

22 July 2015

Ministry of Business, Innovation
and Employment
PO Box 3705
Wellington
New Zealand

Review of Financial Advisers Act: Submission

nib nz limited (**nib**) welcomes the opportunity to make a submission to the Ministry of Business, Innovation and Employment on the Review of the Financial Advisers Act.

nib is the second largest health insurer in New Zealand and has operated as a Qualifying Financial Entity since 2013. nib is owned by nib holdings limited, an ASX-listed Australian health insurer with over 60 years' experience in the health industry. nib has operated in the New Zealand market since 2012, has approximately 160 employees in New Zealand and provides health and medical insurance to over 1.2 million New Zealand and Australian residents.

We support the Ministry's review of the Financial Advisers Act and Financial Service Providers (Registration and Dispute Resolution) Act.

We have participated in the preparation of the Health Funds Association of New Zealand submission on the review and, while we support the overall submission, there are additional areas that we wish to submit on.

In the paper attached to this letter, we have responded to a selection of questions from the Issues Paper. We have focussed on the following issues:

1. Increasing consumer confidence in the industry – we agree with the key goals that the Ministry is looking to achieve with the regulation of financial advice in New Zealand:
 - a. that financial advice is accessible for consumers;
 - b. that consumers are provided with information to find and choose a financial adviser; and
 - c. that public confidence in the professionalism of financial advisers is promoted.

We see an underinsurance of New Zealanders and hope that increased confidence in the profession would encourage more New Zealanders to seek and receive quality advice.

2. Raising the bar on the standard of financial advice in New Zealand – we suggest that the standard of financial advice should now be increased through additional ethical standards, conduct requirements and continuing professional development requirements for RFAs to support the status of advisers as a profession in New Zealand. We also support increased disclosure on the Financial Service Providers Register and in the disclosure statements produced by RFAs and QFEs. This disclosure should be extended to mandatory disclosure of commissions, conflicts of interest and relevant criminal and disciplinary matters.

3. Transparency on commissions – we support the continued existence of commissions in New Zealand, as a means for more New Zealanders to access quality financial advice. We consider that greater disclosure of both financial and non-financial benefits should be required by all advisers. We would also support a Government review into commission maxima on financial products.
4. Churn – We see instances where inappropriate replacement business is being sold in the New Zealand insurance industry and we consider that this is due to misaligned incentives, particularly with high commission rates and undisclosed “soft dollar” commissions. Inappropriate replacement business is rarely, if ever, in the consumer’s best interests. We support increased conduct and ethical standards on advisers and increased disclosure obligations to enable consumers to understand the incentives that apply to financial advisers.

We request that the final sentence to our response on question 63, that contains the number of our QFE advisers, be withheld from publication.

On behalf of nib, I or other representatives of nib, would welcome the opportunity to further discuss our submission with the Ministry.

Yours sincerely



Robert Hennin
Chief Executive Officer
nib nz limited
[18\(d\)](#)

#	MBIE Question	nib response
8	Do you think that the term Registered Financial Adviser gives consumers an accurate understanding of what these advisers are permitted to provide advice on and the requirements that apply to them? If not, should an alternative term be considered?	No, we do not consider that consumers understand the difference between AFAs and RFAs. We think that, rather than changing the name, the focus should be on bringing the obligations of each adviser type into closer alignment.
9	Are the general conduct requirements applying to all financial advisers, including RFAs, appropriate and adequate? If not, what changes should be considered?	The general conduct requirements are relatively light for RFAs. We recommend that all advisers be required to comply with the conduct requirements in the AFA Code.
10	Do you think that disclosing this information is adequate for consumers? Should RFAs be required to disclose any additional information?	<p>RFAs should be required to disclose relevant qualifications or experience, commissions, non-financial benefits that they receive from providers, and within categories, the range of products that they can advise on. This would mean that advisers are required to disclose if they have an exclusive arrangement with one provider in a category (e.g. life insurance) or if they can advise the customer on a wider range of providers' products.</p> <p>Disclosure should be provided in a relatively simple, ideally prescribed, manner that enables easy comparison between advisers and that is easy for consumers to understand.</p>
24	Are the current disclosure requirements for QFE advisers adequate and useful for consumers?	There are currently limited obligations on QFEs to disclose information to customers. If disclosure requirements are changed for RFAs (see response to question 10), similar changes should also be considered for QFE disclosure requirements.
25	Should any changes be considered to improve the relevance of these documents to consumers or to reduce the costs of producing them?	A prescribed, short form disclosure statement should be considered to provide consumers with an easy way to compare services offered by QFEs.
35	What changes should be considered to make the current regulatory regime simpler and easier for	We understand, anecdotally, that the current regulatory regime is not well understood by consumers.

