10.2478/fprj-2024-0006

INDUSTRY OR PROFESSION? APPLYING SOCIAL CONTRACT THEORY TO FINANCIAL PLANNING IN AUSTRALIA

Amanda Craft[a,*], Sharon Taylor[b], Nicole Ibbett[c]
[a]Associate Lecturer, School of Business, Western Sydney University
[b]Associate Professor, School of Business, Western Sydney University
[c]Lecturer, School of Business, Western Sydney University

*Corresponding author:
Amanda Craft
Associate Lecturer, School of Business, Western Sydney University
Email: a.craft@westernsydney.edu.au

Key words:
professionalisation,
self-regulation, professionalism,
social contract theory
JEL Classification Code:
G280

ABSTRACT

The Australian financial planning industry has been subject to increasingly rigorous forms of government regulation. This paper applies social contract theory to assess whether financial planning can be considered a profession based on its current form. Social contract theory, which intertwines professional status with the promotion of the public good and delivering altruistic service to society, serves as the theoretical framework for this evaluation. Through an analysis of the financial planning industry's regulatory environment and its response to public inquiries, this paper concludes that while strides have been made, significant gaps remain that prevent financial planning from being recognised as a full-fledged profession.

Introduction

The Australian financial planning industry has undergone increasingly rigorous regulation throughout its relatively short history. However, the question remains whether such external regulation can truly transform financial planning from an industry into a profession. This paper explores this issue through the lens of social contract theory, which provides a framework for evaluating a profession based on its societal obligations, including its dedication to the public good and the provision of altruistic services. By applying social contract theory, this study seeks to assess how effectively financial planning in Australia meets the criteria of a profession and to outline further steps necessary for its formal recognition.

This research is motivated by the ongoing efforts to raise ethical standards and improve public trust in financial planning. The Banking Royal Commission's (Commonwealth of Australia 2019) findings highlight deep-seated ethical concerns within the industry, pointing to the need for a more robust professional identity. Additionally, the collaboration between academia and the financial industry (Brimble *et al.* 2014) signals a growing focus on education as a key component of professionalisation. Yet, despite these initiatives, questions remain about how well financial planning meets its societal responsibilities, and what is required for it to gain full recognition as a profession.

This research makes a significant contribution by applying social contract theory to the professionalisation of financial planning, offering valuable insights into its impact on various stakeholder groups. The study examines how external regulation shapes ethical standards and influences key stakeholders, including clients, financial planners, and regulators, while also addressing broader implications for public trust. Specifically, the research clarifies how the industry's social responsibilities intersect with its regulatory framework, helping to pave the way for professional recognition. For clients, the study highlights the potential for improved transparency and accountability in financial advice; for financial planners, it offers a roadmap to enhanced ethical practice; and for regulatory bodies, it provides a structured framework for assessing and enforcing professional standards.

The central research question guiding this inquiry is:

> RQ1 *How can social contract theory illuminate financial planning's path to professionalisation in Australia?*

By addressing this question, the research investigates the alignment between current regulatory efforts and the industry's response with the ethical and societal expectations that underpin a true profession. The study also explores the further steps necessary to elevate financial planning's professional status, offering a strategic direction for both the industry and its stakeholders.

Literature Review

Financial planning, as a multidisciplinary occupation, has evolved across various developed Western nations, including Australia, the United States (U.S.), Canada, Hong Kong, and emerging financial hubs like South Africa and Singapore. In Australia, the discipline formally emerged in the early 1990s, following a fragmented approach in which professionals such as accountants, lawyers, and insurance agents provided financial advice limited to their areas of expertise (Cull 2009). This model, common across several jurisdictions, often led to incomplete financial strategies for clients, highlighting the need for a more integrated and holistic approach to financial advice (Richards *et al.* 2022; Foerster *et al.* 2017). Similarly, in the U.S., financial planning developed through the gradual integration of investment advisory services with broader wealth management (Altfest 2004). In Canada and Hong Kong, the evolution of the financial advice sector was driven by a mix of regulatory responses and market demands, reflecting broader global trends in the field (Richards *et al.* 2024).

The 1980s and 1990s were marked by significant regulatory reform across these countries. In Australia, the introduction of compulsory superannuation in 1992 and the development of managed investment schemes broadened access to financial advice (Commonwealth of Australia 2019). Similarly, in the U.S., the establishment of Registered Investment Advisers (RIAs) under the Investment Advisers Act of 1940 became more prominent in the 1980s as the financial planning industry expanded (Suddaby & Viale 2011). Canada's regulatory framework for financial planners began to formalise in the 1990s through provincial initiatives, reflecting the decentralised nature of its financial regulation (Foerster *et al.* 2017). In Hong Kong, financial planning grew as regulatory efforts by the Securities and Futures Commission (SFC) focused on investor protection, aligning with a global shift towards stricter oversight.

