedback

Local Educational Institutions

Objectives	**Activities**
• Prepare Competent Candidates • Develop a Comprehensive Curriculum • Maintain Quality Education	• Recruit and Retain Qualified Educators • Develop and/or Adopt Advanced Education Methods • Utilize Effective Evaluation

The Local FPSBs then localize the financial planning concept suitable for their territory. Local FPSBs should also promote the financial planning concept through financial planning awareness campaigns and public educational programs. Local FPSBs ought to also standardize the financial planning process for the territory. Local FPSBs develop localized topic list and specific financial planning curriculum guidelines. Local FPSBs then prepare affiliation report and explain the localized educational curriculum guidelines to The FPSB. The FPSB will review local FPSBs' affiliation report and educational curriculum guidelines based on the global standards and guidelines.

Local FPSBs will provide the educational curriculum guidelines to local financial planning educational institutions. The local educational institutions need to develop comprehensive curriculum based on the guidelines from the local FPSBs to prepare competent candidates. The local educational institutions major job is to deliver quality education to future financial planners. To ensure education quality, local educational institutions need to recruit and retain qualified educators and develop advanced education delivery methods. Education program evaluation is another key component to ensure educational quality. The local educational institutions need to register with the local FPSBs and provide feedbacks about the education curriculum and delivery. Local FPSBs could organize local mentoring or practical training programs for future financial planners.

Global Standard Delivery Mechanism

The global standard framework requires a standardized educational delivery mechanism. The specific delivery methods (such as online, offline, seminar, self-study, lecture, or field study) could be case by case to meet the local financial planner candidates' needs; however, the delivery quality can be controlled with universal strategies. Among such strategies, two major points are discussed: educator qualification requirements and mentoring system development.

Educator Qualification: Educate the Educators

To ensure global standards, quality control of financial planning educators is essential. The guidelines or qualification requirements for financial planning educators could be more rigorous. Those who teach in the universities or colleges have certain competency requirements such as an advanced degree requirement, certain number of hours of advanced classes taken from accredited institutions, or significant accomplishments in the fields. Such qualification requirements could be rigorously applied to private institutions. Regardless of specific methods (classroom lecture, online lecture, seminar, or workshop) of delivery, to have qualified competent educators is the key to successful education. The FPSB could also develop mentoring and educational programs to educate the educators.

Mentoring Programs

Financial planning is one of the areas of study which needs field experiences. The six-step process, communication skills, and the practice standards are not easy to understand with classroom study only. In this regards, mentoring programs with practical training are the most effective ways of learning financial planning. But the problem with mentoring programs is recruiting the mentors. The Financial Planning Association in the U.S. provides mentoring programs to its members with the mentors being member volunteers. Countries where the financial planning is its early stages, recruiting mentors is more challenging.

Financial planning will be an essential part of modern economic societies. Producing globally accepted competent financial planners can be the first step toward providing quality services to worldwide consumers of financial planning.

Creating and Delivering a Global Financial Planning Body of Knowledge

by

Brian R. Korb, PhD, CFA, CFP®

Trinity Western University

The global need for financial planning is rising. An aging baby boomer population in North America and Europe, along with a rapidly growing middle class in India and China creates the foundation for continued global growth in the financial planning industry. However, with this growth comes the need for professional training and certification that only the certified financial planner (CFP) designation can provide on a global basis. The challenges then presented to the Financial Planning Standards Board are numerous and include defining a global body of knowledge, along with proven methods of delivering this knowledge.

This paper addresses these challenges by comparing the CFP body of knowledge and delivery methods commonly used in the United States and Canada. To accomplish this goal I will summarize current research on the topic, and compare the U.S. and Canadian versions of a textbook. I will also summarize qualitative data gained from surveys of alumni from our registered CFP education program. Lastly, I will synthesize the above information along with my combined 16 years of Canadian and U.S. university financial planning teaching experience and of building and running an independent U.S. financial planning company, thus providing recommendations for a global financial planning body of knowledge and delivery methods.

Research

While the functions, practices and competencies of a financial planner are very similar across countries, the specific knowledge required to be a competent planner varies widely. Little research has actually been done on this topic. However, there are some articles on cross-border planning that point to areas where territory-specific knowledge is required. I will provide the highlights of these articles in this section, along with a discussion of global financial planning knowledge from the perspective of the CFP Professional Competency Profile, published by the Financial Planners Standards Council of Canada (FPSC) and ISO 22222, Personal Financial Planning, the newly released global personal financial planner standard.

Territory Specific Knowledge

One major area of territory-specific knowledge is that of tax planning. Not only do tax laws and rates differ across countries, but even the types of taxes may differ significantly. For example, there are no estate taxes in Canada, whereas there are in the U.S. Regarding income taxes a U.S. citizen is taxed on world-wide income regardless of residency, while a Canadian is taxed on world-wide income only if he lives in Canada (Keats, 2007). As another example, there are no capital gains taxes in Mexico, but there are in the U.S. and Canada (Opiela, 2001). Additionally, there is a government sales tax in Canada, whereas there is not such a tax in the U.S. Robert Keats, a financial planner in the U.S. who specializes in cross-border issues, tells the story of a widow who wanted to move back to Canada from the U.S. (Marer, 2000). Her move would result in more than doubling her capital gains tax and harming her estate plan. As Keats says, “We talk the same, we look the same, but we don’t have the same laws” (Marer, 2000, p. 113).

Estate planning is another area where territory-specific knowledge is required. For example, the U.S. has estate taxes, while Canada does not, but instead assumes deemed disposition of assets upon death causing income tax consequences. Mexico has none of the above (Keats & Rodriguez-Walters, 2003). Per Jennifer Patterson, a CFP certificant in Bermuda, a U.S. estate planning strategy either might not be legal in Bermuda or may just not be workable (Opiela, 2003).

Risk management techniques and issues can vary significantly from country to country. In the U.S. where most health insurance is private, one has to worry about insurability, whereas the only requirement to obtain health insurance in Canada is residency. On the other hand, most U.S. health insurance plans provide adequate out-of-country coverage, while the Canadian provincial health plans do not (Keats, 2007). Long-term health care insurance may not be required for a client in Mexico due to inexpensive long-term care, whereas it is a necessary part of many financial plans in the U.S. (DeMasters, 2004).

Investment planning requires country-specific knowledge as well. While investment analysis techniques remain similar between nations, investment vehicles do not. The depth and breadth of stocks, bonds and mutual funds can vary significantly. The cost of these investments can also be very different. For example, Canadian mutual funds are infamous for higher commission and expense ratios with the average management expense ratio in the 2-3% per year range, which is more than twice the U.S. average.

The nature of the financial planning engagement may itself differ from country to country and therefore require a different focus in financial planning education. For example, Eli Lenyoun, a CFP certificant in Singapore, states that the idea of an integrated, comprehensive fee-based financial plan is not usual outside the U.S. and that modular planning is more common (Opiela, 2003). That is certainly the case here in Canada as well.

Global Financial Planning Knowledge

The CFP Professional Competency Profile, published by the Financial Planners Standards Council in Canada, provides a good framework for global financial planning topics. The Profile illustrates and details the interrelationship among financial planning components (asset management, risk management, financial management, estate planning, tax planning and retirement planning), financial planning functions (collection, analysis and synthesis), financial planning practices, professional skills (ethical judgment, practice, communication and cognitive), and technical knowledge. Please see the illustration below for a visual diagram of these interrelationships (FPSC, 2006). A complete copy of the Profile can be downloaded from FPSC's website at http://www.cfp-ca.org/licensees/licensees_competencyprofile.asp.

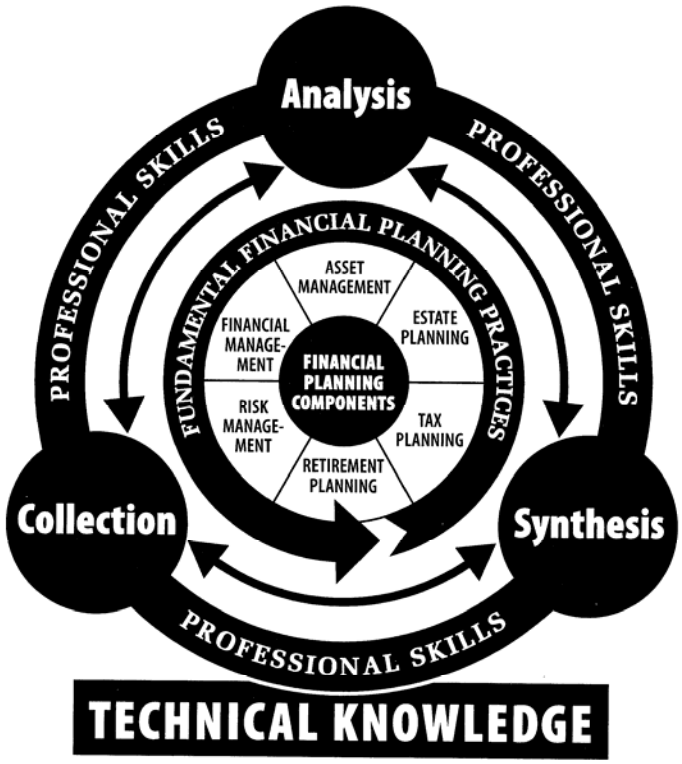


Figure 1.

By reviewing the technical knowledge requirements for each financial planning component and function (also called core competency) I was able to distinguish between global and country specific financial planning knowledge. This served to confirm the information above where the major country specific areas include taxation, insurance products, investment vehicles, law, government benefits plans, regulatory environment, and retirement, savings and income plans. Global knowledge areas include investment risk, portfolio management techniques, financial analysis, economics, ethics, debt, and behavioral finance. In addition to the global knowledge areas it would seem that the financial planning components, financial planning functions, fundamental financial planning practices and core competencies are similar across countries.

In addition to the Competency Profile above, the best source to look for global financial planning knowledge topics would appear to be the recently released ISO standard for personal financial planners. This standard, ISO 22222, "defines the personal financial planning process and specifies ethical behaviour, competences and experience requirements for personal financial planners (International

Organization for Standardization, 2005, p. 1). The standard lists on a high level the knowledge and skills required for a financial planner to adequately implement the financial planning process. It also lists the necessary characteristic outcomes for minimum assessment level by knowledge and understanding, practice, cognitive skills, communication and working with others. In addition, suggested assessment methods are provided to include written examination, multiple-choice examination, and portfolio of evidence. Lastly, continuing education and experience requirements are defined. While this document provides general information and guidance it is not very useful in defining specific areas of global versus country-specific financial planning knowledge, nor does it address delivery methods. That said, it is one of the prime sources that I was able to find concerning global financial planning knowledge requirements. Now that I have reviewed the research, albeit limited, related to global financial planning knowledge I thought it might be instructive to take a look at two versions of the same textbook, one U.S. and the other Canadian.

Comparison of U.S. and Canadian Textbooks

Canada and the United States share a common border and language, yet there are many differences in the personal financial planning knowledge required by a certified financial planner in each country. These differences point to areas of country-specific knowledge that would become even more disparate when countries such as Canada and China are compared. In order to illustrate the Canadian and American differences I have evaluated the content of two textbooks: first, the popular 10th edition of the U.S. textbook *Personal Financial Planning* by Gitman & Joehnk (2005); and second, the Canadian version of the above textbook by Gitman, Joehnk, Gallant & MacAulay (2008).

First, I compared the table of contents in each textbook. Other than some compressing of chapters in the Canadian version the tables of each text were identical. I then completed an in-depth comparison of the content of each chapter between the two texts. While the chapter learning goals were nearly identical in every case the content of particular chapters did vary widely. As expected the most divergent chapters were those on taxes, health insurance, retirement and estate planning. While there were some differences in other chapters they mainly dealt with terminology, regulation, laws, and investment vehicles. Therefore, I will focus my comments on the more divergent chapters above.

The chapters on taxes varied considerably. Even though each country has federal and provincial/state taxes the tax laws and forms are very different. For example, while an American can deduct mortgage interest, a Canadian cannot unless it is paid on a home equity loan used for investment purposes. Also, charitable gifts are a tax deduction in the U.S. while they are a tax credit in Canada. The definitions of types of income and capital gains are much more involved in the U.S. than in Canada. Lastly, the tax rates themselves are distinctly different with Canadians paying more, which anyone who has lived in the two countries can unfortunately attest to. Therefore, while the chapter sub-headings are very similar, the content and required knowledge base is not.

Health insurance is a financial planning topic that is widely different between the two countries as seen by the allotment of a full chapter (30 pages) to this topic in the U.S. text, but only part of a chapter (10 pages) in the Canadian version. This topic illustrates one of the significant differences between the countries, the U.S. being more of a capitalistic society, while Canada tends to be more of a socialistic society. Health care in Canada is provided to every resident at minimal or no cost, while it is principally funded by private insurance to those who can afford it in the U.S. This results in little or no choice of health insurance provider in Canada, but an abundance of choices in the U.S., hence the extended U.S. coverage.

While the learning goals for the retirement planning chapters were similar the content differed significantly. Planning for retirement is an important topic in both countries and saving pre-tax is possible in both places. However, the vehicles for doing so are far more numerous in the U.S. than in Canada, as evidenced by the relative length of chapters: 41 pages in the U.S. text versus 24 pages in the Canadian version. For example, the main employer-sponsored retirement saving vehicle in Canada is the registered retirement savings plan (RRSP), while in the U.S. an employer may offer one or a combination of various profit-sharing, thrift and savings and salary reduction plans. In addition the RRSP is the main vehicle for self-directed retirement savings in Canada, while an American may have choices that span a wide range from Keogh and SEP plans to various types of IRAs. Government plans also differ between the two countries. Regulation and laws related to retirement plans appear to be much more numerous and complex in the U.S.

The last area of major differences in body of knowledge is that of estate planning. The major distinction between estate planning in the two countries revolves around taxes: Canada has no estate tax, while the U.S. does. This makes estate planning in the U.S. more complicated, resulting in 10 more pages of coverage in the U.S. chapter. Once again, the learning goals are actually very similar, but the content is very different.

The above differences as seen in the comparison of two textbooks bring to the forefront the issue that while the financial planning functions, practices and core competencies are similar in the two countries, the actual body of knowledge required by a competent planner can vary widely. This is especially true under the financial planning components of tax planning, risk management (health insurance), retirement planning, and estate planning. To gain deeper insight into these areas I surveyed alumni of our registered personal financial planning program.

Survey Results

I sent a survey to 64 graduates of our BBA in financial planning program, which is a registered CFP education program with the Financial Planners Standards Council (Canada). In the survey I asked open-ended questions about their CFP examination experience, the personal financial planning body of knowledge, and education delivery methods. I received 10 responses for a 15.6% response rate. Six of the respondents were Canadians, while the rest were from China, Indonesia and the U.S. On the average they had graduated 3 years ago. Seven are presently working in the financial services industry, two are not and one person did for a brief time but is not presently. A brief summary of the responses for each of these categories is included below.

CFP Examination

Four of the respondents had taken the CFP examination and all of them passed. The primary form of preparation was to begin studying three to six months in advance of the exam by going through

Gobeil's material and taking practice exams. The respondents offered various advice to enable successful exam completion in addition to starting early and using prep material. One person advised taking a one week prep course just prior to the exam, while another highly recommended proficiency in using a financial calculator. Yet another respondent suggested the key to the exam was reading comprehension. I view these suggestions as important to consider in the development of global financial planning education.

Personal Financial Planning Body of Knowledge

I asked the survey participants to suggest the financial planning topic areas they viewed as global versus those they viewed as more country-specific. The most commonly cited global topic areas in order of frequency (most cited to least cited) were: risk management (insurance), investment management, high level financial planning concepts (eg – retirement planning and estate planning), cash management/budgeting, time value of money concepts, and economics. The country-specified topic areas most cited were: tax planning, law (divorce and estate), government social programs (health and retirement) and specific investment products and markets.

Personal Financial Planning Education Delivery Methods

Lastly, I asked the respondents a few questions about education delivery methods. The first question asked them to describe the methods they found most useful in learning personal financial planning. Most often cited were case studies, lectures and self-study. It was interesting to me to see that all ten respondents cited case studies as the most useful method. One respondent linked the above three methods together by recommending that a student first read about the topic (self-study), then attend a lecture and finally practice the new found knowledge utilizing case studies.

The second question I asked dealt with any recommended changes they would make to the delivery methods in our registered program. Not surprisingly many of them wrote they would like to see increased use of case studies. One respondent stated he would recommend the professor show students how to create a financial plan step-by-step in the capstone course and then have the student create a real financial plan for him/herself or a client of a local financial planner. Another respondent suggested the use of weekly case studies to apply the material that would then build on each other to the end of the course. A few respondents stated they would like to see more speakers from the financial planning industry. Finally, it was suggested that fourth year students (seniors) should be given the opportunity to assist recent graduates in creating debt reduction plans.

Conclusion

Based on the research, textbook comparison, and survey results discussed above there appears to be a significant base of global financial planning topics from which to build a global body of knowledge. Included in a global body of knowledge should be the financial planning components, functions (core competencies), practices and professional skills. Global technical knowledge areas include cash management/budgeting, investment risk, portfolio management techniques, financial analysis, economics, ethics, debt, behavioral finance, and time value of money concepts. It was suggested by one of my alumni that a global CFP knowledge textbook could be created that would then be supplemented by each country with territory-specific information (this could be facilitated by using a loose-leaf notebook format).

Based on my experience and the survey results I would suggest the global CFP body of knowledge be delivered with self-study, classroom lecture or a combination of both. However, I believe the key to learning, understanding and applying the concepts would be the use of case studies. These case studies could be created by FPSB and then customized as needed by each country. Assuming a global textbook and case set are created, then it would be a short step to a common global CFP examination that would be supplemented with territory specific questions in the areas of tax planning, law, government social programs, regulatory environment, and specific insurance and investment products. Perhaps then the CFP would become more globally recognized in the financial planning as the CFA is in investment management.

While I am optimistic that progress can be made towards a global body of knowledge, curriculum and assessment, my enthusiasm is tempered by the reality of the many different cultures presently represented by the FPSB affiliate countries. While cultural differences do not greatly affect the CFA curriculum, they certainly do the CFP curriculum where value judgments come into play often in personal financial planning. I have experienced these cultural differences as a U.S. citizen living and working in Canada. The other factor that causes me concern is the different stages of financial service industry development between countries. For example, the financial services industry in Canada is about ten years behind the development of the industry in the U.S. While financial planners and the public are moving more towards fee-only or fee-based compensation, the Canadian public is blissfully unaware of these options, nor of the high commissions and expenses they are paying. I hope that these differences can be accounted for and a truly global CFP designation created that is transferable between countries.

References

DeMasters, K. (2004, September). Retiring abroad: What you need to know to serve expatriates. *Financial Advisor,* 85-86.

Financial Planners Standards Council. (2006). CFP *professional competency profile.* Toronto: Author.

Gitman, J., & Joehnk, M. (2005). Personal *financial planning* (10th ed.). Mason, OH: South-Western.

Gitman, J., Joehnk, M., Gallant, L., & MacAulay, K. (2008). Personal *financial planning.* Toronto: Thomson Nelson.

International Organization for Standardization. (2005). ISO *22222: Personal financial planning – Requirements for personal financial planners.* Geneva: Author.

Keats, R. (2007). The *border guide: A guide to living, working and investing across the border.* North Vancouver, BC: Self-Counsel Press Ltd.

Keats, R., & Rodriguez-Walters, R. (2003, February). North America: The new financial planning frontier. *Journal of Financial Planning, 16*(2), 80-86.

Marer, E. (2000, April). Double whammy. *Financial Planning, 30*(4), 109.

Opiela, N. (2001, October). The intricacies of working with cross-border clients. *Journal of Financial Planning, 14*(10), 76-84.

Opiela, N. (2003, April). It's a small, small world: Planning for expatriates. *Journal of Financial Planning, 16*(4), 46-53.

The Necessities of Establishing a Global CFP Competency Profile and Its Implications

- A perspective based on experience from launching CFP program in China

by

Feng Liu, Ph.D.

