

CFA Institute seeks to reaffirm investment industry support

The professional body wants to renew its commitment with the investment management industry, cooperate more with its societies, and attract more young people into its ranks, says Paul Smith, president and chief executive officer.

Paul Smith is an extremely busy man.

The new president and CEO of the CFA Institute has only been in his new role since January 2015, yet he already has to travel a huge amount.

Smith, who was formerly the CFA's managing director of Asia-Pacific and head of its institutional partnerships division (titles that he retains), spends around 40% of his time travelling in Asia, another 40% in North America, where the institute is headquartered, and the remaining 20% in Europe.

He is travelling so much for a purpose: Smith is on a mission to extend the reach and influence of the CFA Institute around the world, but particularly in less developed cities and financial centres.

The new head of the professional body is extremely well versed in the needs of the investment management industry. He worked at Bank of Bermuda as

head of Asia securities services, and then HSBC as its global head of alternative funds after it bought his previous employer. He also founded and ran the Hong Kong-based hedge fund investment management firm Asia Alternative Asset Partners for six years, before joining the CFA Institute.

Smith believes that by better supporting the societies affiliated to it, the CFA Institute can promote higher professionalism standards in investment management firms around the world.

"We have two strategic goals; to restate our commitment to the investment management industry, and to drive member value through our societies," says Smith. "That means working more through the societies and less independently in the centre."

The CFA Institute's purpose is to promote professionalism and ethics in investment management companies. It



PAUL SMITH
CFA Institute
President & CEO

is determined to encourage a higher quality of professional standards in these organisations around the world.

A large part of the way it does this is through its Chartered Financial Analyst

Program, a detailed set of exams designed to raise professional standards among investment management professionals. However, the CFA's various societies also have a role to play in their respective countries in pushing for higher professional standards, and Smith believes the head organisation must offer more power and influence to these societies to help them grow.

"I have 127,000 members worldwide and just 600 staff. We need to use these societies more to be impactful, influencing regulators to build a healthy hygienic investment management industry, which benefits not just members but also investors," says Smith.

"We are not looking to build an investment management industry tilted just to investment professionals, but one that helps investors too."

An integral part of this process is for the CFA Institute to raise its profile with investment management employers about its importance.

By raising the concept that holders of its charter are well trained, dedicated to the industry, and valuable employees, Smith hopes to improve industry standards and benefit the CFA as a professional body too.

GENERATIONAL GAP

As part of the institute's rising engagement, Smith says he wants to get more young members into its CFA programme and get them to offer feedback.

He is eager to do this to offset the large number of older white men who present in the investment management industry.

"Our industry is dominated by middle class, middle-aged Caucasian males and it is not likely to change overly much because that demographic, of which I'm a member, thinks quite a lot of itself as a rule," says Smith.

He thinks this is a problem because there is a growing disconnect between what the investment management industry's current leaders focus on, and

"In 10 to 15 years' time these young people will be running my business, and if the one they inherit is not one they like they will drift into doing other things. Bridging this gap is a big issue; how do we make ourselves more appealing?"

The CFA Institute is taking steps down this road by raising the CFA's profile on social media, through Twitter and LinkedIn. "When there are comments about the CFA I am really making sure we respond to them through social media.

"We try not to engage in a defensive fashion but to bridge the gap and ask 'what do you want from us?'"

The CFA Institute's Twitter feed, @CFAinstitute offers updates on its programmes and events, and shares its thought leadership.

The purpose is to raise its profile with professionals beginning their careers.

By doing so they will hopefully begin to understand the prestige with which the organisation is held, and the professional benefits of taking its programme. Smith particularly credits the CFA's affiliate society in China for helping raise its profile there.

"We are very active on WeChat groups in China through our society," he says.

"They run this presence, and they are young, so naturally they are talking to the right professional constituency."

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Through their support to the CFA, these employers can underline their credentials as high-quality organisations that want to hire the most dedicated, best professionals in the business – exactly the type of people who have already taken the CFA Program, or would like to.

what is important to young professionals in their twenties. "I'm 55 years old, how can I understand what a 27 year old doing? I can't. We are building businesses that are singularly ill-adapted to the market that is coming at them," Smith says.

BUILDING INTERACTION

Engaging with young professionals is important if the CFA Institute is to ever achieve its ultimate goal: becoming the required credential provider and association for investment management professionals across the world.

Smith believes the institute's current penetration of investment managers to be low. "We do some work to gauge our penetration rate and it's in the modest single digits, perhaps at 5% to 8% here in Asia," he says.

The institute is particularly keen to raise this penetration in the region by targeting smaller investment management companies in second-tier cities in China and India, which need better professionalism.

CFA's global average penetration is around 10% to 11%, which Smith says is still far too low. "If we really aspire to be the professional body for the industry we have to be at 100%," he asserts.