Emerging markets like South Africa and Singapore experienced similar regulatory and professional shifts. In South Africa, financial planning grew within a broader financial services industry that grappled with self-regulation and conflicts of interest. The Financial Advisory and Intermediary Services (FAIS) Act of 2002 marked a turning point, bringing stronger oversight and aligning South Africa with global regulatory standards (Richards *et al.* 2024). Singapore followed a comparable trajectory, with the Monetary Authority of Singapore (MAS) emphasising consumer protection and financial literacy in response to the Asian Financial Crisis of the late 1990s (Warschauer 2002).

Despite these developments, persistent ethical concerns have continued to cast doubt on the professional status of financial planners globally. In Australia, the Banking Royal Commission's interim report (Commonwealth of Australia 2018) exposed failures in self-regulation and highlighted the need for more robust external oversight. Similar concerns arose in the U.S., particularly after the Global Financial Crisis, when conflicts of interest within the financial advice industry came to light (Foerster *et al.* 2017). In South Africa and Singapore, regulatory reforms have also exposed tensions between self-regulation and external oversight, with growing calls for higher professional standards and stronger consumer protection (Richards *et al.* 2024).

These international trends reflect a broader movement towards strengthening the regulatory frameworks governing financial planning, driven by the need to build public trust and uphold ethical standards. For instance, the U.S. introduced fiduciary standards for RIAs under the Department of Labor's Fiduciary Rule, although its implementation has faced challenges (Suddaby & Viale 2011). In Canada, efforts have been made to unify the regulation of financial planners, although the sector remains primarily provincially regulated. Similarly, regulatory bodies in South Africa and Singapore continue to focus on enhancing transparency and accountability, with an emphasis on improving consumer outcomes (Warschauer 2002; Richards *et al.* 2024).

This paper primarily focuses on the Australian context but acknowledges that the application of social contract theory to financial planning can provide valuable insights across jurisdictions. Extending this theoretical lens to compare financial planning in other countries, such as the U.S. or Canada, could provide a richer understanding of how different regulatory environments impact the profession's development. Future research could further explore the global relevance of social contract theory in the professionalisation of financial planning, contributing to the growing international dialogue on ethical standards, societal obligations, and professional recognition in financial services.

Conceptual Framework

Understanding Social Contract Theory

Social contract theory, a foundational concept in political and social philosophy, explains the origins of society and the legitimacy of state authority over individuals. It posits that individual's consent, explicitly or implicitly, to surrender some freedoms and submit to authority in exchange for protection and social order. Enlightenment philosophers such as Hobbes, Locke, and Rousseau significantly shaped this theory, each offering distinct interpretations of governance and social responsibility. Hobbes, in *Leviathan* (2008/1651), argued that without political order, life would be "solitary, poor, nasty, brutish, and short." To escape this chaos, individuals agree to surrender some freedoms to a sovereign authority that ensures peace and security. Locke, in *Two Treatises of Government* (1988/1689), emphasised the protection of natural rights—life, liberty, and property—as the social contract's primary function, laying the groundwork for modern liberal democracy. Rousseau, in *The Social Contract* (2004/1762), introduced the concept of the "general will"—the collective will of the people aimed at promoting the common good, emphasising collective sovereignty over individual interests.

Social Contract Theory and Its Application to Professions

Social contract theory has been extensively applied to professions, providing a framework for understanding the relationship between professional groups and society. In this context, the social contract is an implicit agreement where society grants professionals autonomy and authority in exchange for a commitment to serve the public good, maintain high ethical standards, and engage in self-regulation (La Rochelle 1983; Cruess & Cruess 2008). The medical profession is often cited as a classic example, with physicians granted significant autonomy and entrusted with critical decisions in return for prioritising patient welfare, demonstrating competence, and adhering to strict ethical codes (Cruess & Cruess 2008). This reciprocal relationship is central to the professional identity of medicine and underpins the trust society places in healthcare professionals (Sullivan 2005). Similar principles apply to the legal profession, where lawyers are granted the privilege of practising law in exchange for a commitment to justice, protecting rights, and acting with integrity. The legal profession is expected to self-regulate through bodies that enforce ethical standards and ensure practitioner competence (Rhode 2000). In education, teachers and academics are similarly bound by a social contract requiring them to prioritise student development, uphold academic integrity, and contribute to knowledge advancement (Sockett 1993).