Financial Planning Standards Council of China

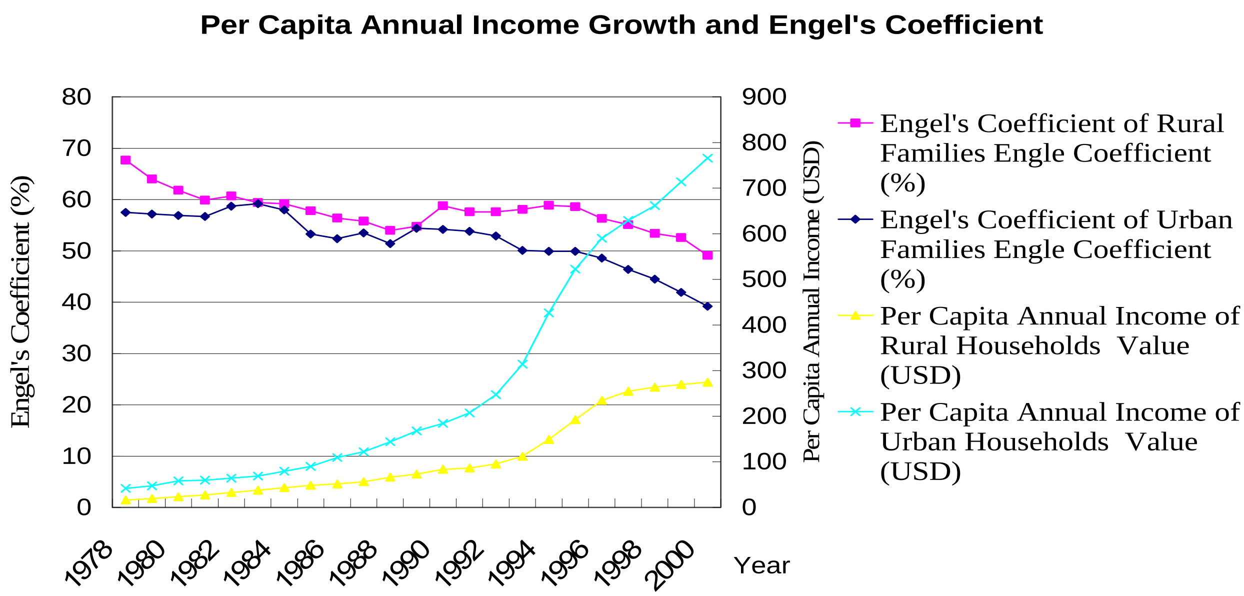
Abstract

This paper will discuss the necessities of a global CFP competency profile and standards for an international financial planning professional and the local application based on Financial Planning Standards Council of China's (FPSCC hereafter) experiences in China since 2004. We have developed three levels of education and certification system for financial planning professionals; namely, Associate Financial Planner (AFP) for the junior level and/or lowest requirements; CFP for the senior level and international standards; and Executive Program for managers in Financial Planning area and executives who are in charge of the personal financial services in financial institutions. Our approach has proven successfully so far in the market. We have close to 20000 professional attended the education programs at three levels. 10000 has certified as AFP, 1500 as CFP and 200 as FPM (Financial Planning Manager). We also conducted a cross-board education and examination for CFP professionals from other regions like Hong Kong and Taiwan, to offer the differential education and competencies with the local content in taxation, capital markets and products, legal system, social and welfare structure. Our experience should draw implications to the development of Global competency profile proposed by FPSB.

1. The Chinese Financial Industry and Financial Planning Practice

The Chinese financial industry has developed rapidly during the past two decades. The transformation of financial regulation, supervision and operations from those of a planned economy to a marketed-orientated economy is well underway but not yet complete in key respects. The dearth of qualified executives and managers and of professional supervisory personnel has become a bottleneck in the transition. Since accession to the WTO, the pressure to reform the banking sector has heightened. Chinese commercial banks are now forced to compete with each other and with international financial institutions. The transformation and accelerated pace of development poses challenges to Chinese banks and bank regulators.

The past two decades also witnessed the increase of Chinese household's disposable income and the decline in the Engel's Coefficient of both urban and rural population. Figure 1 provides information about the on-going per capita annual income and the declining Engel's coefficient of Chinese household during 1978~2002.

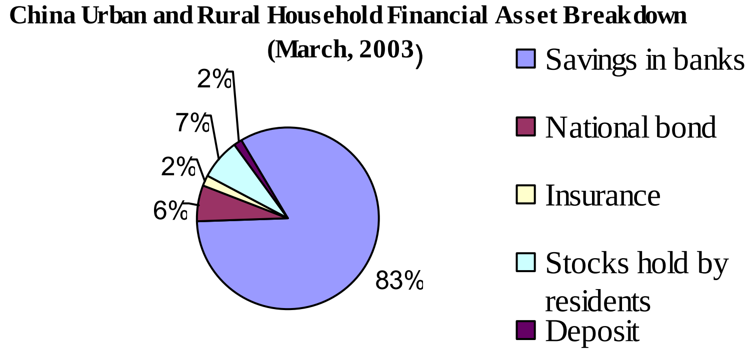


Source: China Statistical Year Book 2003

Figure 1: Per capita Annual Income Growth and Engle's Coefficient

As is indicated by Figure 1, the average Engel's Coefficient for Chinese urban families is now below 40% and the per capita annual income reached USD 800, which means they have reached the standard of well-off families, hence produces potential demand for financial planning service.

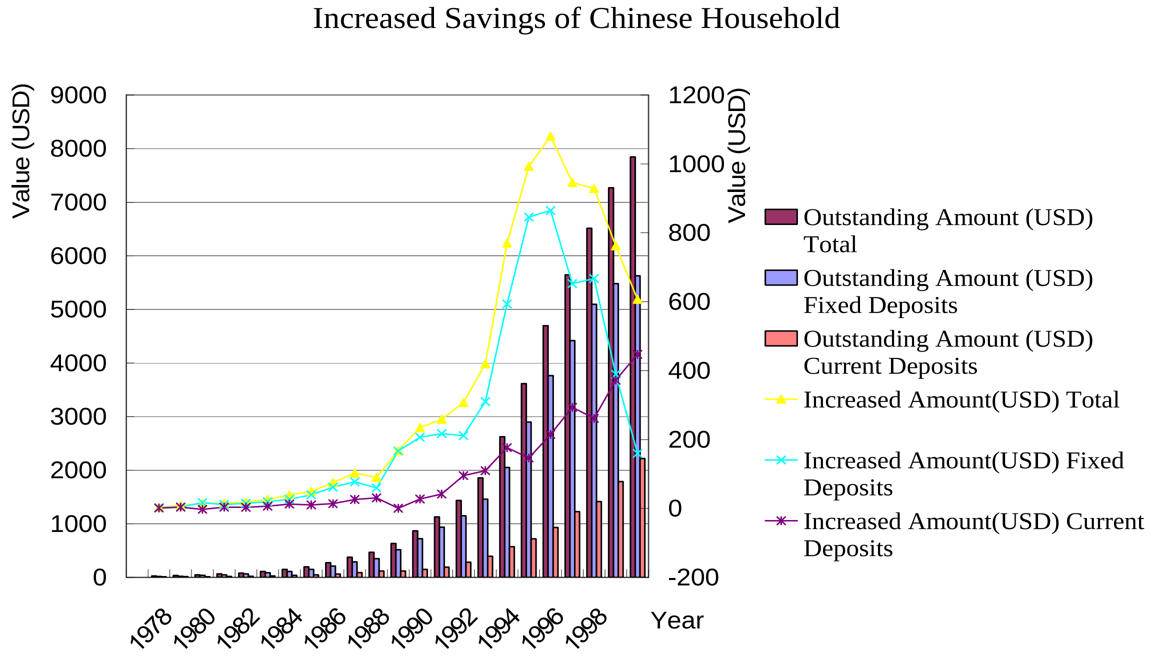
As a result of the increased family disposable income, the financial assets held by these urban families increased by a great amount. In 2002, the financial assets per households rose to USD 9,661 (RMB 79,800), accounting for 34.9% of the total assets per household. The composition of these financial assets are shown in Figure 2, which shows that savings in banks still remains the most frequently chosen family financial vehicle.



Source: National Statistical Bureau of China

Figure 2: Financial Assets Breakdown

In 2002, total saving deposits of urban and rural residents reached USD 1,052 billion (RMB8, 690 billion), over 414 times of that in 1978. Plus foreign currency savings, debentures and stocks, the amount of financial assets owned by urban and rural residents had exceeded USD 726.4 billion (RMB 6,000 billion). Figure 3 provides the increase in the savings of Chinese household during 1978~2002.



Source: China Statistical Year Book 2003

Figure 3: Increased Savings of Chinese Household

According to Figure 3, though the total of the savings remains increasing along the years, there is a trend of slowing down of increase rate, which indicates that people are shifting their interest to other new financial instruments such as stocks and bonds.

The huge amount of disposable income and financial assets owned by these families leads to a huge demand for sensible management of the money. The social changes, on the other hand, add fuel to the demand all the more.

The reforms on social security system have been developing with a rapid pace, under the pressure of high growth rate of aging population and debt owed to pensioners due to poorly maintained old pension system. Furthermore, resulted from the *Family Planning Policy* launched since the end of the 1970's and the prolonged life span benefited from the improvement of living standards, China is stepping into a fast-aging era. The Chinese pension scheme is now changing from the one solely supported by the government to a three-pillar one in which the government, employers and employees share the pension expenditure. Therefore, people have a dire need to plan their retirement life.

Meanwhile, reforms in real estate, education and health care, which come along with the market economy reforms, require individuals to pay for their housing, the larger part of their medi-care and tuition above high school. These expenses take up the lion's share of family income therefore bring along unpredictability and risks for both families and individuals, urging people to set forth personal financial planning.

In 2004, the National Bureau of Statistics of China conducted a survey on the property and demand for financial planning service of higher income urban households of China. 3,997 local households in 8 provinces, Hebei, Tianjin, Shandong, Jiangsu, Guangdong, Sichuan, Gansu and Liaoning, from northern, eastern, southern and western part of China, were chosen as effective samples. These provinces also represent the location of most dynamic demand for financial planning all over China. The survey showed the following result in household property in Table 1, which indicates a huge demand from the affluent individuals and families:

Table 1: Survey results of demand for financial planning services

Amount of Family Property		**<USD 18,150 (<RMB 150,000)**	**USD 18,150~USD 36,320 (RMB 150,000~RMB 300,000)**	**>USD 36,320 (>RMB 300,000)**
Percentage		34.8%	48.5%	16.7%
Attitude towards Financial Planning	Don't know	8%	4.1%	1.2%
	Know but not interested	17.2%	14.4%	5%
	Interested, wait-and-see	29.8%	32.6%	33.5%
	Want to try	32.2	34.4%	38.9%
	Strongly Need	12.8%	14.5%	21.4%

The number and size of financial institutions have increased dramatically over the past 20 years. The financial system has evolved into a diversified industry composed of commercial banks, insurance companies, securities companies, mutual funds and trust agencies, etc. Faced with the huge demand from the affluent individuals and families, domestic financial institutions have embarked on introducing private financial planning service. However, the training, education and qualifications available for the service providers are so limited that the providers find it difficult to win the credibility and recognition from the public, either in terms of professional competency or ethics. Therefore, financial planning-related professionals are keenly interested in the professional license with rigorous certification requirements, in order to meet the demand from their clients and to excel in their occupation.

With the entry into WTO, China will have to gradually open up its financial industry to foreign financial institutions, which will lead to more fierce competition in the banking, insurance and security markets.

The People's Bank of China (PBoC) is the central bank and is responsible for maintaining stable monetary policy and money supply. As the laws and regulations is underdeveloped in Chinese stock market, and the corporate governance structure still need improvement, the financial industry is now operating on a separate-sector basis to avoid illegal related trade. Table 2 gives the basic information for the three industries:

Table 2: Scale and growth rate of the three industries

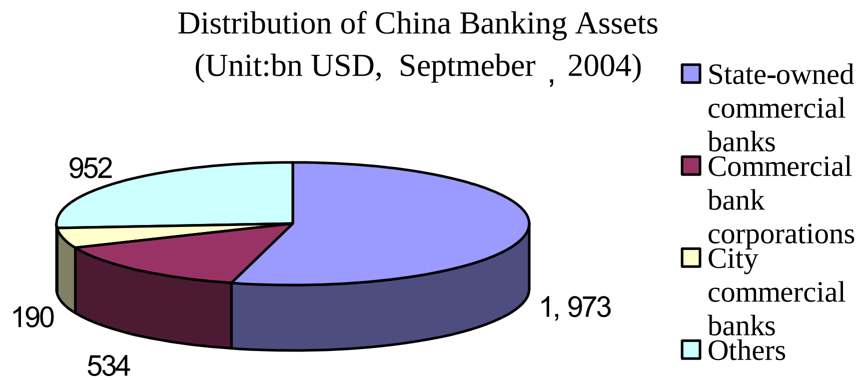
	Banking	**Insurance**	**Security and Fund**
Asset (USD, trillion)	3.63 (90%)	0.133 (3%)	0.27 (7%)
Employees	1827,325	230,000	102,663
Annual Growth Rate (%)	16.8	20~30	7%
Regulatory Body	China Banking Regulatory Commission (CBRC)	China Insurance Regulatory Commission (CIRC)	China Securities Regulatory Commission (CSRC)

Source: China Banking Regulatory Commission, China Insurance Regulatory Commission and China Securities Regulatory Commission, 2004.

However, the government does make efforts to promote more cooperation among the three industries. In February 2005, PBoC, CBRC and CSRC jointly released *the Provisional Scheme of Building Fund Management Companies by Commercial Banks*. More than 7 banks (including the 4 biggest commercial banks, Industrial Bank of China, Bank of China, Agricultural Bank of China and China Construction Bank) have started working on the application for the permit of setting up fund management companies. This is the signal of the first step in the transformation to cross-sector operation in the financial marketplace of China.

Banking sector is in dominant position in China's financial system. The total assets of domestic banks including four state-owned banks and twelve small and medium -sized banks reached USD3,649billion (RMB 30.14 trillion) in 2004. Total asset of domestic banks increased 15 percent per year in average over the past five years. By the end of August 2004, the total deposits reached USD 3.06 trillion (RMB 25.3 trillion) and the total loans USD 2.29 trillion (RMB 18.6 trillion). Figure 3-4 presents the distribution of China's banking assets among domestic banks:

Statistics from China Banking Regulatory Committee show that by the end of October, 2004, there are 204 branches and 223 representative offices of 62 foreign banks (from 19 countries/regions) in China. Most of these branches or representative offices are located in affluent cities like Beijing, Shanghai and Guangzhou. Their assets have reached USD46.6bn, about 1.4% of the total banking assets in China. They are now mostly focusing on dealing with foreign currency, the loans of which reached USD16.4bn in 2003, about 13% of the total foreign currency loans of China. However, the commitment to the WTO permits foreign banks to expand their business scope to foreign currency, whole sale of RMB, and retail banking targeted at Chinese households.105 of the aforementioned foreign banks have been allowed to deal with RMB business, and 24 have got the licenses of dealing with financial derivatives. Therefore, domestic banks are now under the pressure to explore new highly profitable territories. The fee-based financial planning services, at the same time, guarantee higher and more stable profits and lower risk than traditional loans to companies hence attract the interests and devotion from all domestic banks.



Source: China Banking Regulatory Committee

Figure 4: Distribution of Banking Assets

China's insurance industry has gained rapid growth since 1979 and the average annual growth rate reached 32.75% in the following twenty years. At the end of 2004, the total income of insurance policies reached USD 52.3 billion (RMB 431.8 billion). There are 46 insurance companies, 127 insurance agencies, 27 insurance brokers and 27 insurance gauging companies in the whole market. The shift to a three-pillar-funded pension scheme promised a huge market for insurance companies. However, the competition has also upgraded. Apart from the insurance agencies and brokers, banks are also allowed to act as agencies to sell insurance policies. Meanwhile, according to the promise made to the WTO, foreign insurance companies will be able to expand their business scope to medical insurance, pension insurance, etc. With their advanced management and expertise, they are likely to hold threat to local companies. Furthermore, most of people in China aren't familiar with the functions of various insurance products and services, and are very much in need of professional advice. However, most of the practitioners in insurance companies now receive nothing but salesperson skills and are far from competent of giving professional advice, which is rising to be the bottleneck for the whole industry. This drives the industry to bring up not only better product designs but also high quality financial planning services to meet customer needs.

China's security market has scored outstanding development since the setting up of Shanghai and Shenzhen Stock Exchange in 1990. Listed companies surged to 1197 in August 2002, from 14 in 1991. By the end of August, 2002, there are 121 securities companies; 417 law firms, 76 accounting firms, and 104 asset appraisal firms engaged in securities and futures businesses; and 137 investment consulting institutions. By the end of August 2002, investment accounts registration surged to 68.407 million. Domestic stocks have gradually become a major investment instrument, second only to savings in banks.

Since the financial industry is still operated on a separate-operation basis, different financial sectors are running businesses respectively. Therefore, financial planning products introduced by a specific sector are similar in nature and narrow in service variety and coverage. Consumers, under such a mechanism, cannot receive comprehensive financial planning service covering all related sectors.

Financial planning as an industry is brand-new in China. There are no real financial planners in this country today. Those who are providing related services are transferred from other sectors and have never been able to receive systematic financial planning training. Their suggestions are inclined to be product-selling oriented rather than covering all the financial areas and maximizing consumers' interests by designing the most rational investment portfolio.

The unsound regulatory environment is also attributed to the unfamiliarity of the whole country to financial planning. There is neither regulation to regulate and discipline the performance of financial planning practitioners nor specific laws to help consumers defend their due rights, which adds to the moral hazards in this market.

The majority of Chinese consumers don't possess enough sense of protecting themselves by using the weapon of law. In addition, miscellaneous reports in the media about financial planning are rather confusing and misleading at present. Faced with such a totally new service as financial planning, they are susceptible to be influenced by the propaganda on the media or the lobby of other people and left with a distorted impression about the service.

2. Launching CFP program in China

FPSCC has launched Financial Planning Training Program in 2004, to prepare Chinese financial professionals to get CFP designation – an US originated certification program for professionals in the financial planning area. Although the program has established over thirty years in the United States and has been adapted to other countries and regions for passed 15 years, the core program structure and curriculum has not been changed much. The system has been well respected and recognized globally by the financial industry and consumer communities due to its high level of standards in both professional conducts and skills, and technical knowledge requirements. The fact has proved the CFP program is so far the most competitive and the best certification program in financial planning in the world. As the CFP program has gone global, more and more countries and regions have been asking, what are the Global standards for financial planning? Should the US standards be regarded as the international or global ones? Should the FPSB – the newly created certification body for the global CFP certification – establish its own Global standards for other countries or regions to follow or let other countries or regions to establish their own standards based on the US standards? Our practice in China can draw some experience to share.

FPSCC promotes the CFP® (owned by the FPSB) as the highest standard in the field of financial planning in China, both professionally and ethically. However, this high standard program was launched in China for the first time ever, it would take time for FPSCC to learn and gain experience to implement the program at a high quality. At the same time, Chinese financial planning market has grown dramatically fast, the demand for qualified financial planners with the quality and value of responsibility, professionalism, competence, credibility, transparency, integrity, and ethicality has been increasing accordingly. Therefore, FPSCC decided to launch two tier financial planning certification programs: CFP® certification which stands for the senior level, and AFP certification which stands for the junior level. FPSCC introduced AFP certification to supplement CFP® certification with a distinctive classification to prevent any possible confusion as to the two financial planning certificates among the public and client to promote the efficiency of financial planning certificate management. The relationship between CFP® certification and AFP certification is illustrated in Figure 5.

The distinction between AFP certificants and CFP® certificants mainly lies on the length and depth of their education program and examination. The AFP education program (108 course hours required) was designed to be the same as the CFP® Level 1 education program (fundamentals). The CFP® Level 2 education program (132 course hours required) was designed for those who had completed the CFP® Level 1 education program or AFP education program and who were interested in pursuing the CFP® designation. Candidates completed AFP education program or CFP® Level 1 education program are eligible to attend the AFP examination (i.e., CFP® Level 1 examination). Candidates who have completed CFP® Level 2 education program and passed AFP examination are eligible to attend the CFP® lever 2 examination. Clearly, AFP certification is not in conflict with CFP® certification, but a supplement and a junior level on the way for a candidate to pursue the highest financial planning designation – the CFP®.