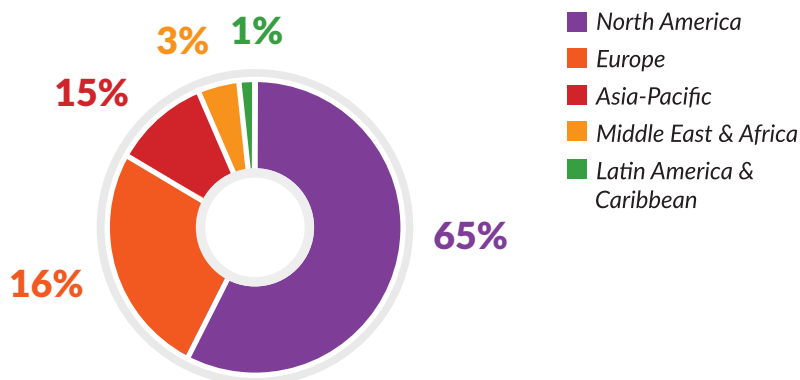
This is an ambitious goal, particularly given the Chartered Financial Analyst Program's demanding examination process. The programme is divided into three levels, and each one requires passing a six hour exam.

"There is still too much emphasis on product training and providing product knowledge. Managers in a lot of [private banks] think that as soon as a client adviser understands a product he is able to sell it, and that's just not true."

The CFA Institute website says candidates study for over 300 hours per level to prepare for each exam.

It's not an easy set of exams, either. Smith says each level has a 45% pass rate, on average. "If you tally that up, the overall pass rate through all three levels is about 14% to 16% of all people who started a CFA. And of that amount not all have the required four years of work experience to convert it into a

GEOGRAPHIC DISTRIBUTION OF CFA INSTITUTE MEMBERS



Source: CFA Institute

charter, so perhaps only 10% to 15% do so."

The process is deliberately rigorous, unlike the CFA's Claritas programme, which has an 80% pass rate. Smith says the latter is designed to be a certificate of learning, using the analogy of a doc-

tor-patient relationship. "The Claritas is not meant to qualify you as a doctor, but help you to understand what a doctor is telling you."

CONTRADICTIONARY GOALS

Of course, the small pass rate of the CFA Programme is at odds with Smith's hope of the CFA Institute becoming a professional body for every single member of the investment management industry.

There is a contradiction here, he admits.

"We believe the bar should be set high but whether we are doing enough to help people through the exam is one question [worth asking]," he says.

"We want those who get the charter to be acknowledged as people who have dedicated themselves to acquiring a professional education, but we also need to get more through that process."

The CFA Institute is also reviewing whether to make its level one framework an industry qualification that financial regulators can use as a licencing framework.

"Whether within that framework we could make level one a little bit more inclusive and push some materials up into levels two and three is something that we are wrestling with," Smith says.

The association is also considering whether to begin offering a process of mandatory continuing professional education. It has resisted doing so to date. "We have taken the view historically that the people who get through

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this process are dedicated to their profession, so whether you set the bar at 20 hours or 30 hours is irrelevant,” says Smith. “All of us who do CFAs do far more than this anyway, as we consider ourselves to be professionals and that is what professionals do.”

Despite this attitude, there is a march towards greater ongoing professional learning and development, and Smith says the CFA Institute is likely to end up having to adapt to acknowledge this.

“We feel that if we aspire to be more recognised as a professional body then ultimately we are going to have to address that issue. But it’s not on our immediate agenda.”

LAPSING MEMBERS

A fundamental reason to both take and maintain the CFA charter is because of the accomplishment it recognises. Asia’s

investment management industry is growing fast, and it can be a challenge to find serious, dedicated professionals.

People who take the charter demonstrate these values.

However, their willingness to maintain it and contribute to the evolution of the investment industry in other ways also reflects on their self-worth. For example, the anecdotal feedback of CFA exam writers and graders, the mentors at the institute’s annual Research Challenge competition and at its workplaces, and the dedication of industry volunteers with CFA charters helps governments to build and adapt regulatory infrastructure.

Asia needs to continue evolving its financial industry, and it is the sort of people who take and maintain their charters who are most likely to help progress it in a positive fashion.

However, at the moment this sense of achievement is not being felt by many younger Asian professionals, who don’t continue to pay for their membership over the years.

Smith says the average age of a charter holder upon passing is 27 or 28, but the lapse rate in terms of membership is also far too high in this bracket, with many young professionals stopping paying their dues after they get a job.

“They keep the charter for a couple of years and then give it up. They may not see the value of the charter or of joining a local society when they qualify. In Asia there does appear to be a challenge in terms of the western understanding of what it means to be part of a profession.” Solving this issue will come back to Smith’s desire to engage more with young professionals.

They need to appreciate the benefits of holding a charter over the years, the advantages of being a member of an association like the CFA, and the sense of pride they should justifiably feel for being a positive contributor to the industry.

Smith’s challenge is to convince them, in ways he and other middle aged Caucasians find difficult. ■