Challenges in Fulfilling the Social Contract in Emerging Professions

While established professions like medicine and law have well-defined social contracts, emerging professions such as financial planning face challenges in fulfilling these expectations. The financial planning industry grapples with ethical standards, self-regulation, and public trust—key elements of the social contract necessary for professional status (Brimble *et al.* 2014; Watts & Murphy 2009). A critical challenge is developing a unified, enforceable code of ethics aligned with societal expectations. The industry's history of conflicts of interest and unethical practices, as highlighted by the Banking Royal Commission (Commonwealth of Australia 2019), indicates a breach of the social contract that undermines public trust. The lack of a strong professional identity and ongoing reliance on external regulation further complicates efforts to fulfil this contract (Atella, Bhattacharya, & Carbonari 2008).

For an emerging profession to transition successfully, it must cultivate a culture of ethical responsibility and public service beyond mere regulatory compliance. This involves continuous professional development (CPD), adherence to ethical guidelines prioritising the public interest, and establishing robust self-regulation mechanisms (Freidson 2001). By doing so, emerging professions can build the trust and legitimacy necessary to secure their place within the social contract framework.

Defining a Profession Through Social Contract Theory

A profession is distinguished by its commitment to self-regulation, high education levels, and an ethical imperative to serve the public good. According to social contract theory, a profession's legitimacy is grounded in an implicit agreement with society: In exchange for autonomy and authority, the profession must prioritise public interest and adhere to high ethical standards (La Rochelle 1983). This trust forms the foundation of the relationship between the profession and the public (Sullivan 2005). Richards, Robinson, and Willows (2024) highlight the critical role of public awareness in legitimising the profession in the context of financial planning in Australia, Canada, and South Africa. They note that "the consumers' and public awareness of financial planning will be a large aspect of the legitimacy of this profession," and further observe that while public campaigns aimed at raising awareness have had limited success, efforts to collaborate with the state to legislate and legitimise financial planning have gained momentum (Richards *et al.* 2024, p. 8).

Through the lens of social contract theory, this shift toward legislation and state recognition can be seen as a crucial step in the professionalisation journey. The profession's relationship with society, particularly how financial planners see themselves and are viewed by the public, is essential to this transition. As Richards *et al.* (2024) suggest, investigating the social identity of financial planners and society's perceptions of them could offer valuable insights. This paper argues that applying social contract theory to examine financial planning's progress towards professionalisation provides a necessary foundation for such investigations. In doing so, it addresses the research question: What light can social contract theory shed on financial planning's journey to professionalisation in Australia? and it contributes to the broader discussion of the future of financial planning as a recognised profession.

The Professionalisation of Financial Planning

The professionalisation of financial planning remains in a transitional phase. In Australia, Brimble *et al.* (2014) note that while financial planning is progressing toward professional status, gaps remain in education, ethics, and self-regulation (Cull 2009). This aligns with the challenges observed globally, particularly in the U.S., where the development of financial planning as a profession faces similar issues. Altfest (2004) traces the evolution of financial planning in the US, highlighting the need for a clear professional identity and calling for more theoretical work to support this transition. Warschauer (2002) also emphasises the crucial role of education in advancing the field, an area of concern shared across jurisdictions.

One of the key challenges in both Australia and the U.S. is developing a cohesive, enforceable code of ethics. Dyckman (1974) argues that the primary purpose of industry groups is to protect members' interests rather than the public good, a characteristic that must be overcome for true professionalisation to occur. Unlike established professions, where ethical standards are well-defined, financial planning has struggled with inconsistent practices, often influenced by conflicts of interest. Richards *et al.* (2022) highlight that in Australia, institutional priorities frequently overshadow client welfare, a problem echoed by Foerster *et al.* (2017) in their discussion of commission-based remuneration structures in the U.S.

Moving towards a client-centred approach is essential for the industry's evolution into a profession (Richards *et al.* 2022). Social contract theory has historically been applied to fields like medicine, where the contract between professionals and society is well-defined and rooted in a commitment to public welfare (Cruess & Cruess 2008). This well-established contract has allowed the medical profession to maintain public trust and autonomy. The profession's ability to self-regulate, enforce ethical standards, and adapt to new challenges has ensured its ongoing legitimacy and societal value (Sullivan 2005). By contrast, industries like financial planning, still externally regulated, face challenges in achieving the same level of public trust and autonomy. External regulation, while necessary for consumer protection, often implies a lack of internal governance mechanisms essential for self-regulation—a key component of professional status (Freidson 2001). The financial planning industry's reliance on bodies like the Australian Securities and Investments Commission (ASIC) for compliance enforcement indicates that it has yet to develop the robust self-regulatory structures required for professionalisation (Cull & Bowyer 2017).

The medical profession serves as a model for what the financial planning industry must aspire to be if it is to be recognised as a profession. The medical profession's commitment to ethical practice, continuous education, and self-regulation has solidified its status as a trusted and respected profession. For financial planning to achieve similar recognition, it must address existing gaps in education, ethics, and self-regulation, and build a strong, client-centred ethical framework (Brimble *et al.* 2014). Furthermore, the application of social contract theory, as suggested by Richards *et al.* (2022), provides a framework for evaluating the financial planning industry's trajectory and identifying what is still needed for it to transition from an industry to a fully recognised profession.