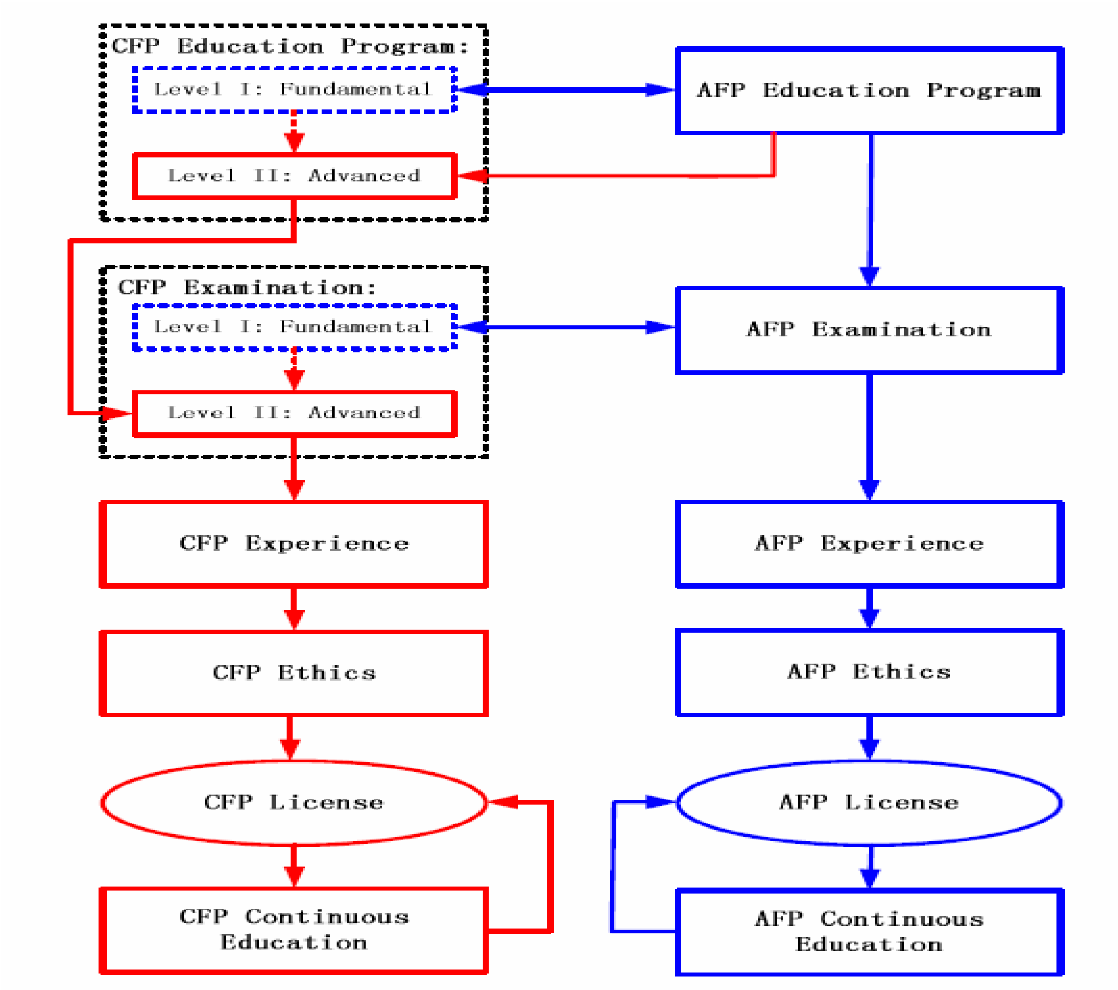


Figure 5: Two Tier Certification System: Relationship between CFP® and AFP

Both CFP® and AFP certificants must abide by the FPSCC's *Code of Ethics and Professional Responsibility* or he/she shall be subject to the disciplinary action in accordance with the rules and procedures. FPSCC accepts most of the FPSB's Certification Standards adapted to local circumstances. Filed against a CFP® certificant and an AFP certificant in accordance with the rules and procedures, and a retrial and an appeal are available.

The certification program was designed with the philosophy of international standards with local content and application. The education program was developed using unified topics list and syllabus, textbook and standard teaching materials based on job analysis, comments of advisors and consultants from industries and academics, external benchmark – FPSB affiliates' programs, internal benchmark – CPA, Insurance and Securities Certification programs.

FPSCC has accredited 4 financial educational institutions as AFP education providers, namely Beijing Financial Education Centre, Shanghai financial Institute, Guangdong Financial Institute and Southwest

University of Finance and Economics. Only Beijing Financial Education Centre is currently accredited to provide CFP education. Due to high demand for the CFP and AFP training program, e-learning program is developed by Beijing Financial Education Centre and has launched in trial basis since July 2007. FPSCC provides standard Course outlines, textbooks and teaching materials, even PPT lecture notes. FPSCC also established qualification system & selection procedure for instructors. Each accredited institutions recruits its own instructors, who have to attend FPSCC's train the trainer program and pass the test of trial teaching assignments inside and outside.

The challenges facing FPSCC today is how to provide high quality AFP and CFP education programs continuously to satisfy the high growing demand of financial planning in the market place. FPSCC and its accredited education institutions has become the largest training system in professional financial education and certification since it launched three years ago. The great success is due to the high standard international industry standards and its clearly defined 4Es system for certification. Most importantly, the technical knowledge structure and professional skills built in the CFP education curriculum and high level of instructors' lecturing have convinced the industry to believe CFP is currently the best certification system for financial planning professionals. The bottle neck is still how to recruit and train qualified instructors, though the total number of instructors has increased to close 150 in our training system. As well, other challenges comes from how to update the education content and curriculum to cope with the fast changes in capital markets and social security, in terms of more financial products, changes in taxation, social welfare, employees' benefits, medication, and housing and others.

3. Implications – Global Competency Profile of CFP

Financial planning is a service provided by qualified professionals to help clients develop strategies to manage their financial affairs to meet life goals. The integrated planning procedure requires the professionals to be equipped with wide breadth of knowledge to work across multiple domains and strong inter-personal skills and ethical professional conduct, so as to provide long term satisfactory services to clients. To this end, a high standard is a commander. The high standard should aim to help financial professionals to build the competencies in the market place on what financial planners must be able to do on the job in their daily engagements with clients, regardless of practice type, setting or location. The competencies should describe the abilities that a financial planning professional must possess and represent not just the tasks, but also the job-related skills, knowledge, attitudes and judgements required for competent performance by members of the profession of personal financial planning.

Although a competent financial planner must possess and represent the job-related skills, knowledge and judgements required for competent performance to serve his or her clients world wide, financial planning, more than any other profession, has unique region-specific knowledge requirements. The regional differences in regulatory framework, culture, religion, social and political system, financial market development, legal system, history and traditions will all affect the way of services and the quality of financial planning. We believe financial planning competence is universal – only the underlying knowledge changes from region to region, even then, domains of knowledge remain consistent worldwide. FPSB should establish a Global Competency Profile for CFP that separates core competencies from knowledge as a universal standard for all CFPs world wide. The core knowledge and curriculum can be established for each region's needs.

Since the establishment of FPSB in 2004, it has made an effort to establish a Global CFP Competency Profile that describes the competencies needed for the professional practice of financial planning. The profile is anchored by three Financial Planning Functions (or activities): Collection, Analysis and Synthesis. The Competency Profile sets the bar for those aspiring to become financial planners; the Competency Profile is intended to drive the profession, which is still emerging in many regions around the world. While all CFP professionals will be expected to adhere to these standards, FPSB anticipates that worldwide consumers of financial planning will benefit from global acceptance and adoption of a uniform competency-based approach to establishing standards for the financial planning profession.

FPSB understands that CFP professionals and other financial planners deliver personal financial planning in a variety of ways, which can involve specialization or a limited scope of practice. It is important to note that FPSB's Competency Profile is intended to serve as a detailed, comprehensive overview for financial planners, clients, educators/trainers, regulators and others of what constitutes the total set of competencies that underpin the professional practice of personal financial planning – it is not meant, nor should it be used to, proscribe the scope or level of services which financial planners offer in their professional practices.

To create an educational curriculum to fulfill the requirements by the global competency profile is actually very challenge. Most of the existing programs focus on technical knowledge. Although technical knowledge is the foundation for competent performance – without the appropriate technical knowledge, a professional cannot demonstrate competency, it has other important components such as core competency and professional skills. Effective financial planning professionals must maintain (and build) their technical knowledge over time using a variety of sources including formal education, continuing education, professional journals, and the daily business press. Like most domains of knowledge, that of the professional financial planner cannot be fully defined by a listing of topics.

FPSB's Competency Profile does not explicitly define the level of cognitive ability associated with each competency. Instead, implicit in each function is the cognitive level required for competent performance. In general, the competencies under Collection naturally require a lower cognitive ability than those under Analysis, which, in turn, require a lower cognitive ability than those under Synthesis.

FPSB's Technical Knowledge categories serve as a guide only; each competency set within a financial planning component needs to be linked by the FPSB Affiliate to the relevant technical knowledge required for the demonstration of those competencies in a country/region. Additionally, CFP professionals are responsible for seeking whatever knowledge is required to fulfill their obligations under FPSB's competency, ethics and practice standards.

The 11 broad Technical Knowledge categories into which all FPSB Affiliates are required to map their financial planning curricula are as follows: (1) Taxation; (2) Insurance; (3) Investment; (4) Retirement, Savings and Income Programs; (5) Law; (6) Financial Analysis; (7) External Environment; (8) Ethics and Standards; (9) Debt; (10) Government Benefits Plans; and (11) Behavioral Finance. The listing of the Technical Knowledge required should be helpful as a starting source for the knowledge that individuals must possess to be able to effectively perform the specified competencies.

FPSB believes that the Profile will guide which new types/levels of knowledge the financial planner must possess to perform competently. Some knowledge is more applicable to certain competencies, and some competencies are better informed by certain knowledge areas. The linkage between competency and knowledge helps further define the competencies and provide general guidance to financial planning professionals and educators.

Based on FPSCC's practice to promote and deliver the CFP certification program in China, we believe a universal Global CFP competency profile is necessary to serve as a standard to guide the international delivery of the program. However the standard should be relatively simple, up to date, and measurable. As the world becomes more and more "flat", the basic financial needs of human beings become more and more universal, such as sheltering, education, health, retirement, entertainments, traveling, raising children, safety or security, protection, and etc. These basic needs will satisfied through wealth creation and growth, preservation and protection, transformation helped by qualified financial planners equipped with standard technical knowledge, professional skills and core competency.

However, the proposed Global competency profile seems focus more on technical knowledge, while the guidelines on professional skills and core competency are relatively hard to follow and uneasy to measure. In addition, the Profile is relatively “ideal” to tell what the planners “should” do as independent agent that lives inside a vacuum space. For example, most of financial professionals in China are working in financial institutions where they face a lot of conflict of interests between the institutions and the clients when serving their clients. These facts make many current “principles” can hardly apply in practice. We proposal the educational curriculum should not only include technical knowledge but also guidelines related to professional skills and core competency, such as communication approaches, standard reports, self disciplines and regulations. We believe through the effort of the international CFP community, a global CFP standard will become a valuable guide for all affiliates.

The Financial Planning Process

A Client Centered – Relationship Based – Program

by

Kyra H. Morris, CFP®, EA

President of Morris Financial Concepts, Inc.

Founder of The International Training Center for Financial Planners, LTD

FOR THE BENEFIT OF THE CLIENT – THE BETTERMENT OF MANKIND

My eyes are those of a seasoned financial planner, and my aspirations for the profession are many. Good financial planning may be the bridge that transports the world into a place of peace, harmony, and respect. Good financial planners create the pillars that support this bridge. My eyes are those of a seasoned financial planner. My heart is full of dreams and desires to plant the seeds for good financial planning throughout the world.

We are in the age of corporate conglomerates that have an enormous impact upon all of us. They have methods that affect what we eat and drink, how we socialize, and through creative advertising even re-direct our value systems. The financial services industry is imbedded here, and the good financial planners will have their homes within this environment. With proper education and training these are the people who with both their intellect and heart will work towards the betterment of mankind.

The implementation of good financial planning benefits the public. People learn how to manage their budget so that they not only spend within their means, but they create an awareness of what is important to them. People identify their goals, and are able to make decisions that help achieve these goals. In case of catastrophe all is still well. As people improve their ability to make competent, worthwhile financial decisions their economic foundation will also improve. As individuals get fiscally stronger, their communities will follow. Economic improvement from the individual to the community, this is the bridge.

It begins very simply. Good financial planners realize that their role is ultimately to serve their client. This circular route provides benefit for all. The client's total life gets better. They trust the planner. They come back to the planner for help meeting all of their financial needs, and they refer others to the planner. This client focus is an important point. It must be imbedded in financial planners from their earliest training. Their client's best interest is ultimately their own best interest – even if it is not immediately apparent.

DISCOVERY AND EXPLORATION

It is the training and education of financial planners that will make the difference. The education that teaches about net worth analysis, budgets, investments, insurance, taxes, retirement, and estate planning is important. Planners need to have a solid foundation with the ability to perform qualitative analysis within each of these areas, but the type of training that provides the bridge that ultimately changes lives is more subjective and qualitative.

Often we get bogged down because there are differences within countries, borders, or cultures that make it seem difficult if not impossible to provide this type of education and training as a whole. There are some basic human characteristics that are not limited to these often man-made or societal boundaries. A person in India desires economic security and opportunities in a very similar way to a person in China, South Africa, Australia, France, or America. All people desire the availability of quality education. They want their children to be as well or better off than they are. People in many countries and cultures have a need and a desire to care for their parents; they want a secure lifestyle and a hope of eventual financial independence. In the case of catastrophe they want to make sure their loved ones are provided for. These are common traits that transcend boundaries of all kinds.

In the education and training we need to enable financial planners to understand, value, and be comfortable with an exploratory and discovery phase of financial planning. It is the beginning of the financial planning process. It is interesting that the first education and training financial planners receive is quantitative, but the first step in the financial planning process is more qualitative. In the beginning of developing a financial plan, the numbers are secondary, and the person is primary.

At this stage of the financial planning process the planner needs to take the time to probe, explore, vision, and discover with the client the picture or story of the client's life - both the current situation and the goals and dreams of the future. They need to ask questions. What would the client like to get out of this process? What is important to the client? What are the aspects of their lives that get them excited? What are the areas that hinder their ability to sustain their excitement – or meet their goals? The planner's function at this time is to listen and gently probe. Do not worry about the numbers or quantitative facts yet. If the planner simply allows this part to have its appropriate time, it is amazing how the numbers unfold and reveal themselves.

This stage of financial planning needs its own training, and this is part of the training that can be done with less fear of borders. There are cultural issues and language barriers, but even these can be overcome with respect and attention given to the situation. The first part of this training is that the planner's purpose is to benefit the client. If this is the foundation for a financial planner, then it becomes easier for the financial planner to interact with their client from their heart instead of just with their mind. The reason for the questions and the probing comes from a place of concern for the client, not just a way to determine what product can be placed. When it is authentic, the client recognizes it, and trust is an amazing by-product..

Another by-product of this initial process is clarity. The financial planner avoids the rabbit trails the multitude of data can take them down. With clarity the financial planner can focus on the relevant quantitative and qualitative data that are most important to the well-being of the client in a more efficient manner. They will then be able to determine a plan that not only can be implemented and monitored, but that can actually make a difference in their client's life. This approach gets information quickly back to the client and focuses on client-defined important items. It continues to make the client feel that the financial planner cares about their situation. The blending of the quantitative and qualitative skills to develop the plan and manage a long term relationship with the client is truly a mixture of both science and art.

QUANTITATIVE VS QUALITATIVE

There should be some level of financial skill competence that is comparable no matter what country is offering the certification. We need to have a standard for financial competence that we – the planning profession and the public – can stand on. FPSB uses the CFP® mark. They have called us together to help provide the education and assessment of this mark as a standard. The financial planning process incorporates both quantitative and qualitative skills.

I have done some work in other countries with new CFP® certificants, and I also worked with the technical team from the US to write the ISO Standard for Financial Planning, ISO 2222. I learned and experienced certain aspects of financial planning around the world. It may be simply a restatement of the obvious, but the quantitative financial skills should be developed first and perhaps assessed first. I am confident that we have in our midst some of the best educators and thinkers from around the world to accomplish this.

I want to focus on the many parts of the quantitative education that does transcend borders. A net worth analysis is the same in every country. An asset is an asset, and a liability is a liability. A budget has very similar characteristics country to country or culture to culture. Stocks or equities and fixed income instruments are inherently the same. Real estate and real estate development have common features. Investment theories also transcend boundaries. Whereas, the concepts of insurance, taxes, retirement, and estate planning are shared, the actual products to implement these concepts vary widely from country to country or culture to culture. We can work though in the realm of concept for these areas with the assumption that adequate – even superior – quantitative education has already been received.

I want to focus my work on the financial planning process. The CFP Board in the US created its practice standards around this process, and the Financial Planning ISO Standard 2222 used the financial planning process as its foundation, also. The process transcends borders and should be taught no matter where a person is from. This process includes determining the goals and objectives, gathering the data necessary to develop the goals and objectives, analyzing the data, developing a plan, presenting the plan, implementing the plan, and monitoring the plan. There may be some variation to this order – but for the most part this is it.

MY PROGRAM PROPOSAL

I am going to describe a program that has similar characteristics to the Financial Planning Association of the US (FPA) Residency Program. I wrote and developed the current FPA Residency Program that began in 1998. I am also going to describe a program very close to the one I developed and delivered with Elissa Buie, CFP® in Hong Kong in 2003 and 2004. I believe in the concepts that are inherent in both of these programs and have now experienced some results and outcomes from them.

The Residency program uses the environment of FPA, FPA staff support and the talent of many other qualified professionals- some of the best financial planners in the US – for the ongoing development and assessment of its content. In this environment Residency is able to continue to mature and evolve. Residency provides a high quality, consistent program to the US financial planning community. The program delivered in Hong Kong does not yet have an environment and community similar to Residency. It is my dream that this program may find its community within the environment provided by FPSB with the talent of professionals and academics from around the world.

The Process of Financial Planning

Good financial planning benefits people all over the world, and good financial planners are the source. These are powerful words. How do we actually educate and train good financial planners so that we have confidence that the public will ultimately be benefited? We already have an inherent, time tested solution. We focus on the financial planning process in order to produce quality planners who know both how to do good financial planning, and how to be good financial planners. The process is the skeleton that supports all aspects of financial planning quantitative and qualitative and ties it directly back to the benefit of the client.

This process has been in place since the beginning of the financial planning profession. The reason that it stays viable is because it encompasses both the quantitative and qualitative skills necessary for success. This process as a whole keeps the focus on the client. In the early stages of the process a planner must discover and explore with the client in order to learn about their goals and objectives. The data collection part gathers adequate data so that the planner understands the facts that will help or hinder the success of achieving the client's goals. The analysis develops several scenarios that help define the story of the client's wishes. The plan itself is a picture – a road map – that creates the framework for the client to make good decisions. The presentation tries to communicate the plan to the client in terms that the client can both understand and be motivated into action. Implementation is the part that brings the plan alive and becomes a part of the client's life. The monitoring process is a way for the planner to stay involved, to see how things are shaping up, and to offer ongoing advice as life events may alter the plan.

Make It Real

Experiential training can simulate real life experience. The knowledge gained from experience often stays with a person for their life time. One of the objectives of the program is to simulate as much reality around the financial planning process and profession as possible in a synthetic environment. To obtain this we need qualified, successful financial planners to be part of the program. Throughout the program there will be opportunities for critique and vision from the eyes of the real world. One of the outcomes of the program therefore would be the sharing of the passion of the planning professional, and the demonstration that a planner can truly be a positive change agent in a person's life. It is just the beginning, but it may plant a seed in the heart of the new planner that continues to grow and blossom throughout their career.

We will try to simulate a company experience. The participants of the program are the associates in a financial planning firm. The partners of the firm are the professional planners who are the trainers of this program. The interaction between the partners and the participants reflects the interaction between the planner and the associate similarly to what would happen in the planner's firm.

Although technology and its use in the in the production of a financial plan is prevalent, we found that the use of computers and other technological tools actually inhibits the desired outcomes of the program. This program is about helping the planner identify with the client and the creating a long term relationship while using the financial planning process. The participants need to be free to both think and feel. Whenever we allowed technical tools, the thinking became focused on making these tools function instead of the case at hand. Time is of the essence, and the time given to technology actually interfered with the ability to produce in a sufficient manner and therefore the sense of success and accomplishment experienced by the participant. We can easily design the program so that it is still challenging, but can be solved with a financial planning calculator, a flip chart or yellow pad, and their brains.

Since time is often a limiting and critical factor, we use small groups to get as much individual participation as possible. The ideal is that no group should ever be more than 7 people, and that there is one mentor per group as the ratio. This is where the program strays some from reality, but it does provide a method for interaction and assessment along with creating a bond between the planner and the group. The low ratio of planner to participant is ideal, but may not be absolutely necessary since we want to provide training to large numbers of new planners depending on the country. It is recommended though to monitor this ratio and the results of the program per stated objectives. We have found in the FPA Residency program that the lower the ratio the easier it is to meet the total objectives.