Moving Towards Professionalisation

While the Australian financial planning industry has made significant strides towards professionalisation, particularly with the introduction of a unified Code of Ethics and mandatory education standards under the Financial Adviser Standards and Ethics Authority (FASEA), challenges remain. The Code of Ethics, mandatory since 2020, and education standards requiring financial advisers to meet specific qualifications and undertake continuing professional development, represent important steps towards establishing the industry as a profession.

However, these standards are not universally supported within the industry (Hunt 2018). Some sectors have resisted, particularly regarding the perceived rigidity of education requirements and stringent ethical guidelines that some argue may be difficult to implement in practice. This resistance highlights the ongoing tension between the push for professionalisation and the industry's historical norms, which have been more aligned with the interests of individual advisers and firms rather than with a unified, client-centred professional identity. This tension underscores the broader challenges of professionalising the financial advice sector, where balancing firm-centred interests with the evolving client-centred focus remains a critical issue in the path to full professional recognition (Knutsen 2015).

Moreover, the unified Code of Ethics and education standards are currently under review by the Australian government, creating uncertainty about the future direction of these regulations (Rice Warner 2021). The review aims to assess whether existing standards foster a truly professional culture or need adjustment to balance the needs of advisers, firms, and consumers. This review underscores that while the framework for professionalisation is in place, its successful implementation and acceptance are still evolving.

The current state of the financial planning industry reflects its position on the continuum from industry to profession. While the introduction of FASEA's standards marks a significant move towards professionalisation, the industry's ongoing reliance on external regulation and the lack of universal support for these standards indicate that it has not yet fully achieved a professional status. For financial planning to be recognised as a true profession, the industry must not only adhere to these standards but also embrace them as part of its core professional identity. This requires a cultural shift that prioritises the public good, fosters ethical responsibility, and encourages self-regulation, rather than relying on government oversight. The ongoing review of FASEA's standards presents both a challenge and an opportunity for the financial planning industry. It is a challenge because it reflects the industry's struggle to fully integrate these standards into its practices. However, it is also an opportunity to refine and reinforce the standards in a way that strengthens the industry's commitment to ethical practice, education, and public service. If the industry can navigate this period of review and reform successfully, it may emerge with a stronger foundation for achieving the professional recognition it seeks.

In summary, while the financial planning industry has made important progress towards professionalisation, the path forward requires a continued commitment to social contract theory principles—principles that demand a focus on public interest, ethical behaviour, and self-regulation. The existence of a unified Code of Ethics and education standards is a critical step, but their ultimate impact depends on how well they are supported, implemented, and integrated into the industry's fabric.

Application of Social Contract Theory to Financial Planning

Social contract theory, when applied to financial planning, asks whether the industry's practices align with societal expectations, including a commitment to ethics and public service. Both in Australia and internationally, financial planning has faced scrutiny for ethical shortcomings. The Banking Royal Commission (Commonwealth of Australia 2019) highlighted conflicts of interest that compromised trust, a crucial element of the social contract. Similar issues in the U.S. are discussed by Altfest (2004) and Warschauer (2002), who emphasise the need for stronger ethical standards and public accountability.

For financial planning to fulfil its social contract, the industry must shift from reliance on external regulation to robust self-regulation. Atella, Bhattacharya, and Carbonari (2008) argue that internal governance mechanisms are necessary for a profession's maturity, a point that applies both to Australia and the U.S.

Conflicts of Interest and Transparency Issues

The findings of the Banking Royal Commission (Commonwealth of Australia 2019) underscore the extent to which conflicts of interest and a lack of transparency have pervaded the financial planning industry. These issues are critical because they fundamentally undermine the trust that is central to the social contract between professionals and society. Trust, as emphasised in the professional literature, is the cornerstone of any profession (Sullivan 2005). When financial planners prioritise the interests of their firms—often driven by commission-based remuneration structures—over the interests of their clients, they breach the ethical obligations that society expects of a profession (Brimble & Blue 2013). This breach of trust is not only a violation of the social contract but also reflects the industry's struggle to establish a unified, enforceable code of ethics. The lack of such a code, as observed by Brimble and Blue (2013), allows unethical practices to persist, further distancing the industry from achieving a professional status. Moreover, Foerster *et al.* (2017) found that financial advisors often recommend investments that generate higher commissions for themselves, even when these investments are not in the best interests of their clients. This practice directly contravenes the fiduciary duty that is a hallmark of professional conduct.