Whether we establish a low planner to participant ratio, the conclusion of each group work is crucial. The groups share their findings with the whole. It pulls the whole group back together to see what differences there may be, and it allows potential consensus about the next steps or about particular issues. Each time the planners also critique what they observed by the individual groups and share how they may handle similar situations in their own environment. This planner interaction and feedback is very important. It is worthwhile for the participants, the next generation of successful planners from around the world, to get a sense of the commonalities from the different professionals. Although there are a lot of similarities, it is the differences among planners that are fascinating. Often there is no absolute right way. The different solutions portray the art of planning.

The handouts for the program share with the participants examples of what is used in different financial planning environments that relate to each part of the financial planning process. This provides to the participants real world tools used by successful planners. We have found that many of these tools cross borders whereas some may be either country oriented or company oriented.

THE PROGRAM STRUCTURE

The Engagement Process - Client Goals and Objectives –

The program begins with a discussion between the partners and a couple who are prospective clients. The participants are not given any information about this couple before the meeting. They have to listen and observe in order to determine the desires and facts regarding this couple. The key to this part is the reality portrayed by the planners and the clients. Therefore, the role play needs to be rehearsed ahead of time. The interview may take 45 min to an hour.

Before any data is given to the participants the small groups determine who these clients really are. What is important to them? What are their dreams – short term and long term? What does their family and personal life consist of? What are their potential resources? What are potential barriers or conflicts? There are a lot more questions. We want the participants to realize how much they can learn about the couple even though they have no data in front of them.

Another key to this part of the small group work is the client engagement. What did the planners agree to do for the client? What were the terms? How was this communicated? The ability to manage the expectations of the client from the beginning is very important for both the planner and the client. The planner cannot easily accomplish a well communicated, trusting relationship without a good understanding of who they are and what they can offer. Time and experience for a planner makes this easier but we should teach the process from the beginning.

After the groups have had sufficient time to do their work, they report their findings to the total group. Some consensus regarding the clients, their goals, and their engagement are determined and documented. At the end of this discussion the partners share their observations of the process with everyone. Where there was consternation, the partners should explain how they may have resolved it. This is where the "real" gets put back in. How would a professional planner have handled this situation? Would the styles of the professionals cause them to handle things differently?

As this section of the program is completed, the facts of the case are handed out to the participants. Along with the facts, the participants should receive samples of the planners' tools that they use in their practice for this part of the process. This may include the initial prospect letters sent, client questionnaires, engagement contracts that are either generically relevant – or country/company specific depending upon the situation, and other methodologies that the planners use to facilitate the ability for the prospects to open up and share.

Data Collection

The participants now have the facts of the case. They work in their small groups to determine whether they have sufficient data or not. In order to help these clients meet their specific goals, do they have all that they need? They may be lacking information that relates to either their personal situation around some of the qualitative issues "how do they feel about…?", "how would they prioritize goals?" etc – along with missing quantitative facts. They should determine the relevance of the missing data. How important is it to be able to get a plan developed? Is the data crucial, is it important but it can wait to be ascertained as long as it is not forgotten, or is the missing data not very relevant to the current situation?

The results of this group work should be completed using the process established after the prospect interview. It should always end with the planners sharing there observations and critique. Again tools that help with this part of the process that are used in practice should be shared.

Data Analysis

When there is enough time the ideal situation is for the small groups to be able to do this part by themselves. The key to this is to make the facts simple enough that they do not need sophisticated support to figure it out. Their brains, a financial calculator, and a yellow pad should be sufficient. When time is a limiting factor, there is a method that simplifies the process. We give out several – up to 3 - plausible solutions to the case. When we are "giving them the answers", it is possible to make it a little more complicated. Maybe have the case be difficult to actually accomplish. Therefore they have to analyze the different plausible solutions to determine how they would best communicate with the clients the appropriate alternatives especially when the clients may not be able to achieve all of the goals easily.

This part concludes with the total group interaction as in the prior sections.

Plan Development , Presentation, and Implementation

From the work done in the Analysis section each group develops the plan for the client and the presentation. The focus for this part is on the selection of what to present and how to present it. Time again rears its head, and the groups have to keep the presentation in a big picture format. For example, when they present the investment allocations and recommendations, they may choose to pretend to give the clients handouts to read on investment theory and the reasons for their recommendations while they spend a little more time on the Investment Policy Statement and what it means. They have to be creative since there are no computers to help them do the work. Flip charts, pictures, graphs, pretend handouts, and flow of words are what they use to get their points across.

While they develop the plan and presentation, they also figure out what the next steps are. How is the plan implemented so that it becomes a relevant part of the client's life? Implementation does not simply mean placing products. A budget that needs to be tracked could be part of the implementation plan. A visit to the tax attorney to update estate plan documents could be part of the implementation plan. What parts are the planner's roles? What parts belong to the client? The implementation process should be included in the total presentation to the client.

Each group does their presentation as if to the clients. The presentation includes their recommendations for implementation and the roles and responsibilities of both the client and the planner. This part is the tell-tale part of the program. Did the participants get it? Have they related to the clients in a way that they will both bond with them and have the clients take action on the plan?

The critique for the total presentation is also a major part of the program. The professional planners in this program listen to the presentations as if they are the clients. Their critique reflects how the clients may have felt or acted because of the presentation. Hopefully these observations and feedback are productive for the participants. The reality of the financial planning process peaks with this presentation. The success of this interaction often determines the longevity and roles of the ongoing relationship between the planner and the client. It can be that crucial.

The planners may share with the participants their own plan presentation style, format or outline. It is amazing how even within borders of countries or companies the plan presentation changes from person to person. This is not a bad thing. Financial planning is about the relationship, about sharing your best with another to help them use their resources to become their best. When you are authentic, the trust grows, the desire to implement increases, and it works. Therefore plan presentations are not uniform. The similarities are determined by the outcomes.

Monitoring

As a whole group the program wraps up with the Monitoring process. This part is one of sharing and dialogue. The planners lead a discussion about what can be done, what are examples of best practices, and what are the tools that help with this process. In the beginning the monitoring may be a lot more comprehensive than over the long term. After a client has been with a planner for many years, the ability to stay proactive in a client's life becomes both easier and harder. A systematic annual review may be in place, and there is a good relationship between the planner and the client. This is the easy part. How though do we make sure that we are being proactive enough – that the client will always communicate with us the crucial life events that we want to assist with, or that we have enough awareness of new tax laws and how they correlate with our clients? A good monitoring process grows and evolves over time. A systematic monitoring process changes the newbie planner into the professional planner.

Conclusion and Evaluation

This program is about relationships and creating long lasting, mutually beneficial ones. We are trying to teach processes and methodologies that help the new planner develop an authentic relationship with their clients so they have a client for life. We also realize that there are now new relationships between the participants of the program and the professional planners who lead the program. These relationships may also become meaningful and long term. Therefore, an ideal way to end the program is with a dinner together to interact and have some social time. As the dinner culminates the participants receive a certificate of completion. As they receive their certification, they may share what they have learned from the program, and a planner may have special words about that participant.

We have found that this part of the program encapsulates the essence in such a way that we truly touch the hearts of the participants. Remember these are the new planners we send back to work the next day. We want to make sure the seeds we plant are well fertilized. Even though they may be dormant at first, they have every opportunity to blossom over time. This added touch at the end of the program may make the difference in a weak or strong pillar for our bridge to peace and harmony for mankind.

The participants are also asked to do the standard, formal evaluation of the program. This helps capture the thoughts of those who may not speak up and gives us more feedback for ongoing development and production of the program. The planners and others who help deliver the program should take the time to review the program, the evaluations, and their own insights or perceptions. Just like we are trying to teach the participants about presentation and delivery that invokes a potential change in behavior with their clients, we want potential change in the behavior of the new financial planner participants.

Sample Agenda - 2 day program

Day One

8:30-9:00	Registration and Refreshments
9:00-9:30	Program Orientation
9:30-10:30	Client Engagement Process via Role Play
10:30-10:45	Break
10:45-12:30	Discussion of Client Engagement Process
12:30-14:00	Lunch – together provided by program – interaction with planners and participants
14:00- 15:00	Group work to review data

15:00-16:30	Discussion of Group Findings
16:30-16:45	Break
16:45-18:00	Group work to Develop Case, Presentation and Implementation

Day Two

8:45-9:00	Refreshments and Settling In
9:00-9:30	History of Financial Planning Profession
9:30-10:00	Groups prepare for Presentations
10:00-11:00	Group Presentations including Implementation Schedule
11:00-11:15	Break
11:15-12:45	Group Presentations including Implementation Schedule
12:45-14:00	Lunch – together provided by program – interaction with planners and participants
14:00-15:30	Critique and Discussion regarding Presentations and Implementation Schedules
15:30-15:45	Break
15:45-17:00	Monitoring Process –Total Group Discussion
17:00-18:00	Wrap Up – Questions and Answers
18:00-20:00	Group Dinner and Certificate Presentations Turn in Evaluations

Country Specific or Cross Bordered Delivery

This program is a program that is offered after the participants have passed their formal, technical education that enables them to use the CFP® marks within their country. The program though does not have to be country specific every time it is done. The essence of this program is about the relationship of the planner and the client. It is ultimately about how a planner listens and relates to the client to provide a plan that potentially changes the client's life for the better. Some consideration is necessary to recognize the audience and their intricacies, but this can be accomplished with the program in a multi-country environment.

The program can also be done as a country or cultural program with cases that are very relevant, specific, and complementary to the desired environment. For example, the program can be offered within a corporate environment. The corporate program has a lot of potential. It can help strategically identify why the corporation believes in the financial planning process. What are the unique qualities of the corporation that financial planning can bring to the public? The program is then offered to support and train their planners to fulfill the company directives with financial planning. If done correctly – the corporation benefits, the planner benefits, and the client benefits.

Other Ideas

The International Training Center for Financial Planners, LTD is a Not For Profit 501 c (3), incorporated within the state of Delaware in the US. This shell was created to offer education and programs to financial planners from all over the world and to share the joys and passions that financial planners feel no matter where they are practicing. The cross-border commonalities are shared and augmented with the programs. The program described in this paper is just one potential program. There are many others that can be implemented. The non-profit status is essential because the entity is a potential place for a community of like-minded financial professionals and educators to reside who enjoy creating programs where the ultimate purpose is for the benefit of others.

Although I created this entity as a place to work on and deliver special training programs, this dream is larger than any one person and any one country. I would like to offer it to FPSB – no strings attached. If it can be helpful, use it. It provides a place purely for educational purposes – and because it is a 501 c (3) it simplifies the ability to receive money from other 501c (3) entities. An endowment may be created that aids new countries with the educational programs, or for creating grants to countries for programs that promote financial literacy. Right now it is only a shell. Time and the right community may turn the shell into a dream come true.

Closing

My aspirations for the profession are many. Good financial planning is the bridge that transports the world into a place of peace, harmony, and respect. Good financial planners create the pillars that support this bridge. My eyes are those of a seasoned financial planner. My heart is full of dreams.

How to Successfully Deliver the Financial Planning Curriculum

by

Debra Sawyer, CPA, CFP®

Keir Educational Resources

Key Issue:
2. How can we deliver the financial planning body of knowledge in a manner that prepares people for the competent practice of financial planning?

Background Information

The number of CFP® Certificants has grown dramatically over the last 5 years. According to the Financial Planning Standards Board CFP Certificant Growth for 1996 – 2006, there were only 73,618 CFP® Certificants in 16 countries in the Financial Planning Standards Board (FPSB) Council in 2002.[i] The number grew to approximately 105,000 CFP® Certificants in 2006 in 20 countries including Indonesia which started their program but did not yet have any CFP® Certificants. The average growth from 2002 to 2006 was 9.3% with a standard deviation of 2.96%. The bulk of this growth has come from countries other than the United States as the average growth outside the U. S. during this period was 11.95% with a standard deviation of 6.99%. The growth rate in the U.S. during this same period was 7.06% with a standard deviation of 0.74%.

The following table summarizes the top 5 and bottom 5 countries (excluding Indonesia) in rank order by number of CFP® Certificants according to the Financial Planning Standards Board's CFP Certificant Growth chart (see appendix A for the complete list of all 20 countries).

	Top 5 Countries with Number of CFP® Certificants	Number of CFP® Certificants in 2006	Average Yearly Growth 2002 - 2006	Standard Deviation
1	United States	53,031	7.06%	0.74%
2	Canada	16,834	3.85%	2.08%
3	Japan	14,751	16.77%	6.30%
4	Australia	5,308	3.04%	4.85%
5	South Africa	3,163	10.70%	6.59%

	Bottom 5 Countries with Number of CFP® Certificants	Number of CFP® Certificants in 2006	Average Yearly Growth 2002 - 2006	Standard Deviation
1	Brazil	97	n/a (a)	n/a (a)
2	Austria	110	67.09%	80.20%
3	India	235	n/a (b)	n/a (b)
4	Switzerland	242	(3.16%)	10.06%
5	Taiwan	345	n/a (c)	n/a (c)

(a) Brazil first had members in 2003. The average yearly growth from 2003 to 2006 was 22.13% with a standard deviation of 47.08%.
(b) India first had members in 2003. The average yearly growth from 2003 to 2006 was 63.64% with a standard deviation of 13.50%.
(c) Taiwan (Chinese Taipei) first had members in 2005. The yearly growth from 2005 to 2006 was 133.11%.

The Challenge – How to Deliver the Financial Planning Body of Knowledge

As with all professional groups, the goal is to increase the number of licensed members. However, the challenge for the financial planning organizations is not only to increase the number of licensed CFP® Certificants, but to make sure these licensed CFP® Certificants are able to competently practice financial planning. This paper will address the issue of how the educational organizations can deliver the financial planning curriculum efficiently and effectively in order to prepare their students to be able to practice financial planning competently. Historically, the solution to any educational need is to offer courses. Unfortunately, this is not as easy as it sounds, given the diverse population in today's fast paced world. Obviously, the key to growing the number of CFP® Certificants is the availability of the financial planning courses in each country. Currently, the countries that have the most registered educational institutions have the most CFP® Certificants. According to the Financial Planning Standards Board's CFP Certification Education Programs [2007] chart, the United States dominates the number of CFP® Certificants with over 53,000 as the result of having registered over 250 classroom locations plus over 30 distance learning programs[ii]. This compares with Brazil and Austria which both have approximately 100 CFP® Certificants and only one registered educational institution. However, South Africa has succeeded in getting over 3,000 CFP® Certificants with also just one registered financial institution.

The following tables summarize the number of education institutions and delivery methods according to the Financial Planning Standards Board's CFP Certification Education Programs [2007] chart used by the top 5 and bottom 5 countries with number of CFP® Certificants as previously identified above.

	Top 5 Countries with Number of CFP® Certificants	Number of Educational Intuitions in 2007	Live Courses	Online Courses	Distance Learning Courses	Textbooks
1	United States	250+	Yes	Yes	Yes	Yes
2	Canada	70	Yes	Yes	Yes	Yes
3	Japan	74	Yes	Yes	Yes	Yes
4	Australia	12	Yes	No	Yes	Yes
5	South Africa	1	Yes	No	No	Yes

	Bottom 5 Countries with Number of CFP® Certificants	Number of Educational Intuitions in 2007	Live Courses	Online Courses	Distance Learning Courses	Textbooks
1	Brazil	1	(a)	No	(a)	Yes
2	Austria	1	Yes	No	No	Yes
3	India	6	Yes	Yes	Yes	Yes
4	Switzerland	3	(b)	No	(b)	Yes
5	Taiwan	6	Yes	No	No	Yes

(a) The chart is unclear whether or not Brazil offers live courses or distance learning courses as the only information provided under the method of delivery is textbooks and printed materials. The courses are probably taught in a live format as the chart indicated the nine courses in Brazil take 18 months to complete.
(b) The chart is unclear whether or not Switzerland offers live courses or distance learning courses as the only information provided under the method of delivery is textbooks and printed materials. The courses are probably taught in a live format as the chart indicated the seven courses in Switzerland take 18 to 24 months to complete.

As highlighted in the table above, another key component to delivering the curriculum is the wide options offered by the board registered programs. With the exception of India, the countries with the fewest CFP® Certificants do not offer online courses in their board registered programs. By offering the full range of options, the leading educational program in India has been able to rapidly grow its student population to over 4,500 students since its inception in 2002.[iii]

Recommendation

In order to deliver the financial planning body of knowledge in a manner that prepares people for the competent practice of financial planning, an educational organization should consider providing the information in four formats that accommodate the different learning styles, time zone and scheduling issues, and technology limitations with internet access. The four formats we believe would work best are as follows:

(1) Internet based courses with a live instructor at a set time,
(2) Archived courses on the internet available 24/7,
(3) Live courses, and
(4) Self study materials that can be delivered via the internet or in a hard copy format.

Internet Courses – Live and Archived

The first two formats of delivering the content via internet based courses will accommodate the needs of most students, including students in different time zones or those who have scheduling issues. However, we have found that a large portion of students who register for internet based courses struggle to complete the courses. A 2002 study by Oblender found 50% of college students taking an online course dropout[iv]. A similar dropout rate was also noted in a 2001 study by Frankola that educational organizations experienced a 20% to 50% dropout rate with their online courses[v]. Frankola's study also reported a 10% to 20% higher dropout rate with an online course compared to a traditional live course.

There is no one reason why online students dropout. However, a 2005 study by Wojciechowski and Palmer found the following four factors had the largest impact on a student's success with an online course[vi]:

(1) Grade point average (GPA) – Students with higher GPAs in other courses did better with the online courses.

(2) Orientation sessions – Students who attend an optional orientation session did better with the online courses.
(3) Course withdrawals – Students who withdrew the least from previous courses did better with the online courses.
(4) Assessment of Skills for Successful Entry and Transfer (ASSET) Reading Scores – Students with higher ASSET reading scores received grades of at least a C on the online courses.

Based on our experiences over the last three years with Keir's Online Review Course for the CFP® Certification Examination, we have found some students do not have the discipline to sit in front of a computer while other students need more human interaction to learn the content. We believe an internet based course with the live instructor at a scheduled time typically assists students who lack discipline. The entire curriculum could be taught at a scheduled time or the instructors could lead discussion groups at scheduled times. The organization also can assist their online students by including the ability to email questions or post questions on a forum. As a result, the organization will need instructors or subject matter experts (SMEs) who can respond to these questions within one or two business days. It is best if these instructors and SMEs are CFP® Certificants in the student's country as they will be able to answer the student's questions not only about the course but also the comprehensive final exam given in most countries. The organization will also need a group of advisors who will follow up with the students about their progress with the online courses. This group of advisors does not need to consist of CFP® Certificants. However, the advisors should be well trained on all of the courses, the requirements to become a CFP® Certificant and other frequently asked questions.
Unfortunately, computer based courses are not the solution for all candidates. Although computers are readily available around the world, access to reliable electric service and broadband internet connection (including cable modems, digital subscriber line (DSL), fibre-optic, wireless and other broadband connections) is not as wide spread. According to Pyramid Research, the Netherlands leads the world with 36% of its citizens having access to broadband internet.[vii] The following chart summarizes the findings related to the broadband access within other major countries:

Country	**Percentage of Population with Broadband Access**	**Country**	**Percentage of Population with Broadband Access**
Netherlands	36%	Japan	30%
South Korea	34%	Taiwan	27%
Australia	33%	United Kingdom	26%
Switzerland	32%	Israel	23%
Hong Kong	31%	United States	23%
Canada	30%	Germany	23%

Furthermore, the online courses in a particular country can be limited by the availability of information technology. The Economist Intelligence Unit evaluated the IT industry competiveness for 64 countries based on a scale of 1 to 100[viii]. The 2007 rankings were based on the following criteria:

- Overall business environment – 10%

- IT infrastructure – 20%
- Human capital – 20%
- Legal environment - 10%
- R&D environment – 25%
- Support for IT industry development – 15%

The following are the overall scores and ranks for the top 5 and bottom 5 countries with the most and the least CFP® Certificants as identified earlier.