The Role of External Regulation

The reliance on external regulation, rather than self-regulation, highlights another significant challenge in the financial planning industry's quest for professionalisation. Atella, Bhattacharya, and Carbonari (2008) argue that industries heavily dependent on external regulation often fail to develop the internal ethical frameworks necessary for professional status. This is particularly relevant in financial planning, where regulatory bodies such as the ASIC have had to step in repeatedly to enforce compliance and protect consumers (Bhati 2008).

While external regulation is essential for consumer protection, it does not substitute for the internal governance mechanisms that characterise true professions (Freidson 2001). Professions such as medicine and law have long-established self-regulatory bodies that enforce ethical standards and hold practitioners accountable. In contrast, the financial planning industry's reliance on external oversight suggests a lack of maturity in its professional development and an ongoing challenge in fulfilling its social contract with society (Cull 2009).

Ethical Frameworks and the Need for Cultural Change

For financial planning to evolve into a recognised profession, it must undergo a significant cultural shift towards prioritising the public good over individual or corporate gain. This shift involves more than just compliance with regulatory requirements; it requires the internalisation of ethical principles that guide professional conduct. La Rochelle (1983) asserts that a profession's social contract with society is predicated on its members' commitment to ethical behaviour and altruism, both of which have been challenging to fully embed within the financial planning industry.

A crucial step towards fostering this cultural shift was the establishment of the FASEA in Australia. FASEA was created to set educational, ethical, and professional standards for financial advisers, with the goal of enhancing the integrity and trustworthiness of the financial planning profession. One of FASEA's most significant contributions is the introduction of a comprehensive Code of Ethics, which financial advisers must adhere to as part of their professional practice. The FASEA Code of Ethics, which became mandatory for all financial advisers in January 2020, emphasises the need for advisers to act in the best interests of their clients, maintain high standards of competence, and uphold the values of trustworthiness, fairness, and honesty (FASEA 2019). This code represents a formal recognition of the ethical obligations that are central to the social contract between financial advisers and society. It is designed to ensure that advisers not only comply with legal requirements but also embrace a higher standard of ethical behaviour that prioritises client welfare and the public good.

The introduction of FASEA and its Code of Ethics marks a significant milestone in the professionalisation of financial planning. However, for this initiative to be truly effective, it must be accompanied by a broader cultural change within the industry. The ethical principles outlined by FASEA must be internalised by financial advisers, becoming a fundamental part of their professional identity rather than merely a set of rules to follow.

The need for this cultural change is supported by empirical research. For example, Cull and Bowyer (2017) found that financial planners who received education and training in ethics were more likely to exhibit professional behaviour and prioritise clients' interests. This suggests that the educational standards set by FASEA, which include mandatory ethics training, could play a crucial role in fostering a culture of professionalism within the industry.

Furthermore, Hine and McMahon (2018) argue that the integration of ethical decision-making into the daily practices of financial planners is crucial for the industry's transition towards professionalisation. They emphasise that without a strong ethical foundation, financial planners are likely to continue engaging in practices that serve their interests at the expense of their clients, thereby perpetuating the industry's image as one driven by profit rather than public service. The FASEA Code of Ethics addresses this concern by requiring advisers to avoid conflicts of interest and to ensure that their advice is free from the influence of personal gain.

While the establishment of FASEA and the introduction of its Code of Ethics represent significant progress towards the professionalisation of financial planning, the true test of these initiatives will be in their implementation. The financial planning industry must embrace these ethical standards not just as regulatory obligations, but as core components of its professional identity. Only by doing so can financial planning fulfil its social contract with society and be recognised as a true profession.

The Professionalisation Continuum

The concept of professionalisation as a continuum, rather than a binary state, is particularly useful in understanding the current status of the financial planning industry. As Brimble *et al.* (2014) note, financial planning in Australia is somewhere along this continuum, striving to move from an industry to a profession. However, the pace of this transition is hindered by the persistent ethical and structural issues highlighted above.

To accelerate this transition, the industry must adopt a more proactive approach to self-regulation and ethical governance. This involves not only creating a robust code of ethics but also ensuring that it is enforced consistently across the industry. As Suddaby and Viale (2011) suggest, the professionalisation of an industry often requires the establishment of institutional logics that align with societal values and expectations. In the case of financial planning, this means fostering a collective commitment to public service and client welfare.