	Top 5 Countries with Number of CFP® Certificants	IT Industry Competitiveness Index	Ranking
1	United States	77.4	1
2	Canada	64.6	9
3	Japan	72.7	2
4	Australia	66.5	5
5	South Africa	33.4	37

	Bottom 5 Countries with Number of CFP® Certificants	IT Industry Competitiveness Index	Ranking
1	Brazil	31.4	43
2	Austria	55.3	19
3	India	29.1	46
4	Switzerland	63.5	10
5	Taiwan	65.8	6

Managing the Online Courses

Assuming the country has the information technology to support an online course, the next issue to consider is the selection of the learning management system (LMS). We recommend using a LMS that is SCORM (Sharable Content Object Reference Model) or AICC (Aviation Industry Computer Based Training Committee) compliant. The LMS will provide the educational organization with a strong backbone plus technical support and the ability to integrate instruction in a synchronous or asynchronous manner. Before selecting a LMS, the educational organization should consider its current IT needs and its projected IT needs in the future. Some key issues to consider when selecting the LMS include:

- Does the LMS provide online technical support 24/7?
- Does the LMS allow students to register online and receive passwords automatically?
- How user friendly is the student login and interface?
- Are the exercises and quizzes interactive?
- Is the place bookmarked where a student stopped on a previous session?
- Can students take notes directly within the course and easily print out their notes?
- Can students email questions directly to an instructor?
- Are there project dashboards for authors, course developers and system administrators?

Traditional Live Courses and Self Study Materials

The last two formats of delivering the content via a live course or self study materials will provide options for the students with technology limitations and those that just prefer the traditional hard copy materials. Unfortunately, these last two formats will be the most difficult for the organization to provide. To conduct live courses around the globe, the organization will need to establish relationships with local universities or educational organizations. These local universities or educational organizations might have qualified instructors who can teach the curriculum or the organization might need to train these instructors or provide instructors. Again, these instructors should be CFP® Certificants in the student's country so that they can address both the course curriculum and the comprehensive exam given at the end by most countries. The cost associated with this option will be very expensive compared to the internet based courses. However, students who have been unable to study online will need the option of a live course.

In addition to offering traditional semester courses, several educational providers in the United States offer accelerated programs. These fast paced courses allow the student to complete the course work in approximately half the time. For example, most students take 18 months to complete the required courses to sit for the comprehensive exam in the United States. Students enrolled in accelerated programs typically complete the courses in 9 months.

The fourth option for these students is the traditional hard copy self study materials. However, the self study materials delivered either via the internet or in hard copy format will be a big challenge. If the organization delivers the materials electronically, it will need to deliver the material in a way that will protect intellectual property via copyrights. On the other hand, if the organization delivers the materials in a hard copy format, it will need to partner with a printing company in each country and/or be able to ship the materials from a central location. If the materials are shipped to a different country, some students might not be able to afford the duties and other taxes on the materials. For example, the cost to ship a $300 average size set of comprehensive review materials from the United States to Canada runs around $25 plus $80 in duties. The duties alone represent approximately a 25% increase in the total cost to the student.

Regardless of how the organization distributes the materials, the organization may need a method to secure student compliance with the copyrights on the hard copy materials. Depending on the country, the copyright rules may be enforced at different levels. For example, the copyright rules are fairly well enforced in the United States. However, it is an entirely different situation in China where you can buy a DVD of the latest movie released that weekend in the theatres in the street markets for about one US dollar.

Competent Financial Planners

In order to ensure all candidates achieve a minimum level of competency regardless of the delivery method utilized for the course and the curriculum, a financial planning organization in each country (independent of the educational providers) should consider a universal comprehensive exam or practicum. This universal exam will also help to level the playing field as some universities might push their students harder than other universities. The universal exam will ensure that all candidates can demonstrate a minimum competency level. If the candidate took courses from a university that pushed them harder, the candidate might not have to study as hard for this universal exam. However, if students took courses from a university that had a less intense curriculum, they will need to study more for the universal exam.

To help candidates prepare for the comprehensive exam, the financial planning organization in each country should release a detailed list of items tested on the exam including the allocation of questions from each subject area. The comprehensive exam in the United States is currently based on an 89 topic list from a 2004 Job Analysis Study.[ix]

According to the Financial Planning Standards Board's CFP Certification Education Programs [2007], the exam methods used by the top 5 and the bottom 5 countries with number of CFP® Certificants as identified throughout this paper are listed in the chart below[x].

	Top 5 Countries with Number of CFP® Certificants	Exam Format
1	United States	Comprehensive 10 hour multiple choice exam given over 2 days including case studies
2	Canada	Essay or multiple choice exams depending on the education organization
3	Japan	Multiple choice exams and serial exams
4	Australia	Two hour multiple choice exam or presentation of a case study
5	South Africa	Written exam including case study

	Bottom 5 Countries with Number of CFP® Certificants	Exam Format
1	Brazil	Multiple choice exam
2	Austria	16 hour exam including calculations, case study and oral exam
3	India	12 hour exam (6 and 4 hour exams for certain candidates challenging the exam)
4	Switzerland	Essay exam, case study and oral exam
5	Taiwan	Multiple choice exam

The universal exam will also help with the retention of the curriculum. The financial planning organizations should also require continuing education in order to refresh the financial planner's knowledge. A study in 1939 by Spitzer found the retention rates of the curriculum drop rapidly over time[xi]. The chart below summarizes the findings from Spitzer's study.

Duration of Time Passed Since Learning the Curriculum	Percentage of Knowledge Retained
One day	54%
One week	35%
Two weeks	21%
Three weeks	18%
Four weeks	19%
Three months	17%

Conclusion

The educational organizations around the world will be able to deliver the financial planning curriculum efficiently and effectively in order to prepare their students to be able to practice financial planning competently if the educational organizations provide:

(1) Internet based courses with a live instructor at a set time,
(2) Archived courses on the internet available 24/7,
(3) Live courses, and
(4) Self study materials that can be delivered via the internet or in a hard copy format.

An independent financial planning organization in each country should administer a comprehensive universal exam to reinforce the curriculum taught by the educational organizations and to insure all students reach the same minimum competency level.

Appendix A

Number of CFP® Certificants

	Country	2002	2003	2002 - 2003 Growth	2004	2003-2004 Growth	2005	2004 - 2005 Growth	2006	2005 - 2006 Growth	2002 - 2006 Average Growth	2002 – 2006 Standard Deviation
1	United States	40,375	42,973	6.43%	45,755	6.47%	49,117	7.35%	53,031	7.97%	7.06%	0.74%
2	Canada	14,483	15,492	6.97%	15,928	2.81%	16,350	2.65%	16,834	2.96%	3.85%	2.08%
3	Japan	7,967	10,037	25.98%	11,614	15.71%	13,061	12.46%	14,751	12.94%	16.77%	6.30%
4	Australia	4,725	5,198	10.01%	5,336	2.65%	5,310	-0.49%	5,308	-0.04%	3.04%	4.85%
5	South Africa	2,117	2,551	20.50%	2,750	7.80%	2,921	6.22%	3,163	8.28%	10.70%	6.59%
6	Malaysia	961	2,580	168.47%	2,320	-10.08%	2,581	11.25%	2,689	4.18%	43.46%	83.81%
7	Hong Kong	334	996	198.20%	1,422	42.77%	1,929	35.65%	2,293	18.87%	73.87%	83.49%
8	France	850	1,200	41.18%	1,297	8.08%	1,433	10.49%	1,471	2.65%	15.60%	17.36%
9	Rep. of Korea	101	354	250.50%	616	74.01%	819	32.95%	1,343	63.98%	105.36%	98.32%
10	Germany	694	880	26.80%	921	4.66%	973	5.65%	1,009	3.70%	10.20%	11.09%
11	United Kingdom	232	284	22.41%	400	40.85%	510	27.50%	610	19.61%	27.59%	9.42%
12	Singapore	212	370	74.53%	505	36.49%	539	6.73%	548	1.67%	29.85%	33.51%
13	China	n/a	n/a	n/a	n/a	n/a	-	n/a	488	n/a	n/a	n/a
14	New Zealand	268	287	7.09%	307	6.97%	346	12.70%	385	11.27%	9.51%	2.92%
15	Chinese Taipei	n/a	n/a	n/a	-	n/a	148	n/a	345	133.11%	n/a	n/a
16	Switzerland	280	287	2.50%	287	0.00%	235	-18.12%	242	2.98%	-3.16%	10.06%
17	India	-	54	n/a	90	66.67%	134	48.89%	235	75.37%	n/a	n/a
18	Austria	19	54	184.21%	82	51.85%	88	7.32%	110	25.00%	67.09%	80.20%
19	Brazil	-	61	n/a	60	-1.64%	55	-8.33%	97	76.36%	n/a	n/a
20	Indonesia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a
	Total	**73,618**	**83,658**	**13.64%**	**89,690**	**7.21%**	**96,549**	**7.65%**	**104,952**	**8.70%**	**9.30%**	**2.96%**
	Total Excluding the United States	**33,243**	**40,685**	**22.39%**	**43,935**	**7.99%**	**47,432**	**7.96%**	**51,921**	**9.46%**	**11.95%**	**6.99%**

Source: Financial Planning Standards Board CFP Certificant Growth [1996 – 2006][xii]

Notes

[i] Financial Planning Standards Board CFP Certificant Growth [1996 – 2006], Retrieved August 1, 2007 from http://www.fpsb.org/site_docs/CertificantGrowth.pdf

[ii] Financial Planning Standards Board CFP Certification Education Programs [2007}, Retrieved August 1, 2007 from http://www.fpsb.org/site_docs/Education%20Programs%20for%20CFP%20Certification.pdf

[iii] International College of Financial Planning (ICFP):: About US, Retrieved July 30, 2007 from http://www.icfpindia.org/main/aboutus/aboutus1.php

[iv] Oblender, T. (2002). A hybrid course model: One solution to the high online drop-out rate. *Learning and Leading with Technology*, 29 (6), 42-46.

[v] Frankola, K. (2001). Why online learners drop out. *Workforce*, 80 (10), 53-59.

[vi] Wojciechowski, A. and Palmer, L. (2005), Individual Student Characteristics: Can Any Be Predictors Of Success In Online Classes, *Online Journal of Distance Learning Administration*, Volume VIII, Number II, Summer 2005 University of West Georgia, Distance Education Center, 2-12, Retrieved August 13, 2007 from http://www.westga.edu/~distance/ojdla/summer82/wojciechowski82.htm

[vii] *The means to compete Benchmarking IT industry competitiveness*, Economist Intelligence Unit, page 11, The Economist 2007, Retrieved July 30, 2007 from http://a330.g.akamai.net/7/330/25828/20070711111329/graphics.eiu.com/upload/portal/BSA_COMPETITIVENESS_WEBrrr.pdf

[viii] *The means to compete Benchmarking IT industry competitiveness*, Economist Intelligence Unit, page 5, The Economist 2007, Retrieved July 30, 2007 from http://a330.g.akamai.net/7/330/25828/20070711111329/graphics.eiu.com/upload/portal/BSA_COMPETITIVENESS_WEBrrr.pdf

[ix] Certified Financial Planner Board of Standards Inc. Topic List for CFP® Certification Examination, Retrieved August 17, 2007 from http://www.cfp.net/become/topiclist.asp

[x] Financial Planning Standards Board CFP Certification Education Programs [2007}, Retrieved August 1, 2007 from http://www.fpsb.org/site_docs/Education%20Programs%20for%20CFP%20Certification.pdf

[xi] Spitzer, H. J. (1939) Studies in retention. *Journal of Educational Psychology*, 30, 641-656.

[xii] Financial Planning Standards Board CFP Certificant Growth [1996 – 2006), Retrieved August 1, 2007 from http://www.fpsb.org/site_docs/CertificantGrowth.pdf

Using Systems Theory to Help Design a Global Financial Planning Curriculum

by

Deanna L. Sharpe, Ph. D., CFP®

University of Missouri-Columbia

Abstract

System Theory provides a conceptual framework for evaluating which aspects of financial planning education and training are territory-specific and what are not. This approach positions the client as the focal point of a financial planning system that interacts with, influences, and is influenced by economic, financial, political, legal and social environments. Its use encourages methodical consideration of the extent to which territory-specific factors influence development, implementation, and monitoring of client financial plans and hence direct content of financial planner education.

The CERTIFIED FINANCIAL PLANNER™ designation (or CFP® mark) is recognized by the profession and the public as a gold standard for education and professional practice in financial planning services. From the inception of the CFP® designation in the early1970s until recently, the education and training that CFP® designees complete has focused largely on factors that influence professional practice in the United States (Brandon & Welch, 2003). The need for the services of competent, ethical financial planners is expanding worldwide, however, as individuals, families, and small business owners in developed economies across the globe bear ever greater responsibility for securing their own financial future in increasingly complex financial markets.

Extending certification of the quality of professional financial planning training and practice to an international arena presents challenges for development of a broad based professional financial planning curriculum. Although some principles and concepts of financial planning transcend time and place, other aspects of the financial planning process can be quite sensitive to local level economic, political, legal, and social factors. This paper proposes using systems theory to help distinguish between territory-specific and global aspects of the body of financial planning knowledge.

What is Systems Theory?

To understand how system theory can aid curriculum development in financial planning, it is necessary to understand some of the basic terms and concepts of system theory. A *system* is a "collection of interacting functional units that together achieve a defined purpose" (Rowe, 1965). System theory is the scientific study of the structure and function of goal-directed systems. This theoretical framework has long been used in the physical, biological, social and behavioral sciences because it offers a useful way to approach the study of complex, dynamic, purposeful entities in a wide variety of settings. System content can be varied and can include such things as physical objects, persons, or abstract concepts.

All systems exhibit wholeness, hierarchy, boundaries, exchange, and finality. *Wholeness* means that the parts of a system operate together, rather than as distinct and separate entities. The relationships that connect the parts of a system in dynamic exchange make "the whole greater than the sum of the parts." Via these relationships within a system, a change in one part of a system effects change in the whole system. Thus any study that focuses solely on component parts and ignores the relationships among those parts will be incomplete (Bertalanffy, 1975).

Systems exist in a *hierarchy*; smaller systems are contained within larger systems. When a focal system is selected for study, the larger systems of which the focal system is a part become that system's environment. The smaller systems within the focal system are the subsystems of the focal system. At a given point in time, any system then is both a whole in itself and a part of a larger entity (Anderson and Carter, 1974; Kuhn, 1963).

Systems can also exist side-by-side; that is, at the same level in a hierarchy. *Boundaries* distinguish one system from another. Boundary location is somewhat flexible, often reflecting research interests. Typically, interaction within the boundary is more intense than interaction across a boundary. A boundary shared between two systems is an *interface*; it is here that transactions or exchange between two systems occur.

Boundaries vary in degree of permeability or openness to exchange between systems. At one extreme, a completely closed system allows no such exchange. At the other extreme, it can be difficult to distinguish boundaries in a completely open system due to the large amount of exchange with other systems. Most systems lie between these two extremes and are classified as relatively closed or relatively open.

Finality means system action is directed toward achieving an end state. Systems receive matter, information, and energy as input and act to transform these into means to reach a desired end (i.e. output). Feedback, or information about course direction, is used to make course corrections, as necessary. The end state might or might not be achieved in actuality, depending on the situation (Bertalanffy, 1975).

In a system comprised of people, the end result is not only determined by initial conditions and environmental forces, but also by the system member level of awareness, their decisions made and actions taken (Bertalanffy, 1975). Two types of final end results exist. With *equifinality*, the same end is achieved from different starting points and in different ways. Conversely, with *multifinality*, the same starting conditions can result in different final states (Buckley, 1967).

Applying Systems Theory to Financial Planning

The financial planning process is a classic example of a system. In this process, several interrelated parts – e.g. the client's financial needs, and the financial planner's communication skills, expertise in cash management, insurance planning, investment planning, tax planning, employee benefit and retirement planning, and estate and gift planning – interact to reach a desired end. The aim of this system is to achieve a client's valued goals by effective resource use in the context of a broader political, regulatory, economic, and social environment.

Systems theory positions the financial planning client in a focal system. This focal system can be envisioned as the center of a series of ever widening concentric circles[1]. These circles represent influences on the client that range from immediate to distant, depending on proximity. Closest to the client is their *micosystem* where frequent, face-to-face interactions take place with other systems close to the client such as family, co-workers, or fellow members of a faith community. Interaction within this system can profoundly affect a client's values, goals, and aspirations, the factors that both underlie and drive the client's financial plans.

The *mesosystem* surrounds the client's microsystem. Interactions among the client's various microsystems take place here. Endeavoring to minimize duplication when choosing employee benefit options in a dual earner household could be an example.

The *exosystem* surrounds the mesosystem. The systems here are more distant from the client and their influence is typically indirect. For instance, the Federal Reserve's actions and policies affect interest rates and that, in turn, affects a client's rate of return on a corporate bond.

The *macrosystem* surrounds the exosystem. From here comes the influence of overarching societal ideologies. For example, a prevailing ideology in the United States is that financial gain is the reward of hard work. "Rags to riches" is possible with enough effort and good ideas. Another widespread ideology in the United States is that adults can and should be responsible for their own financial future. Ideologies shape the context within which financial plans are made.

How Systems Theory Helps Identify Territory-Specific Content in Financial Planning

It is taken as given that the goal of establishing an international body of financial planning knowledge is to promote the achievement and maintenance of a high level of professionalism in the provision of financial planning services in the US and abroad. In system terms, the profession is striving for equifinality. That is, though financial planners may come from and operate within a wide variety of cultural and legal settings across the globe, the central purpose of their professional education and performance evaluation (via the CFP® exam) is to achieve a level of professionalism that is consistent worldwide.

It is also widely recognized that financial planning requires technical skill in a variety of subject matter areas. But, it is important to realize that the centrality of the client in the financial planning process makes financial planning a social science as well as a technical science. Technical skills are

[1] This application of systems theory is adapted from the work of Bronfenbrenner (1979, 1986, 2005), who used ecological systems theory as a framework for the study of child development.

affected little, if any, by geographic location. The challenge in developing a financial planning curriculum that can cross geographic boundaries is identifying the extent to which territory-specific economic, political, legal, social, religious, and personal environments influence the context within which a client's financial plans are made.

A simple, heuristic approach to this identification would be to simply use professional judgment regarding what aspects of a financial planning curriculum developed in and for the United States might apply in other cultures as well. This approach has limitations, however. To the extent that such judgment is made by professionals in the United States, results may remain somewhat culture-bound even given effort not to be. Also, working from an existing framework tends to place focus on what is and not on what could and should be. In contrast, system theory offers a scientific method for explicitly and methodically considering the various factors influencing the development, implementation, and monitoring of a client's financial plans in a given locale.

With this systemic, client-centered approach, we begin with questions such as: What are a client's needs in the context of a given culture? What factors in a client's microsystem affect the client's financial needs and resources? What do financial planners need to know about those factors to provide high quality professional service? How does a country's law and society shape the financial markets and the financial vehicles available to a client? To what extent are the boundaries surrounding the factors in a client's microsystem, mesosystem, exosystem, and macrosytem that affect the financial planning process relevant just to a given locale? Answering questions like these draws attention to factors that tend to vary by country or territory and factors that transcend culture.

Viewing financial planning through the lens of systems theory, it is clear that the purpose of financial planning – helping clients effectively use their financial resources to meet value-based goals – transcends culture. So, too, does application of the six-step financial planning process[2] as a broad outline of a financial planner's responsibilities to a client. But, in systems terminology, the prevailing culture-specific family and social norms in a client's microsystem can have a profound effect on the specific ends that clients typically seek. Social norms, in turn, can interact with and influence the political, legal, and economic policies that govern the options available for clients to meet their needs. Consider care for aging parents as an example. In the U.S., a generally accepted family and social norm is that aging parents can and should provide for their own later life care. Thus, aging parents must consider the cost of nursing homes and long term care policies when making financial plans. The federal government is the 'insurer of last resort' if resources prove to be inadequate. Eastern cultures, however, view care of the

[2] The 6 steps in the financial planning process are establishing a planner/client relationship, gathering client data and determining client goals and expectations, analyzing client data, developing and presenting the financial plan, implementing and then monitoring the plan.

aged as a family responsibility. Thus, children of aging parents might need to consider cost of parent care in a long term financial plan, but it could be a less important consideration for the aging parents.

The systems approach suggests that items included in an international common body of knowledge should be those least affected by local-level familial and social influences (elements in a client's microsystem) or territory-specific political, legal, governmental, or economic factors (elements in a client's mesosystem). Consider risk management. The concepts of peril, hazard, law of large numbers, adverse selection and the like could apply in any culture. Likewise, a life insurance need analysis could be performed for clients in any culture. What could differ are the market options for risk transfer given territory-specific laws governing insurance products. Likewise, technical analysis of the market performance of stocks and bonds would transcend culture, whereas the set of "acceptable" investments could be heavily influenced by region-specific social, religious, political and legal factors. Believers in Islam, for example, do not view charging or receiving interest as an acceptable practice. Therefore, some types of investments that would be acceptable in secular environments would not even be considered by nor perhaps even permitted in a predominately Islamic nation.

Aspects of financial planning that are heavily influenced by territory-specific culture and law are candidates for inclusion in country or territory-specific education and exam questions. Tax planning and estate planning are cases in point, since most of the items on the CFP Board's Topic List associated with these topics refer to laws unique to the U.S. This is also true of retirement planning, but to a lesser degree. The methods available to save for retirement in the U.S. are heavily dependent on U.S. tax law. But, the need to look ahead and make financial provisions for one's own retirement transcends culture.

Next Steps

Using systems theory to identify the aspects of financial planning that are least likely to be culture-bound is an important first step in creating an international common body of knowledge. Options exist for a second step. One possibility would be to target specific countries for expansion of the CFP Board's certification. Draw on financial professionals in those countries to form an expert panel that will confirm the generalizability of the items tentatively placed in the international common body of knowledge. Have this panel also consider the client's context for financial planning and, using the CFP® Exam Topic List as a guide, specify components of the List that, due to local politics, economics, laws, and/or social norms are country-specific.

This approach or variations of it is currently being used to bring CERTIFIED FINANCIAL PLANNER ™ training to financial professionals outside of the United States. For example, in Malaysia, a predominately Moslem country, the CFP® curriculum is taught from an Islamic perspective. Experts in Malaysian law, culture and financial markets made significant contribution to development of this curriculum. Discussion of financial concepts, definitions, and technical methods of analysis (e.g. calculation of retirement income need) remains the same as in the United States or other countries. But, unlike non-Islamic nations, discussion of the law and custom governing financial practice and tools draws heavily on the teaching and precepts in the Quran.

Another approach to the identification and delineation of local-level financial planning topics could be to survey local financial professionals instead of holding a panel to gather information regarding territory specific topics, using a process similar to the CFP® Job Analysis survey. Yet another option might be for those skilled in curriculum development to meet with local financial professionals in focus groups and discuss with them how specific objectives in the financial planning process can be met in the context of their country's laws, public policies, and available economic resources. Whatever specific approach is taken, it is clear that, when developing the CFP® curriculum for application outside of the United States, it is essential to have experts that are "within the system" (i.e. those who are either very knowledgeable about or part of the locale) be a part of the process.

Now is the time to focus on development of a global financial planning curriculum. As more countries strive to grow as market economies, there will likely be an ever increasing need to proactively secure one's own financial future. In a complex, global financial market, the gold standard of Certified Financial Services will be needed more than ever before.

References

Anderson, R. E., & Carter, I. R. (1974). *Human behavior in the social environment, a social systems approach*. Chicago, IL: Adine.

Bertalanffy, L. (1975). *General systems theory*. NY: George Braziller.

Brandon, E. D., & Welch, H. O. (2003). A white paper on a history of the financial planning movement. Retrieved August 10, 2007 from http://www.fphistoryproject.org/fphistorywhitepaper_aug2003.pdf.

Bronfenbrenner, U. (1979). *The ecology of human development: Experiments by nature and design.* Cambridge, MA: Harvard University Press.

Bronfenbrenner, U. (1986). Ecology of the family as a context for human development: Research perspectives. *Developmental Psychology*, *22*, 723-742.

Bronfenbrenner, U. (2005). The bioecological theory of human development. In U. Bronfenbrenner (Ed.). *Making human beings human: Bioecological perspectives on human development* (pp. 3-15). Thousand Oaks, CA: Sage.

Buckley, W. (1967) *Sociology and modern systems theory*. Englewood Cliffs, NJ: Prentice-Hall.

Kuhn, A., (1963) *Unified social science: A system-based introduction*. Homewood, IL: Richard D. Irwin.

Rowe, W. (1965). Why system science and cybernetics? *IEEE Transactions on Systems and Cybernetics*, 1:2-3.

Personal Financial Planning in a Global Environment:

by

Thomas Warschauer, PhD, CFP®

San Diego State University

One might define financial planning as "process that takes into account a client's personality, financial status and the socio-economic and legal environments and leads to the adoption of strategies and use of financial tools that are expected to aid in achieving the client's financial goals.[i]"

That definition is applicable regardless of territory. However, territorially-affected elements in that definition may cause considerable variation in the planning recommendations to be used to help achieve client objectives. Put simply, the objectives of the clients are similar throughout the world, but various legal and cultural constraints make the recommendations different. Therefore considerable variation in the knowledge needed to successfully perform the financial planning analysis varies by country and even sometimes within a country.

People may desire similar things throughout the world. Maslow's hierarchy of: physiological needs, safety needs, love/belonging/social needs, esteem needs, cognitive needs, and aesthetic needs[ii] may not be entirely empirically accepted today[iii], but it does express the universality of human needs.

We will explore what generates these global differences, then we will make an attempt to parse the content into local and global elements and finally we will consider how to insure that all CFP® licensees have adequate levels of global knowledge.

What generates global differences?

What accounts for the differences in recommended products and strategies arount the globe? For one, individuals and families find themselves in very different environments. These differences are derived from a number of different sources:

1) Institutional differences,
2) Legal, Tax and Regulatory differences,
3) Social, cultural and religious differences,
4) and Economic differences.

Institutional differences are derived from several causes including the degree of a country's development, the degree of public ownership within the country, and a country's openness to other country's financial institutions. Further, the existence and efficacy of markets for the transfer of real and financial assets make planning different in various countries. Also the cost of such asset transfers is relevant in the planning process.

Legal differences also cause a significantly different planning landscape. Some of these differences include the limitations on capital flows, legal forms of business entities and ownership, and private property rights. The existence of government-provided insurance (such as health and disaster insurance) provides a large variance in planner recommendations. Obviously taxation and laws affecting transfer of asset are ultimately local; sometimes variation exists even within national boundaries. Finally, regulation may constrain planners from possible recommendations which, in their absence, may have been optimal for clients.

Social, cultural and religious differences may be expressed as individual values or group constraints. Some cultures look kindly on interfamily loans; others do not. Islam prohibits direct lending with the charging of interest. Some cultures are devoted to creating family wealth while others look at wealth in an individualistic way. Some feel obliged to support others in their clan, religion or nationality while others feel little obligation to do so.

Economic differences include each countries economic system and degree of central planning, currency stability/inflation, labor costs, and income distribution demographics (the size of the “middle class”).

The Content of Financial Planning

Parsing the Content

In order to begin the process of evaluating a global knowledge base, each content item could be parsed into one of three types of knowledge:

1. Territorial Specific Knowledge – Examples include taxation and most estate planning techniques (legal environment)
2. Cultural Dependent Knowledge – Knowledge that is dependent upon social, cultural and religious differences
3. Purely global knowledge – knowledge that is so universal it applies in any legal, societal, cultural, or religious environment

Content Areas

The content of financial planning could be segregated into one of four areas:

1. **Broad or "prerequisite "knowledge** (for example: economics and financial institutions) upon which the academic area of financial planning is based
2. The content related to the **definition of financial planning**
3. Content directly related to the **process of financial planning** (Investments, Insurance and Goal Planning)
4. **Content related to components** or sub-disciplines (Benefits, Taxation and Estate Planning)

We will now discuss these content areas of financial planning, in this order, and describe, for each content component where it fits in the universality milieu.

The Broad or Prerequisite Knowledge Base

Knowledge that is part of basic education and not specific to financial planning and its components could be called broad or prerequisite knowledge. These could be divided into six areas:

1) Legal Concepts
2) Basic Economics with an emphasis on macroeconomics
2) Financial Institutions and Markets – what they are and how they operate
3) Basic Statistics
4) Financial Mathematics
5) Communications

6) Psychology (particularly personality and behavioral finance)

Figure One[7] portrays an evaluation of the content of financial planning regarding "Broad or Prerequisites" into these three areas.

International Agreement on the Definition

Within the United States the process of financial planning has been identified as a six step process. Although the six step process may be honored more in principle that in practice, it is viewed by some as the very definition of financial planning itself. Those that follow this six step process are defined as financial planners; those that do not are financial consultants or advisers, but not financial planners. Because these are "terms of art," subtle language changes may be lost in translation. It is not clear that these subtle distinctions are globally common and understood. However, the concept should be well understood: although few financial planners solely provide financial planning services, people are engaged as financial planners when they are following the six-step process and are not acting as financial planners when they do not.

A related question arises when one asks whether financial planners must provide solely comprehensive financial planning services in order to call themselves financial planners. That is, when a planner provides services which are segments or slices of a financial plan (e.g. insurance services, an educational plan, an estate plan) are they providing financial planning services or merely giving financial advice or consulting? The deeply integrated nature of financial planning implies to some that financial planning inherently requires that the plan be a comprehensive in that it addresses all aspects of the client's needs and objectives.

Because the nature of the profession and of the entities providing financial planning services varies widely internationally, one must assure that we have a common agreement on the definition of the process and its degree of comprehensiveness, before we attempt to determine the universality of any planning content areas.

A final aspect of planner universality is ethics and professionalism. This is a sensitive area. But "somehow professionals and client must find a way to trust one another. . . . . All codes recognize that professionals are supposed to have a special moral relationship with clients that will be compromised if economic concerns are allowed to dominate. People who do not . . have the autonomy to make discretionary calls . . . are not professionals." [iv]

In summary, financial planners are those that follow the six step process, produce comprehensive plans and operate ethically, professionally and with autonomy. Figure Two

[7] Figures are at the end of the paper

portrays this evaluation of the content of financial planning regarding "the Definition" into the three areas.

Elements of Financial Planning Process

The following is a list of financial planning issues common to every financial plan. Despite the universality of the need for a recommendation in each of these areas, the varied environments discussed above may result in different "territorial" recommendations.[v]

1. Creation and evaluation of current financial status – What financial statements are necessary? What methods are available to evaluate the financial statements?
2. Cash-Flow management—Creating and evaluating budgets and determining savings strategies.
3. Savings strategies – How much and by what mechanism is it appropriate to divert income into future savings?
4. Debt – when, how much and where should a client borrow?
5. Personal Asset Selection – What are appropriate assets for client (Homes, Autos, and Boats)?
6. Goal enumeration, selection/prioritization.
7. Capital needs analysis – how to accomplish each goal.
8. Dealing with clients with specialized needs (divorce, young family, high net worth, disability of clients and dependents, clients with dependent adults, small business owners, corporate clients, terminal illness, non-traditional families, etc.)
9. Security/Safety – What types and amounts of insurance and risk protection are appropriate? Evaluation of Risk exposure and needs analysis. These include:
    a. Health
    b. Life (Needs analysis, types, costs)
    c. Disability and Long-Term Care
    d. Casualty (Home, Automobile, Boat)
    e. Liability
    f. Catastrophe (Earthquake, Flood, Mudslide, Wind)
    g. Liquidity – how much should a client hold in liquid (safe) assets? What methods of "near-liquidity" and "liquidity substitutes[vi]" should a client use?
10. Associating savings with specific goals – Should assets be held to meet individual goals or collectively?

11. Selection of individual investments based upon their characteristics and consistent with investment theory
12. Diversification of assets – How does one best reduce diversifiable risk with the asset classes available to the client, including portfolio theory, capital market theory and asset allocation?
13. Transfer of Assets – How much, when and by what means should assets be transferred to others? (Interfamily and Charitable transfers)

All of these recommendations exist within the varied environments (discussed above). Beyond the financial planning process itself, some skills are essential regardless of territory. These include communications skills, listening skills: the ability to understand clients' needs and motivations and for the planner to explain his/her recommendations fully.

Figure Three portrays this evaluation of the content of financial planning regarding "process" into these three areas.

Component Knowledge

The fourth and last element of the content of financial planning knowledge relates to the subsidiary fields of Employee Benefits, Tax and Estate Planning. These need no explanatory figures as each of these component areas are country specific, based entirely upon local law and custom.

Assuring Adequate Global Knowledge

It is clear that the authorizing entity in every country that has a Certified Financial Planner® agreement with the FPSB must be responsible for assuring the competencies of their practitioners. It is also clear that it is in the interest of the national CFP® certification movement to assure that each countries certification body adheres to adequate licensing standards.

As we have seen it is possible to divide the knowledge base of financial planning into local (whether legally or culturally unique) and global areas. So clearly it would be possible to have a bifurcated examination, one covering global knowledge components for all and one covering local knowledge components. However, this sounds a little bit like the "CFP-Lite" proposal of several years ago with one international exam composed of definition, prerequisite and local process information while a second, local exam would emphasize component knowledge emphasizing taxation, employee benefits and estate planning.

Another method of global quality assurance would be to have a content team review the content of each member countries examination (or other quality assurance process).

A third mechanism would be for the FPSB to write a number of questions that would be inserted in each exam (covering the global information) to assess the adequacy of the domestic examinations. For example one could measure the correlation of the local exam with the sample of test questions provided internationally.

Figure One
Universality of Prerequisites

Prerequisites	Territorially Specific Knowledge	Culturally Dependent Knowledge	Purely Global Knowledge
Legal Concepts	X		
Basic Economics with an emphasis on macroeconomics			X
Financial Institutions and Markets – what they are and how they operate	X		
Basic Statistics			X
Financial Mathematics			X
Communications		X	
Psychology (particularly personality and behavioral finance)		X	X

Figure Two
Universality of the Definition of Financial Planning

Prerequisites	Territorially Specific Knowledge 	Culturally Dependent Knowledge	Purely Global Knowledge
Six Step Process			X
Ethics • Fiduciary capacity • Meeting Cultural Expectations		X	X
Professionalism			X
With Autonomy			X
Practice Standards			X

Figure Three
Universality of Process

Financial Planning Process	Territorially Specific Knowledge	Culturally Dependent Knowledge	Purely Global Knowledge
Creation of Personal Financial Statements			X
Evaluation of Personal Financial Statements		X	
Budget-creation and evaluation			X
Savings Strategies			X
Debt			
• When,			X
• how much,		X	
• where should a client borrow	X		
• lease vs buy	X		X
• mortgage selection	X		X
Personal Asset Selection			
• What personal assets are appropriate?			X
Goal Enumeration and Selection			
• Education Funding			
• Retirement Funding	X	X	X
• Other Goals	X	X	X
Capital Needs Analysis			
• Financial Mathematics			X
• Rates of Return			X
Clients with special needs			
• terminal illness	X	X	X
• divorce	X	X	
• high net worth	X		
• disability of clients and dependents	X		
• clients with dependent adults	X		
• small business owners	X		
• corporate management	X		

Table Three
Universality of Process
(Continued)

Financial Planning Process	Territorially Specific Knowledge	Culturally Dependent Knowledge	Purely Global Knowledge

Security/Safety (incl. Insurance)
• Analysis and Evaluation of Risk Exposure:
  • Health
  • Life (Needs analysis, types, costs)
  • Disability and Long-Term Care
  • Casualty (Home, Automobile, Boat)
  • Liability
  • Catastrophe (Earthquake, Flood, Mudslide, Wind)
  • Liquidity – how much should a client hold in liquid (safe) assets and how?
• Needs Analysis
	
	X
	
	X
	
	X
			
			X
			X
			
			X
			
			X
			
			X
			X
			
			X

Associating savings with specific goals – Should assets be held to meet individual goals or collectively?			X
Selection of individual investments based upon their characteristics and consistent with investment theory			X
Diversification of assets – How does one best reduce diversifiable risk with the asset classes available to the client, including portfolio theory, capital market theory and asset allocation?			X
Transfer of Assets – How much, when and by what means should assets be transferred to others? (Interfamily and Charitable transfers)	X	X	

[i] Thomas Warschauer, The Role of Universities in the Development of the Personal Financial Planning Profession, Financial Services Review, 11 (2002) 201-216.

[ii] Abraham Maslow, *A Theory of Human Motivation*, 1943.

[iii] Mahmoud A Wahba and Lawrence G Bridwell, *Maslow Reconsidered: A Review of Research on the Need Hierarchy Theory*, Bridgeport, Conn.: M. Wiener, ©1976. OCLC: 20581835

[iv] David E. Cooper, *Ethics for Professionals in a Multicultural World*, Pearson Prentice Hall, 2004 p. 65, p.88.

[v] I ordered the following topics in the same order as the *CFP Board Topic List for CFP® Certification Examination* list available on their website at http://www.cfpboard.org/downloads/Financial Planning Topics 2006.pdf.

[vi] Thomas Warschauer and Cherin, Antony., "Optimal Liquidity in Personal Financial Planning" The Financial Review22:4, 1987.

Case Studies in Financial Planning:

A blended learning approach to competency development of undergraduate students seeking a career as a financial planner

by

Trevor Williamson

Manchester Metropolitan University Business School

Dr Jackie Brander Brown

Manchester Metropolitan University Business School

Dr Dinah-Ann Rogers

Hollings Faculty, Manchester Metropolitan University

At a time when the provision of high quality financial advice and services are so much in demand (Griffin, 2003), some two-thirds of financial services employers [68%] are reporting difficulties in recruitment (Dawson et al, 2006). This paper, therefore, considers a case-based blended learning approach to 'boosting' the competencies of undergraduates interested in pursuing a career as a financial planner.

An Apparent 'Skills Gap'

It seems widely held that a significant 'gap' has emerged between prospective employers and the Higher Education [HE] sector concerning the work skills needed by today's graduates (see, for example, Tanyel, 1999; Dickinson, 2000; Owen, 2004; Ballantine and McCourt Larres, 2007). Indeed, Hjul (2006, p.1) has noted that *"…if employers' concerns about the graduate skills gap are to be believed, today's degrees are hardly worth the elegantly embossed paper they are written on…"*, while Sir Digby Jones - former Director-General of the Confederation of British Industry [CBI] and newly appointed Government trade/industry minister - has advised that *"…employers are looking for more than just technical skills and knowledge of degree discipline…"* (ibid). Rather, it is claimed, employers are seeking a range of transferable 'employability' skills (Harvey et al, 1997; Raybould and Sheedy, 2005).

Reviews of relevant literature have identified considerable consensus regarding these desired skills (Dickinson, 2000), which can be categorised into such overarching 'meta-skill' groupings (Barnett, 1998) as: personal aptitudes, communication, interpersonal, organisation, problem-solving and information technology [see Figure 1]. Significantly, among the skills viewed as especially important for students interested in working in financial services are written and oral communications, teamwork, analysis, synthesis, 'deep' listening and computer literacy (Dawson et al, 2006; Powell, 2006; Pullen, 2007).

A Possible 'Response'

A number of means have been put forward with a view to 'bridging' this apparent skills gap, including:

- actively encouraging students to undertake part-time and/or temporary work through which they can gain relevant 'commercial' experience while also developing useful workplace skills (Paton, 2005);
- providing intensive training courses – such as the GradSkills project offered by Graduate Advantage (Raybould and Sheedy, 2005) - to advance employability by assisting 'new' graduates to become more *'workplace-ready'* (Hjul, 2006);

Figure 1: Consensus on Overarching Meta-Skill Groupings

Meta-Skill Groups	*Linked Employability Skills*	*Example Associated Literature*
Personal Aptitudes	Numeracy, Literacy, Realism, Integrity, Dependability, Work experience, Initiative, Commercial aware-ness, Creativity, Adaptability, Willing-ness to learn, Self-management/ confidence	Davison et al (1993), Raymond et al (1993), Theeke et al (1993), Aiken et al (1994), Cook and Finch (1994), Davis (1995), Scheetz (1995), Levenburg (1996), Kryder (1997), Harvey and Bowes (1998), Dickinson (2000), Robinson (2001), Knight (2005), Gillinson and O'Leary (2006), Hussain (2006)
Communication	Oral and written communications, Presentations, Effective listening	Porter and McKibben (1988), Davison et al (1993), Raymond et al (1993), Aiken et al (1994), Davis (1995), Scheetz (1995), Levenburg (1996), Kryder (1997), Messmer (1997),Thornburg (1997), Harvey and Bowes

		(1998), Dickinson (2000), Owen (2004), Knight (2005), Gillinson and O'Leary (2006), Hussain (2006), Ballantine and McCourt Larres (2007)
Interpersonal	Teamwork, Leadership, Motivation, Co-operation, Negotiation,	Porter and McKibben (1988), Assister (1995), Davis (1995), Holmes (1995), Scheetz (1995), Verville (1995), Levenburg (1996), Kryder (1997), Messmer (1997), Harvey and Bowes (1998), Dickinson (2000), Robinson (2001), Owen (2004), Knight (2005), Gillinson and O'Leary (2006)
Organisation	Planning, Prioritisation, Delegation, Time management, Strategic thinking	Scheetz (1995), Thornburg (1997), Dickinson (2000), Knight (2005), Cubiks (2006)
Problem-solving	Investigation, Analysis, Critical thinking, Lateral thinking, Decision making	Aiken et al (1994), Scheetz (1995), Levenburg (1996), Thornburg (1997), Dickinson (2000), Robinson (2001), Gillinson and O'Leary (2006), Ballantine and McCourt Larres (2007)
Information technology	Software awareness, Multimedia application	Davison et al (1993), Scheetz (1995), Verville (1995), Levenburg (1996), Kryder (1997), Thornburg (1997), Knight (2005)

- increasing investment by organisations in continuing professional development programmes for employees (Owen, 2004); and
- encouraging employers to work more closely with HE institutions by, for instance, *"…liaise[ing] with their careers services, run[ning] workshops throughout the term…"* (Hawes, 2006, p.3).