Implications for the Future of Financial Planning

The future of financial planning as a profession hinges on the industry's ability to fulfil its social contract with society. This involves not only adhering to regulatory standards but also embracing the ethical and altruistic responsibilities that define a true profession (Freidson 2001). Insights from social contract theory, as applied to financial planning, suggest that while progress has been made, significant challenges remain. Richards *et al.* (2022) note that one key impediment to professionalisation is the reluctance of members to embrace change. Professionals may fear change and fear becoming obsolete due to concerns about their ability to adapt to new standards, which can trigger feelings of uncertainty and a threat to their professional identity, as explained by self-determination theory; individuals often perceive change as a loss of control and autonomy, leading to resistance and anxiety (Deci & Ryan 2000; Ashford 1988). Psychology research suggests that professionals can overcome fear of change by fostering a growth mindset, which encourages viewing challenges as opportunities for development rather than threats, thus reducing anxiety and resistance to new standards (Dweck 2006). Additionally, enhancing self-efficacy through mastery experiences and supportive environments can help individuals build confidence in their ability to adapt, thereby mitigating fears of obsolescence (Bandura 1997). For financial planning to achieve full professional status, practitioners must learn to evolve and embrace change to meet societal expectations and align their practices with public interest (Clarke 2000).

Practical Implications for Financial Planners

For financial planners, this means shifting from a transactional focused approach to one that prioritises client welfare and long-term relationships. As Cull (2009) observes, while educational standards have improved, financial planners must engage in CPD, focusing on enhancing their ethical training and deepening their understanding of the broader social responsibilities inherent in their roles. This could involve adopting frameworks similar to those used in law and medicine, where the social contract is clearly articulated and embedded in professional practice (Sullivan 2005).

Individual financial planners must actively participate in self-regulation efforts to create and enforce internal ethical standards that reflect public service values (Brimble *et al.* 2014). This includes addressing conflicts of interest, particularly in areas such as commission-based remuneration, which has historically undermined client trust (Foerster *et al.* 2017). The existing best interest duty in Australia, which mandates that financial planners act in the best interests of their clients, provides a foundational framework for the profession. Building on this, the adoption of a fiduciary standard, where client interests are placed above all else and reinforced by stricter self-regulatory measures, can serve as a key driver for the industry's continued movement towards professionalisation (Richards *et al.* 2022).

Furthermore, the development of a strong professional identity among financial planners is crucial for the profession's legitimacy. Social identity theory (Tajfel & Turner 1979) suggests that individuals derive part of their identity from their membership in social groups, and this can shape behaviour and commitment to ethical standards. Haslam (2004) emphasises that professional identity can influence workplace behaviours, making it essential for financial planners to internalise the values of their profession, fostering trust and a sense of responsibility towards their clients.

Policy Recommendations for the Industry

From a policy perspective, industry leaders and large professional bodies, including the Financial Advice Association of Australia (FAAA) in Australia and their counterparts worldwide, as well as existing regulatory bodies should foster a culture of ethical responsibility and self-regulation. Professional associations, as key representative bodies, could play a pivotal role in developing a revised, industry-supported code of ethics and implementing rigorous professional certifications that elevate the educational standards of financial planners (Cull & Bowyer 2017). These certifications should be regularly updated to reflect emerging ethical challenges, such as the rise of digital financial advisory services and the increasing complexity of financial products (Brimble *et al.* 2014).

Professional associations could also take the lead in establishing peer-review mechanisms and CPD requirements for its members to uphold standards within the profession. Peer-review processes enable financial planners to assess each other's work and ensure adherence to ethical and professional guidelines. By facilitating these reviews, professional associations would encourage transparency and accountability, which are critical components of self-regulation. In addition, professional associations could create and oversee internal ethics committees within firms, providing support and guidance on complex ethical issues to maintain a high standard of practice across the industry. Additionally relevant professional associations could support the industry by providing workshops and training on techniques to overcome fears and anxieties specific to this process of professionalisation. CPD on resilience and developing a growth mindset, for example, not only develops the capabilities of the advisors themselves but also provides them with a skillset that they can in turn use to educate their client base, assisting them in navigating times of financial stress and change.

The industry, with the support of professional associations, should also focus on incentivising firms that prioritise ethical practices and client welfare over short-term profits. For example, professional associations could collaborate with regulatory bodies such as the ASIC to develop voluntary codes of conduct that promote self-regulation and higher ethical standards (Richards *et al.* 2022). Professional associations could further establish a system of accreditation that publicly recognises firms adopting these best practice frameworks, thus enhancing their reputational standing within the industry.

Moreover, professional associations could help to establish whistleblower protection policies and anonymous reporting mechanisms, ensuring that employees can report unethical behaviour without fear of retaliation. By creating these systems, professional associations would add another layer of self-regulation, enabling the industry to internally address issues before they escalate to external regulatory intervention.

By moving towards self-regulation, with strong leadership from professional associations, the industry can reduce its reliance on external oversight while maintaining robust consumer protection measures. For instance, professional associations could assist firms in adopting internal auditing procedures to monitor compliance with ethical standards and industry regulations. These measures would not only enhance the industry's commitment to ethical practices but also demonstrate to external stakeholders that the financial planning sector, through the leadership of professional associations, is capable of governing itself effectively (Freidson 2001).