If acquiring employability skills is so important though, why wait until students have graduated – especially when it is believed that *"…employability skills are teachable skills…"* (Robinson, 2001, p.3). The particular response addressed by this paper thus involves the development of a case-based undergraduate course module. This approach was selected as it is acknowledged that students learn more effectively when they have been actively involved in the learning process (Bonwell and Elson, 1991; Sivan et al, 2000), and that both student learning and employability can be considerably enhanced through providing opportunities to experience theory within 'real world' situated contexts (see, for example, Laurillard, 2002; Biggs, 2003; Bersin, 2004). In fact, although a number of possible difficulties like 'interpersonal tensions' have been associated with group case work (Davis and Wilcock, 2007), potentially undermining the quality of the teaching/learning experience, many of the benefits associated with the case method are fundamentally linked with the acquisition of transferable skills. For example, it is suggested that the utilisation of case studies can:

- actively support the practical application of theoretical knowledge (Sawyer et al, 2000; Andrews et al, 2006), with mistakes made having no damaging effects (Gurd, 2001);
- provide an appreciation of real-world 'ambiguities' while being able to control the actual level of complexity involved (Orpen, 2000; Brennan and Ahmad, 2005);
- augment important vocational skills such as problem specification, task allocation, conflict management and meeting deadlines (Cameron, 1999; Montaõo et al, 2001); and
- develop investigation, analysis, synthesis and critical thinking skills as well as proficiency re both oral and written communications (Kimmel, 1995; Jennings, 1996).

A Case-Based Module

A Higher Education Context

Manchester Metropolitan University is one of the larger UK universities, with more than 32000 students - 5000 of which are at its Business School [MMUBS]. MMUBS has extensive links with industry and professional bodies and prides itself on the success of its graduates in finding gainful work. Its commitment to developing the transferable, meta-skills 'demanded' by employers is reflected in core 'key skills' units incorporated on each year of its undergraduate programmes. In addition, most of these programmes have a 'sandwich' course mode, offering students a year's work placement in their penultimate year of study.

A Degree Programme Accreditation

In 2006, through its links with The Financial Services Sector Skills Council, MMUBS established a working relationship with The Institute of Financial Planning [IFP] - the first relationship of its kind in the UK. Fortuitously, this association was established at a time when the BA (Hons) Financial Services degree was being 'revalidated', enabling a concurrent IFP accreditation of the programme to take place. It was also agreed that accreditation of the degree programme would permit graduates the opportunity to participate in a fast-track Certified Financial Planner [CFP] training programme in July 2007.

A key stage in the IFP accreditation process involved mapping the learning objectives and skill development embedded in the degree syllabus against the CFP skills matrix [see Appendix 1]. Discussions then took place to identify technical skills gaps that could be 'plugged' by changes in course content or by guest lectures and other extra-curricula input from IFP members. As a result the opportunity was taken to redesign a final year course module - Case Studies in Financial Planning [CSFP] - so as to more closely align the syllabus and related teaching/learning and assessment methods with the aim of strengthening the financial planning employability of students.

The principal factors that particularly influenced the 'new' CSFP module format were:

- its 'manageable' course size [approx. 20 students];
- students' prior learning - all had completed a Personal Financial Planning [PFP] unit;
- institutional support in the form of MMUBS' willingness to make departmental resources available;
- two enthusiastic, like-minded faculty members prepared to work together, and to be flexible and creative re course delivery; and
- ongoing IFP commitment to the success of the initiative.

This latter IFP engagement in developing the CSFP module took several highly valuable forms, such as: arranging for representatives of leading financial planning/wealth management firms [ie Grant Thornton] to afford students a greater insight into the profession; participation of a CFP qualified trainer supporting and mentoring students - including acting as the 'interviewee' in student-led fact-finding interviews; making available 'realistic' case study material to MMUBS faculty members; and offering a prize to the student achieving the highest mark on the course.

A Skills Development Emphasis

The approach to teaching/learning on the CSFP course was specifically designed to support the development of a range of key employability skills [see Figure 2], including those noted previously as being particularly vital for students interested in a financial services career.

Figure 2: Skill Development on the CSFP Module

Employability Skills	***Course Approach***
Teamwork	students chose their own groups [4-5 in each]; they were given a task that required them to 'split' into two smaller groups and to work effectively together in the planning and execution of a presentation
Independent research	groups were allocated an Alternative Investment Market [AIM] company to be the focus of a financial planning review meeting; they then had to investigate and utilise a variety of data resources [ie the library, internet, company websites, FAME database etc] to gather relevant information
Problem-solving and creativity	groups were required to identify a financial 'issue' potentially being faced by their company and to determine the focus of a meeting [ie

	an annual review of credit facilities or a discussion of growth finance requirement(s) with a venture capitalist etc]
Deeper learning and higher order skill development ie synthesis, analysis, prioritisation, evaluation, judgment…	the requirement to identify a potential issue challenged groups to consider a variety of 'likely difficulties' and to be prepared to justify their choice; they had to be selective about the nature and range of data to be collected and to discuss how it should be appraised; they were also required to consider the chosen 'problem' and its 'solution' from the perspective of different stakeholders
Organisation and time management	regular progress workshops were held; groups 'lost' the opportunity to attend tutor-led feedback sessions if 'agreed' action was not completed; two practice 'presentations' were also scheduled
Presentation	a role-play approach was adopted for the final review meeting, with students choosing the role they wished to play [ie finance director, bank manager, venture capitalist etc]; groups also had to select how best to present their information/views

The delivery of the CSFP course was, in addition, split into two main sections: the first focused on corporate financial planning, involving the analysis of the financial position and requirements of selected corporate entities; the second concentrated on personal financial planning and was driven by the skills requirements of those seeking IFP certification as a financial planner. Both sections sought to develop the technical skills that underpin financial planning decisions and, embracing a case-based approach, placed significant emphasis on 'building' the ability of students to apply their knowledge, understanding and skills within given circumstances.

With regard to the 'allied' fast-track CFP training programme, meanwhile, Appendix 1 shows that The Financial Planning Standards Board [FPSB] has determined three financial key functions that practitioners are required to fulfil for CFP certification - being the collection, analysis and synthesis of information. Within these broad categories, CFP applicants must demonstrate competency in data collection and in information 'assessment' relevant to financial planning strategies in six component areas, ultimately leading to the development of a financial plan that recognises potential opportunities and constraints within a given situation. In 'total', the skills matrix 'driving' the CFP training and assessment process comprises 14 fundamental financial planning practices and 95 financial planning components.

A First Set of Results

Although the 'norm' within MMUBS is to have a 60%/40% weighting for time-constrained examinations and coursework, this is 'reversed' on the CSFP module to reflect the relative emphasis being placed on the development of employability skills. Thus the module is assessed via [group] coursework [60% weighting] and an [individual] open-book, three-hour examination [40%]. The coursework component was, in addition, split 30%:30% for a presentation [business financial planning] and for an interview [personal financial planning]. The requirement to present the results of their efforts in both oral [coursework] and written form [exam], it was felt, would better enable the assessment of a student's ability to convey both information and opinions in an appropriate and business-like manner.

As can be seen in Appendix 2, the mean CSFP coursework mark was a creditable 63.5%, with a standard deviation of 6.5%. Disappointingly though, and despite the fact that students were made very aware of the requirements and tutor expectations, achievement in the open-book examination was poor - with the mean mark being 46.2%, and the standard deviation 14.9%. Significantly, 40% of students failed to even gain the pass mark.

Of the 20 CSFP module students, 19 also enrolled on the fast-track CFP programme - although 3 of these subsequently withdrew at an early stage. The results achieved by the 16 completing students for each of three 'required' submissions [per Appendix 2] show marks that compare favourably with the degree module results, with the mean mark improving from 61.6% at the first submission to 78.2% at the final submission. Interestingly, though, only 1 student ultimately passed the CFP assessment – and that after attending a viva.

A Discussion of the Results

Consideration of the above noted results – and especially that the mean mark on CSFP was 56.5% compared to 53.6% overall on the final year of the Financial Services degree programme [again see Appendix 2] - suggests that the case-based blended approach to teaching/learning and assessment on the CSFP module had a positive impact on student performance. In fact, CSFP course tutors considered that the level of engagement of students had been high, and that they had expended a great deal of effort on independent research and in preparation for workshop sessions. Students also seemed to have greatly benefited from face-to-face support and the provision of regular formative feedback, enabling them to both gain in confidence throughout the course and to reach a very high standard of oral presentation. Furthermore, many students had become increasingly motivated to succeed as their understanding of the financial planning profession deepened - and their belief that the skills they were developing should enhance their employability strengthened.

The CSFP course team also felt, however, that students did not manage to convey in written form [ie the exam] the level of understanding they appeared to have gained through their coursework, with data analysis being superficial and synthesis of information weak. Moreover, many students struggled to present their answers in a clear, coherent and well structured manner with, aside from one or two exceptions, the standard of written English being poor. Indeed, it was highlighted that the CSFP marks had been substantially influenced by the 60% weighting attached to the [oral] coursework component – in which, as previously noted, students achieved much higher marks within a relatively 'compact' range [mean of 63.5%/standard deviation of 6.5%] than in the exam element [a mean of 46.2%], which were also dispersed over a wider range [standard deviation of 14.9%].

Comments offered by the involved CFP trainers/assessors, meanwhile, pleasingly confirmed a high level of student competency in many key technical areas – and particularly those that required computational skills. Concern was expressed, though, regarding a perceived lack of ability – or 'experience' - demonstrated by students in applying these skills within real-world financial planning contexts. This was further corroborated by anecdotal feedback from students which indicated that many had struggled to understand the guidance provided by the assessors - largely due to their inexperience, and to a lack of appreciation of real-world factors that influence personal and financial decisions. Likewise, the previously remarked poor standard of written English was also viewed as considerably affecting the students' ability to articulate financial plans and to clearly explain the rationale behind advice given.

The results achieved would thus seem to support the claim that teaching the technical aspects of financial planning is far '*simpler*' than helping students to develop the full range of employability skills required to be an effective financial planner (Barnash, 2005).

A Promising Way Forward

The initiative between MMUBS and the IFP to try to close the apparent 'skills gap' – and so 'boost' the competencies of undergraduates interested in becoming financial planners - has received widespread support from the UK financial planning community. What is more, a strong commitment to determining the 'most effective' blend of teaching/learning and assessment remains. Above all, it is believed that such a blend should build on the skill improvement so far facilitated by CSFP whilst also attempting to overcome the identified 'weaknesses' – most notably the poor standard of [professional] written English and students' relative lack of 'experience'.

Consequently, an action research project – that is *"…a systematic investigative research method that can help improve aspects of educational practice…"* (Paisey and Paisey, 2005, p.2) – is now underway [involving also comparative advanced management accounting and hospitality management modules]. Essentially adopting a 'continuous improvement' perspective, and involving 'all' interested stakeholders [ie relevant professional bodies, prospective employers, alumni, academic staff, students etc], a number of modifications to the CSFP module are to be implemented during the academic year 2007/8, including:

- utilising IT resources to release more curriculum time for the active improvement of written communication skills, including providing access to example professional reports – both 'good' and 'bad';
- employing IT resources to also enable undergraduates to 'experience' a wide variety of real-world 'settings' through the use of e-enabled cases, scenarios and interviews; and
- proactively supporting students to gain relevant experience through work placements and/or closer collaboration with established practitioners.

Overall it would appear that stronger team-working between academia, practitioners and the IFP, and a more appropriate blending of resources and assessment methodologies are required to equip students for the real world of work – and to be assured that they will be able to maintain the highest standards of service and behaviour in this demanding profession.

Appendix 1

Financial Planning Functions		COLLECTION		ANALYSIS		SYNTHESIS
		Collects the information required to develop a financial plan.		Considers potential opportunities and constraints and assesses information to develop strategies.		Synthesizes information to develop and evaluate strategies to create a financial plan.
Fundamental Financial Planning Practices		1.001 Identifies the client's objectives, needs and values that have financial implications 1.002 Identifies the information required for the financial plan 1.003 Identifies the client's legal issues that affect the financial plan 1.004 Determines client's attitudes and level of financial sophistication 1.005 Identifies material changes in the client's personal and financial situation 1.006 Prepares information to enable analysis		2.001 Analyzes the client's objectives, needs, values and information to prioritize the financial planning components 2.002 Considers inter-relationships among financial planning components 2.003 Considers opportunities and constraints and assesses collected information across financial planning components 2.004 Considers the impact of economic, political and regulatory environment 2.005 Measures the progress towards achievement of objectives of the financial plan		3.001 Prioritizes recommendations from the financial planning components to optimize the client's situation 3.002 Consolidates the recommendations and action steps into a financial plan 3.003 Determines the appropriate cycle of review for the financial plan
Core Financial Planning Competencies		**1.1 Collects the quantitative information required to develop a financial plan**	**1.2 Collects the qualitative information required to develop a financial plan**	**2.1 Considers potential opportunities and constraints to develop strategies**	**2.2 Assesses information to develop strategies**	**3.1 Develops and evaluates strategies to create a financial plan**
Financial Planning Components	Financial Management	1.101 Collects information regarding the client's assets and liabilities 1.102 Collects information regarding the client's cash flow, income and/or obligations 1.103 Collects information necessary to prepare a budget 1.104 Prepares statements of the client's net worth, cash flow and budget	1.201 Determines the client's propensity to save 1.202 Determines how the client makes spending decisions 1.203 Determines the client's attitudes towards debt	2.101 Determines whether the client is living within financial means 2.102 Determines the issues relevant to the client's assets and liabilities 2.103 Determines the client's emergency fund provision 2.104 Considers potential cash management strategies	2.201 Assesses whether the emergency fund is adequate 2.202 Assesses the impact of potential changes in income and expenses 2.203 Identifies conflicting demands on cash flow 2.204 Assesses financing alternatives	3.101 Develops financial management strategies 3.102 Evaluates advantages and disadvantages of each financial management strategy 3.103 Optimizes strategies to make financial management recommendations 3.104 Prioritizes action steps to assist the client in implementing financial management recommendations
	Asset Management	1.105 Collects information necessary to prepare detailed statement of investment holdings 1.106 Determines the client's current asset allocation 1.107 Identifies cash flows available for investment	1.204 Determines the client's experience with and attitudes and biases towards investments 1.205 Determines the client's investment objectives 1.206 Determines the client's tolerance for investment risk 1.207 Identifies the client's assumptions and return expectations 1.208 Identifies the client's time horizon	2.105 Calculates required rate of return to reach client's objectives 2.106 Determines the characteristics of investment holdings 2.107 Determines the implications of acquiring/disposing of assets 2.108 Considers potential investment strategies	2.205 Assesses whether investment return expectations are consistent with risk tolerance 2.206 Assesses whether asset holdings are consistent with risk tolerance and required rate of return	3.105 Develops asset management strategies 3.106 Evaluates advantages and disadvantages of each asset management strategy 3.107 Optimizes strategies to make asset management recommendations 3.108 Prioritizes action steps to assist the client in implementing asset management recommendations
	Risk Management	1.108 Collects details of the client's existing insurance coverage 1.109 Identifies potential financial obligations	1.209 Determines the client's risk management objectives 1.210 Determines the client's tolerance for risk exposure 1.211 Determines relevant lifestyle issues 1.212 Determines health issues 1.213 Determines the client's willingness to take active steps to manage financial risk	2.109 Determines characteristics of existing insurance coverage 2.110 Considers current and potential risk management strategies	2.207 Assesses exposure to financial risk 2.208 Assesses the client's risk exposure against current insurance coverage and risk management strategies 2.209 Assesses the implications of changes to insurance coverage 2.210 Prioritizes the client's risk management needs	3.109 Develops risk management strategies 3.110 Evaluates advantages and disadvantages of each risk management strategy 3.111 Optimizes strategies to make risk management recommendations 3.112 Prioritizes action steps to assist the client in implementing risk management recommendations
	Tax Planning	1.110 Collects the information necessary to establish the client's tax position 1.111 Identifies taxable nature of assets and liabilities 1.112 Identifies current, deferred and future tax liabilities 1.113 Identifies parties relevant to the client's tax situation	1.214 Determines the client's attitudes towards taxation	2.111 Reviews relevant tax documents 2.112 Considers potential tax strategies and structures	2.211 Evaluates existing tax strategies and structures for suitability 2.212 Assesses financial impact of tax planning alternatives	3.113 Develops tax planning strategies 3.114 Evaluates advantages and disadvantages of each tax planning strategy 3.115 Optimizes strategies to make tax planning recommendations 3.116 Prioritizes action steps to assist the client in implementing tax planning recommendations
	Retirement Planning	1.114 Collects the details of potential sources of retirement income 1.115 Collects the details of estimated retirement expenses	1.215 Determines the client's retirement objectives 1.216 Determines the client's attitudes towards retirement 1.217 Determines the client's comfort with retirement planning assumptions	2.113 Develops financial projections based on current position 2.114 Determines if the client's retirement objectives are realistic 2.115 Considers potential retirement planning strategies	2.213 Assesses financial requirements at retirement date 2.214 Assesses the impact of changes in assumptions on financial projections 2.215 Assesses trade-offs necessary to meet retirement objectives	3.117 Develops retirement planning strategies 3.118 Evaluates advantages and disadvantages of each retirement planning strategy 3.119 Optimizes strategies to make retirement planning recommendations 3.120 Prioritizes action steps to assist the client in implementing retirement planning recommendations
	Estate Planning	1.116 Collects legal agreements and documents that impact estate planning strategies	1.218 Identifies the client's estate planning objectives 1.219 Identifies family dynamics and business relationships that could impact estate planning strategies	2.116 Projects net worth at death 2.117 Considers constraints to meeting the client's estate planning objectives 2.118 Considers potential estate planning strategies	2.216 Calculates potential expenses and taxes owing at death 2.217 Assesses the specific needs of beneficiaries 2.218 Assesses the liquidity of the estate at death	3.121 Develops estate planning strategies 3.122 Evaluates the advantages and disadvantages of each estate planning strategy 3.123 Optimizes strategies to make estate planning recommendations 3.124 Prioritizes action steps to assist the client in implementing estate planning recommendations

Appendix 2

BA (Hons) Financial Services & CFP Assessment Marks - June / July 2007

Student No.	PFP %	CSFP Ass %	CSFP Exam %	CSFP o/all %	Stage Ave final year %	Weighted overall mark	Degree class	CFP Mark (%) 1st sub.	CFP Mark (%) 2nd sub.	CFP Mark (%) 3rd sub	Pass Fail
1	76	73	72	73	71.7	700	1	80	83	89	**F**
2	52	55	57	56	58.0	553	2.1	79	w/d	w/d	**F**
3	62	75	61	70	57.7	569	2.2	67	79	87	**F**
4	65	71	54	64	56.0	559	2.2	73	75	w/d	**F**
5	53	57	38	50	57.5	557	2.2	54	54	w/d	**F**
6	47	60	33	50	56.7	538	2.2	61	64	w/d	**F**
7	45	68	50	61	55.5	532	2.2	69	70	79	**F**
8	54	66	49	60	55.0	527	2.2	63	70	75	**F**
9	57	69	26	52	51.5	516	2.2	54	62	73	**F**
10	47	62	65	63	51.5	515	2.2	42	64	77	**F**
11	48	62	42	54	50.5	503	2.2	81	83	87	**Pass**
12	54	69	51	62	50.0	493	2.2	61	64	w/d	**F**
13	50	65	51	60	51.2	490	2.2	62	78	78	**F**
14	42	65	40	55	50.8	489	2.2	36	67	72	**F**
15	41	64	27	50	46.7	452	2.2	45	59	72	**F**
16	54	67	36	55	44.3	442	Pass	58	71	71	**F**
FS students who submitted case reports for CFP qualification							**CFP results**				
Mean	52.9	65.5	47.0	58.4	54.0	527.2	**Mean**	61.6	69.5	78.2	
Std Dev	9.0	5.5	13.3	7.0	6.2	58.9	**Std Dev**	13.4	8.7	6.6	
All FS students											
Mean	52.7	63.5	46.2	56.5	53.6	524.6					
Std Dev	9.3	6.5	14.9	8.4	6.3	57.9					

References

Aiken, M., Martin, J. and Paolillo, J. (1994). Requisite Skills of Business School Graduates: Perceptions of Senior Corporate Executives, *Journal of Education for Business*, **69** (3): 159-162

Andrews, C., Christian, J., Harry, J., Henson, L., Midgley, A., Palumbo, C. and Patel, M. (2006). Exploring the Effectiveness of Undergraduate Teaching and Learning Using Case Studies, Unpublished BA (Hons) Business Studies final year group consultancy project, Manchester Metropolitan University Business School.