Future Research Directions

Future research should examine the effectiveness of ongoing efforts to shift the culture of financial planning towards greater ethical responsibility and public service, particularly in addressing resistance to change within the industry (Richards *et al.* 2022). Additionally, exploring the role of social identity theory within financial planning could provide deeper insights into how financial planners perceive their roles and how their professional identities influence their behaviour and decision-making (Haslam 2004). Social identity theory offers a framework to understand why some practitioners resist change and how these identities can be realigned with professional norms (Tajfel & Turner 1979).

Further studies could investigate how self-regulation and the development of strong professional identities contribute to long-term legitimacy and trust within the industry. For example, research could assess the impact of ethical education on shaping financial planners' identities and their views on societal obligations (Cruess & Cruess 2008). This would provide critical perspectives on how financial planning can evolve into a fully recognised and trusted profession, and how identity, ethics, and regulation intersect in the professionalisation process (Sullivan 2005).

Extending the application of social contract theory to financial planning across different countries presents a promising avenue for future research. While the theory has been applied to understanding the professionalisation of financial planning in Australia, its relevance to other developed and emerging economies remains underexplored. A comparative analysis of how social contract theory manifests in the U.S., Canada, South Africa, Singapore, and Hong Kong could yield valuable insights into the varying regulatory frameworks, ethical standards, and stakeholder expectations across these diverse markets. For example, the U.S.' fiduciary rule, Canada's provincial regulation model, South Africa's FAIS Act, and Singapore's emphasis on financial literacy all represent distinct regulatory environments that interact differently with the financial planning profession. Examining these variations through the lens of social contract theory could help highlight how the social responsibilities and public trust in financial planning differ across cultures and regulatory structures. This cross-country comparison would contribute to a deeper understanding of the global trends shaping the financial planning profession and provide a framework for identifying best practices in aligning professional conduct with societal expectations.

Limitations of this study

While this paper provides valuable insights into the professionalisation of financial planning through the lens of social contract theory, there are limitations to the scope of this analysis. Firstly, the paper focuses primarily on the Australian financial planning industry, which may limit the generalisability of the findings to other countries with different regulatory environments and professional cultures. Further research is needed to explore how these dynamics play out in other regions, such as North America and Europe.

Additionally, while social contract theory provides a useful framework for understanding the relationship between a profession and society, this paper does not delve deeply into other theoretical models that may offer complementary or alternative perspectives on professionalisation, such as stakeholder theory or institutional theory. Future research could explore these frameworks to provide a more comprehensive understanding of the forces shaping the financial planning profession.

Finally, this paper relies primarily on secondary sources and does not include empirical data from interviews or surveys with financial planners. Future studies could incorporate primary data to provide a richer, more nuanced understanding of how practitioners perceive their roles and responsibilities in relation to the profession's social contract.

Conclusion

The application of social contract theory reveals that while the Australian financial planning industry has made progress towards professionalisation, it has not yet achieved the status of a profession. The industry's ongoing reliance on external regulation, rather than self-imposed ethical standards, and its failure to consistently act in the public interest suggest that more work is needed. To move towards a full professional status, the financial planning industry must strengthen its commitment to self-regulation, develop a robust and enforceable code of ethics, and align its practices more closely with societal expectations of a profession.This analysis suggests that future research should focus on the specific steps that the financial planning industry must take to fulfil its social contract with society. This may include a more detailed examination of the industry's regulatory environment, as well as an exploration of the cultural changes needed to support the development of a true professional ethos within financial planning.

References

Altfest, L 2004, 'Personal financial planning: Origins, developments and a plan for future direction', *The American Economist*, vol. 48, no. 2, pp. 53–60. https://doi.org/10.1177/056943450404800204

Ashford, SJ 1988, 'Individual strategies for coping with stress during organizational transitions', *The Journal of Applied Behavioral Science*, vol. 24, no. 1, pp. 19–36.

Atella, V, Bhattacharya, J & Carbonari, L 2008, 'External regulation and the pharmaceutical industry', *Journal of Public Economics*, vol. 92, no. 5–6, pp. 1663–1683.

Bhati, S 2008, 'An analysis of the financial services regulations of Australia', *International Review of Business Research Papers*, vol. 4, no. 2, pp. 13–25. https://ro.uow.edu.au/commpapers/2423/

Brimble, M & Blue, L 2013, 'Ethics education for financial planners: Financial ethics revisited', *Journal of Business Ethics Education*, vol. 10, pp. 121–138.

Brimble, M, Cameron, C, Freudenberg, B & Fraser, C 2014, 'Collaborating with industry to enhance financial planning and accounting education', *Australasian Accounting, Business and Finance Journal*, vol. 8, no. 4, pp. 79–93.