Assiter, A. (Ed.) (1995). Transferable Skills in Higher Education, London: Kogan Page

Ballantine, J and McCourt Larres, P. (2007). Cooperative Learning: a Pedagogy to Improve Students' Generic Skills?, *Education + Training*, **49** (2): 126-137

Barnash, J. (2005) 2005 President of the Financial Planning Association in Grote, J. (2005). Exploring Career Paths in Financial Planning, *Journal of Financial Planning*, **18** (8): 36-43

Barnett, R. (1998). in Lewis, D. and Gill, N. (1999). Towards a Higher Education for a New Century, London: University of London, Institute of Education

Bersin, J. (2004). The Blended Learning Book: Best Practices, Proven Methodologies, and Lessons Learned, San Francisco, CA: Pfeiffer

Biggs, J. (2003). Teaching for Quality Learning at University, Buckingham: SRHE/OUP

Bonwell, C. and Elson, J. (1991). Active learning: Creating Excitement in the Classroom, ASHE-ERIC Higher Education Report No.1, Washington, DC: George Washington University, School of Education and Human Development

Brennan, R. and Ahmad, S. (2005). Using Case Studies in Management Education: the Student Perspective, *International Journal of Management Education*, **4** (3): 21-30

Cameron, S. (1999). The Business Student's Handbook: Developing Transferable Skills, London: FT Pitman Publishing

Cook, E. and Finch, B. (1994). Qualities Employers Seek in New Accounting Employees, *Journal of Education for Business*, **69** (1): 136-139

Cubiks. (2006). in Hjul (2006)

Davis, P. (1995) in Institute of Management. (1995). A Skilled Workforce is the Target, *Management Today*, **September:** 5

Davis, C. and Wilcock, E. (2007). Teaching Materials Using Case Studies, UK Centre for Materials Education/The Higher Education Academy, http://www. materials.ac.uk/guides/casestudies.asp [accessed 17 July 2007]

Davison, L., Brown, J. and Davison, M. (1993). Employer Satisfaction Ratings of Recent Business Graduates, *Human Resource Development Quarterly*, **4** (4): 391

Dawson, I., Jackson, A. and Rhodes, M. (2006). Graduate Skills and Recruitment in the City, London: Financial Services Skills Council/City of London

Dickinson, M. (2000). Giving Undergraduates Managerial Experience, *Education + Training*, **42** (3): 159-169

Gillinson, S. and O'Leary, D. (2006). Working Progress: How to Reconnect Young People and Organisations, Demos, http://www.demos.co.uk [accessed 16 August 2007]

Griffin, R. (2003). in O'Connor, R. (2003). A World's-Eye View of Financial Planning, *Journal of Financial Planning*, **16** (4): 54-60

Gurd, B. (2001). The Importance and Role of Management Case Studies, http://business.unisa.edu.au/mcsj/pdf/gurd_july2001.pdf [accessed 16 August 2007]

Harvey, L. and Bowes, L. (1998). The Impact of Work Experience on the Employability of Graduates, Birmingham: University of Central England

Harvey, L., Moon, S. and Geall, V. (1997). Graduates' Work: Organisational Change and Students' Attributes 1997, in Cox, S. and King, D. (2006). Skill Sets: an Approach to Embed Employability in Course Design, *Education + Training*, **48** (4): 262-274

Hawes, D. (2006). in Hjul (2006)

Holmes, L. (1995). Skills: a Social Perspective, in Assiter (1995)

Hjul, A. (2006). First-class Flops, *Edge*, City & Guilds of London Institute/ILM Magazines, http://www.i-l-m.com/magazines/edge/degrees.ilm [accessed 10 October 2006]

Hussain, S. (2006). in Hjul (2006)

Jennings, D. (1996). Strategic Management and the Case Method, *Journal of Management Development*, **15** (9): 4-12

Kimmel, P. (1995). Framework for Incorporating Critical Thinking into Accounting Education, *Journal of Accounting Education*, **13** (3): 299-318

Knight, P. (2005). in Raybould and Sheedy (2005)

Kryder, L. (1997.) Communication Skills: What you Need to Succeed, *New Accountant*, **12** (4): 12-13

Laurillard, D. (2002). Rethinking University Teaching: a Framework for the Effective Use of Educational Technology, London: Routledge

Levenburg, N. (1996). General Management Skills: Do Practitioners and Academic Faculty Agree on Their Importance?, *Journal of Education for Business*, **72** (1): 47-51

Messmer, M. (1997). Career Strategies for Accounting Graduates, *Management Accounting*, **August:** 4-10

Montaõo, J., Anes, J., Hassall, T. and Joyce, J. (2001). Vocational Skills in the Accounting Professional Profile: The Chartered Institute of Management Accountants [CIMA] Employers' Opinion, *Accounting Education*, **10** (3): 299-313

Orpen, C. (2000). Re-considering the Case-study Method of Teaching Management, *Journal of European Business Education*, **9** (2): 56-64

Owen, G. (2004). Mind the Gap! The Critical Role of Continuing Professional Development, *Development and Learning in Organisations*, **18** (3): 7-9

Paisey, C. and Paisey, N. (2005). Improving Accounting Education Through the Use of Action Research, *Journal of Accounting Education*, **23** (1): 1-13

Paton, N. (2005). Last Year's Graduates Still Looking for Jobs, *Management Issues*, http://www.management-issues.com/display_page.asp [accessed 10 October 2006]

Porter, L. and McKibben, L. (1988). Management Education and Development: Drift or Thrust into the 21st Century?, New York, NY: McGraw-Hill

Powell, R. (2006). Demanding Jobs, *Journal of Financial Planning*, **19** (5): 46-50

Pullen, C. (2007). Complete Client Satisfaction, *Journal of Financial Planning*, **20** (6): 42-44

Raybould, J. and Sheedy, V. (2005). Are Graduates Equipped with the Right Skills in the Employability Stakes*?, Industrial and Commercial Training*, **37** (5): 259-263

Raymond, M., McNabb, D. and Matthaei, C. (1993). Preparing Graduates for the Workforce: the Role of Business Education, *Journal of Business Education*, **68** (4): 205

Robinson, J., (2001). Skills Gap is Big Concern of Employers Today, ACES Newsline, http://www.aces.edu/dept/extcomm/newspaper/may17d01.html [accessed 10 October 2006]

Sawyer, A., Tomlinson, S. and Maple, A. (2000). Developing Essential Skills Through Case Study Scenarios, *Journal of Accounting Education*, 18: 257-282

Scheetz, L. (1995). Recruiting Trends, East Lansing, MI: Michigan State University

Sivan, A., Wong Leung, R., Woon, C. and Kember, D. (2000). An Implementation of Active Learning and its Effect on the Quality of Student Learning, Innovations in Education and Training International, **37** (4): 381-389

Tanyel, F., Mitchell, M. and McAlum, H. (1999). The Skill Set for Success of New Business School Graduates: Do Prospective Employers and University Faculty Agree?, *Journal of Education for Business*, **75** (1): 33-37

Theeke, H., Sprague, D. and Como, V. (1993). Recruiters Reaffirm their Need for Specialized Business Generalists, *Journal of Career Planning and Employment*, 54 (1): 45

Thornburg, L. (1997). The New Crop – Recruiting Today's Graduates, *HR Magazine*, 42 (5): 74-79

Verville, A. (1995). What Business Needs from Higher Education, *Educational Record*, **76** (4): 46-50

The Financial Planning Body of Knowledge: Incorporating the Knowledge that goes with the Territory?

by

Martin Young, Ph.D.

Massey University, New Zealand

Abstract

The Global Competency Profile, containing the list of global financial planning competencies developed by the Financial Planning Standards Board needs to be reexamined in light of the many new countries that have or are considering joining up to subscribe to the Certified Financial Planner certification. In reality there is territory-specific knowledge as well as global knowledge that need to be taken into account when implementing the financial planning process. However, this territory-specific knowledge is it itself primarily generic across groups countries. Given this it can be presented in a generalized manner that should make it relatively easy to incorporate into the current Global Competency Profile.

I Introduction

The Certified Financial Planner certification (CFP) is now very much a global one with over one hundred thousand certified members from eighteen countries as at the end of 2006. While over half of the current certified members are based in the United States, the major growth in the number of certified members going forward will come from outside of the United States, particularly from regions such as Asia, South America and Europe. In considering the body of knowledge that all Certified Financial Planners should have, it is therefore appropriate at this time to ask what knowledge is truly global and what is territory-specific.

The Financial Planning Standards Board has developed its Global Competency Profile containing the list of global financial planning competencies. These competencies are primarily global in nature, based around the financial planning functions of collection, analysis, and synthesis. Within these three functional areas the fundamental financial planning practices and core financial planning competencies have been developed. Beneath the core financial planning competencies we have the financial planning components divided into the areas of financial management, asset management, risk management, tax planning, retirement planning and estate planning. While the issues of global versus territory-specific knowledge needs to be considered across the entire Global Competency Profile, it is clearly in this last area of the financial planning components that the global versus territory-specific knowledge issue is most significant.

This remainder of this paper is organized as follows. Section II presents a discussion on the main drivers of territory-specific knowledge. Section III analyzes the main areas within which global versus territory-specific knowledge will clearly be an issue. Recommendations are presented in Section IV and Section V presents the conclusions.

II Examining the Drivers of Territory-Specific Knowledge

In considering the financial planning process, and therefore the skills and knowledge a financial planner should have, it is useful in the first instance to think in terms of the five main areas where knowledge and understanding of both the client and the financial environment in which they operate are essential.

1. The product base available to individuals and the risk and return characteristics of these products, both the investment and insurance or risk management type. The regulatory environment of a country will impact on the risk and return characteristics of the product base.
2. The risk appetite of the individual. This is primarily a personal preference but this preference needs to take into account the risk nature of the financial environment around them.
3. The operational tax environment from both the individuals' and the products' perspectives.
4. The transfer payments that the individual is likely to receive over their life-span.
5. The level of integration of the economy with the global marketplace. The higher the level of integration, the less important will be the territory-specific features of the economy.

When we start thinking in this context it very quickly becomes clear that territory-specific knowledge is in fact a very important part of the body of knowledge a good and effective financial planner should have. This applies not only to financial planners operating in new CFP entrant countries such as China, but also to financial planners operating in countries like the United States and Canada. In relation to the product base, the tools available for measuring risk and return are by-in-large global, but at least some portion of the products available to the individual will be territory-specific, coming to the market-place through the securitization of local assets or on account of local tax or transfer payment conditions or both.

In relation to the risk appetite of the individual, we can start by considering the standard risk spectrum from highly risk-averse to risk-taking and the impact of time horizon on risk appetite, but it is not unreasonable to believe that there will be differences between the average risk appetite of someone living in Brazil as compared to someone living in Hong Kong. These differences will be driven by experience of the local climate but could also be cultural in nature. Individuals living in countries that have been more prone to financial shocks will normally have a lower risk appetite than individuals living in countries less prone to these. But even if this is not the case in some instances, a professional financial planner needs to fully understand the risk nature of the financial environment in which they operate and ensure that advise given properly accounts for this.

As for tax, be it the income tax rates, tax breaks, capital gains tax regulations, the taxing of offshore income, or estate duties, the real challenge would be to find two countries which operated under the same basic tax structure. In fact probably nothing influences the financial planning decisions more than the tax implications of those decisions and these tend to be very territory-specific. Then finally there are the transfer payments. As an example, appropriate financial planning decisions will be different in countries where there is no state support for those in retirement as compared to countries where there is. This said, transfer payments can change over time. In the case of both tax regimes and transfer payments the degree of stability in a country is important. Some countries tend to develop reasonably level playing fields over time and try to minimize changes to the tax system or transfer payment system to give stability and some degree of certainty. Over countries may take a more hands-on approach making changes in these areas regularly to try to achieve specific objectives, normally of a social nature. These issues are obviously important and need to be understood by the financial planner.

A large part of the financial planning body of knowledge is truly global but within this global knowledge the framework there is the territory-specific knowledge that needs to be defined, analyzed, and understood. It is important that all financial planners with the Certified Financial Planner certification understand they live in a global world with territory-specific characteristics. Defining clearly the framework within which the territory-specific knowledge should be defined, analyzed, and understood will help to ensure that the local delivery of the body of knowledge will meet global standards and will also ensure Certified Financial Planners are well prepared to adapt to changing conditions locally.

III Global versus Territory-Specific Knowledge

Discussion on issues of global versus territory-specific knowledge is best handled within the framework of the Global Competency Profile developed by and copyright to the Financial Planning Standards Board. The headings and classifications used in this and the following section are taken directly from the Financial Planning Standards Board Global Competency Profile. The issues that need addressing are those discussed above. The Global Competency Profile has both high level and lower-level components. The high-level components are considered first.

Financial Planning Functions and Fundamental Financial Planning Practices

The high-level financial planning functions are those of collection, analysis and synthesis. From here has been developed the fundamental financial planning practices that are common to all financial planners, no matter their country of operation. While the practices may well be of a global nature, there will still be territory-specific issues at this high-level that the financial planner should be aware of. These high-level territory-specific issues are not necessarily only between countries but may also be an issue across different cultural groups within countries. The following issues need consideration.

Collection

1 The degree of disclosure of information by individuals or clients may differ across countries and also across cultural groups. Issues such as strength of family groupings can be a factor here.

2 Legal issues may be more difficult to determine in some countries as opposed to others.

3 Client attitudes and level of sophistication may differ across countries and also across cultural groups.

Analysis

1 Analysis of clients' objectives and values may be more difficult in some countries and for some cultural groups.

2 Inter-relationships among financial planning components may be more difficult to determine and also more volatile in some countries.

3 The economic, political and regulatory environment will be very different across countries and both the nature and stability of this environment needs to be well understood.

Synthesis

1 Prioritizing recommendations from the financial planning components may be complicated by the economic, political and regulatory environment as mentioned above.

2 The appropriate cycle of review for the financial plan will be affected by the stability of the economic, political and regulatory environment also.

Core Financial Planning Competencies and Financial Planning Components

At the more specific level of core financial planning competencies and financial planning components, the importance of the territory-specific knowledge becomes more obvious and critical. As mentioned earlier, the main drivers of the territory-specific knowledge are the financial product base and the regulatory environment, underlying risk appetites, the operational tax environment, the transfer payment environment, and the level of integration of the economy with the global marketplace. In relation to the Global Competency Profile the five components of the core financial planning competencies are i) the collection of quantitative information, ii) the collection of qualitative information, iii) consideration of potential opportunities and constraints, iv) assessing the information to develop strategies, v) developing and evaluating strategies to create a financial plan. Working within this framework we can look at each of the financial planning components and see how the global versus territory-specific knowledge issue impacts on the process. For this purpose we combine iii) and iv).One thing needs to be kept firmly in mind. The development of the Global Competency Profile would have been mainly influenced by financial, economic and regulatory conditions in the United States and other similarly regulated countries such as Canada and Australia. Many of the “new” countries that have recently joined the grouping for CFP accreditation have very different backgrounds from the movement from state control to private ownership in China to the social engineering that has typified Singapore since its independence. These differing environments require different approaches to financial planning.

<u>Financial Management</u>

1 A client’s net worth, cash flow and budget will be somewhat dependent on the effectiveness of monetary policy and the stability of employment.
2 A client’s behaviour will be strongly influence by government incentives and these may be moving targets.
3 Analysis of the financial status of the client will be influenced by the level of probability of changes in income and expenses.
4 An optimal strategy may be highly dependent on scenarios that are themselves unstable or developing.

<u>Asset Management</u>

1 A client’s asset allocation may be influenced by country-specific controls that lead to sub-optimal allocation that cannot easily be corrected.
2 A client’s tolerance for investment risk may be masked by government incentives. The same can apply to a client’s time horizon.
3 The expected rate of return and risk may not be well related, particularly in an emerging economy.
4 Effective asset management will be compromised by any of the above.

Risk Management

1 The insurance and risk management product market may not be well-developed.
2 A client's tolerance for risk exposure may be influence by both short and long-term government policy.
3 The costs of the risk management products available may not reflect their true worth, particularly in an emerging economy or less developed marketplace.
4 Risk management strategies that are not optimal on account of any of the above could have serious consequences for the client.

Tax Planning

1 The tax environment may be very targeted but changeable increasing the risk surrounding tax-friendly investments.
2 A client's attitude towards taxation is likely to be strongly correlated to the level of taxation in a given country.
3 Tax policy may have led to structural mispricing in the marketplace.
4 Where maximizing returns is very much a function of minimizing tax, government policy is likely to be fickle.

Retirement Planning

1 Retirement income may be substantially state-provided but uncertain.
2 Retirement age, for example, may be a rapidly moving target.
3 Financial requirements at retirement may be very difficult to predict, particularly in an emerging economy with variable monetary policy and unpredictable growth patterns.
4 The greater the level of change in a county's demographics, the more complex will be the development of retirement planning strategies.

<u>Estate Planning</u>

1 Estate duties may be changeable and unpredictable.

2 Family dynamics may be affected by government policy and strength of the family will differ across cultures.

3 Beneficiaries' needs also may be very difficult to predict, particularly in an emerging economy with variable monetary policy and unpredictable growth patterns.

4 Estate planning will be compromised by any of the above.

IV Recommendations

The important question to ask is how to incorporate the territory-specific knowledge into the Global Competency Profile developed by the Financial Planning Standards Board, which contains the list of global financial planning competencies. The major problems that exist at the financial planning functions level problems are going to be similar for many countries or economies. As economies develop tax regulations tend to be changing regularly, focused on achieving certain outcomes. But as the economy matures tax regulations tend to mature and become more stable as a result. Demographics play an important role in relation to the state provision of retirement income. Countries with high birthrates can more easily afford state pensions than can countries with aging populations, but countries with aging populations and high savings rates may find this has its own impact on asset prices. Developing countries tend to have incomplete markets and often lack good corporate governance. Capital controls are also a common feature of these countries. This leads to more risk that may not well compensated for, a lack of diversification opportunities and a lack of good risk management products.

These problems do need to be understood by financial planners operating in these countries and this knowledge will be somewhat territory-specific. The most important question though is how to incorporate this required knowledge or understanding into the Global Competency Profile of the Financial Planning Standards Board. The best way of doing this is probably to keep the territory-specific knowledge as generic as possible and include these items within each component of the financial planning components as trigger-points for consideration and action where necessary. While the knowledge is territory-specific and no two countries will face quite the same set of circumstances, the problems are still somewhat general. For example there are countries where retirement age is changing such as Singapore. A component in the Global Competency Profile for Retirement Planning under 2.1, "Considers potential opportunities and constraints to develop strategies, say 2.116 could read "Considers the impact of likely changes to the retirement age". Most of the issues of territory-specific knowledge could be handled in this manner. There is one general territory-specific issue that needs to be given weight to throughout the whole Global Competency profile. This is "make sure you fully understand the risk and return nature of your local products and how they contribute to the diversification. Every county has its own products that have developed for numerous reasons. While those assets that we now see as global such as the major US stocks or US equity funds are growing daily there will always be local product that needs to be understood by financial planners.

V Conclusion

The Financial Planning Standards Board does need to incorporate the territory-specific knowledge of personal financial planning into its Global Competency Profile but it should do this in as generic a way as possible. No two countries face the same territory-specific knowledge but this territory-specific knowledge will usually be common across a number of countries as it relates to such things as tax regimes, transfer payments and market or product incompleteness. By highlighting the areas that lead to territory-specific differences financial planners in countries facing these issues will be aware of their importance and their impact on the financial planning process. As for country-specific products, these will always exist and it will always be the local financial planner's responsibility to make sure these products are understood as well as possible.

Reference: Financial Standards Planning Board Ltd Global Competency Profile.