Clarke, M 2000, 'The professionalisation of financial advice in Britain', *The Sociological Review*, vol. 48, no. 1, pp. 58–79. https://doi.org/10.1111/1467-954X.00203

Commonwealth of Australia 2018, *Royal commission into misconduct in the banking, superannuation and financial services industry: Interim report. Volume 1.*

Commonwealth of Australia 2019, *Royal commission into misconduct in the banking, superannuation and financial services industry: Final report. Volume 1.*

Cruess, SR & Cruess, RL 2008, 'Expectations and obligations: Professionalism and medicine's social contract with society', *Perspectives in Biology and Medicine*, vol. 51, no. 4, pp. 579–598.

Cull, M 2009, 'The rise of the financial planning industry', *Accounting, Business and Finance Journal*, vol. 3, no. 1, pp. 28–40.

Cull, M & Bowyer, D 2017, 'Ethics in financial planning: Myth, fact or rhetoric paradox?', *E-Journal of Social and Behavioural Research in Business*, vol. 8, no. 2, pp. 56–69.

Deci, EL & Ryan, RM 2000, 'The "what" and "why" of goal pursuits: Human needs and the self-determination of behavior', *Psychological Inquiry,* vol. 11, no. 4, pp. 227–268.

Dyckman, TR 1974, ‘An academic looks at industry self-regulation’, *Journal of Accountancy*, vol. 137, no. 4, 40–45.

Financial Adviser Standards and Ethics Authority (FASEA) 2019, *FASEA code of ethics 2019*, FASEA, viewed 11 August 2024, https://www.fasea.gov.au/code-of-ethics/

Foerster, S, Linnainmaa, JT, Melzer, BT & Previtero, A 2017, ‘Retail financial advice: Does one size fit all?’, *The Journal of Finance*, vol. 72, no. 4, pp. 1441–1482.

Freidson, E 2001, *Professionalism: The third logic*, University of Chicago Press, Illinois.

Haslam, SA 2004, *Psychology in organizations: The social identity approach*, SAGE Publications.

Hine, D & McMahon, M 2018, ‘Embedding ethical decision-making in financial planning practice’, *Journal of Financial Counseling and Planning*, vol. 29, no. 2, pp. 276–288.

Hobbes, T 2008, *Leviathan* (J. C. A. Gaskin, Ed.), Oxford University Press, Oxford.

Hunt, P 2018, *Adviser concern for FASEA requirements*, Adviser Ratings, viewed 11 August 2024, https://www.adviserratings.com.au/news/adviser-concern-for-fasea-requirements/

Knutsen, J 2015, *The benefits of financial coaching in the professional financial planning context*, Academia, viewed 22 August 2024, https://www.academia.edu/77994654/The_Benefits_of_Financial_Coaching_in_the_Professional_Financial_Planning_Context

La Rochelle, J 1983, ‘Social contract and the professional ethic’, *Professional Ethics*, vol. 1, no. 3, pp. 165–173.

Locke, J 1988, *Two treatises of government* (P. Laslett, Ed.), Cambridge University Press, Cambridge.

Rhode, DL 2000, *In the interests of justice: Reforming the legal profession*, Oxford University Press, Oxford.

Rice Warner 2021, *The future of financial advice in Australia: Implications of the FASEA review*, Rice Warner Research Report, viewed 11 August 2024, https://www.ricewarner.com/the-future-of-financial-advice-2/

Richards, DW, Ukwatte Jalathge, SL, & Senarath Yapa, PW 2022, ‘The professionalization of financial planning in Australia: An institutional logics perspective’, *Journal of Public Budgeting, Accounting & Financial Management*, vol. 34, no. 2, pp. 238–256. https://doi.org/10.1108/JPBAFM-11-2020-0182

Richards, DW, Robinson, C & Willows, GD 2024, ‘Professionalisation of financial planning in Australia, Canada, and South Africa’, *Australian Journal of Management,* pp. 1–17.

Rousseau, JJ 2004, *The social contract* (M. Cranston, Ed.), *Penguin Classics*.

Sockett, H 1993, *The moral base for teacher professionalism*, Teachers College Press.

Suddaby, R & Viale, T 2011, ‘Professionals and field-level change: Institutional work and the professional project’, *Current Sociology*, vol. 59, no. 4, pp. 423–442.

Sullivan, WM 2005, *Work and integrity: The crisis and promise of professionalism in America*, Jossey-Bass.

Tajfel, H & Turner, JC 1979, 'An integrative theory of intergroup conflict', in WG Austin & S Worchel (eds), *The social psychology of intergroup relations*, Brooks/Cole, pp. 33–47.

Warschauer, T 2002, 'The role of universities in the development of the personal financial planning profession', *Financial Services Review*, vol. 11, no. 3.

Watts, R & Murphy, R 2009, 'The profession, the public, and the private interest', *Journal of Professional Issues in Engineering Education and Practice*, vol. 135, no. 1, pp. 40–45.