	consumers to understand? For example, removing or clarifying the distinction between AFAs and RFAs.	We do not agree that all advisers should necessarily have the same status, but suggest that standards are raised for RFAs to bring them closer in line with the standards for AFAs.
36	Does the limited public transparency around the obligations of QFEs undermine public confidence and understanding of this part of the regulatory regime?	<p>We do not think that all customers understand the front-line supervision role that a QFE assumes, and the related obligations under the QFE standard conditions. We do not think that consumers necessarily understand the monitoring, training and other quality assurance activities that QFEs take to ensure that the advice provided by QFE advisers is suitable.</p> <p>To increase confidence in QFEs and QFE advisers, we suggest that changes to expand the disclosure requirements for RFAs should be applied to QFE advisers. Customers should understand the financial incentives (and other relevant matters) that apply to the adviser they are seeking advice from, regardless of the status of that adviser.</p>
37	Should there be a clearer distinction between sales, information provision, and advice? How should such a distinction be drawn? What should or should not be included in the definition of financial advice?	<p>We do not agree that there should be a new category of “sales” with differing standards from advice. This would add an additional layer of complexity to the existing regime.</p> <p>We think that consumers could have better understanding of the sales nature of advice if they had more complete information about the commissions payable to their adviser in connection with advice and any conflicts of interest that applied to the adviser.</p>
40	Do you support commission and conflict of interest disclosure requirements being applied to all financial advisers? If so, what requirements are appropriate for different adviser types?	Yes. All advisers should have to disclose the financial and other benefits that they will receive for recommending a particular financial product. Standardised, or template disclosure should be considered to enable customers to compare different advisers and different products. All advisers should have to disclose conflicts of interest.
41	Do you think that commissions should be restricted or banned in relation to financial advice, and if so, in	No. We do not agree that commissions should be restricted or banned. There is a cost to advisers to provide advice. The payment of

	<p>what way? What would be the costs and benefits of such an approach?</p>	<p>commissions by financial service providers means that consumers do not have to directly pay for advice and should ensure that a greater number of consumers have access to financial advice.</p> <p>We have followed the progress of the Trowbridge report in Australia and we would support the Government introducing commission rate limits and/or a limit on how frequently advisers can receive upfront commission payments. We would support a proposal to adopt similar measures to those being adopted in the life insurance industry in Australia.</p>
53	<p>In what ways do you expect new technologies will change the market for financial advice?</p>	<p>We expect that increasingly financial products will be purchased through online sources that do not involve face to face advice from an adviser. We see an increased demand for financial products to be sold on a transactional basis, requiring limited advice.</p>
56	<p>Should the same or similar [to AFAs] ethical standards apply to all types of financial advisers?</p>	<p>Yes.</p>
58	<p>Do you think that RFAs (for example insurance or mortgage brokers) should be required to meet a minimum qualification relevant to the area of advice they specialise in? If so, what would be an appropriate minimum qualification?</p>	<p>Yes. We think that customers have a reasonable expectation that the person providing them with financial advice has sufficient training and understanding of the area that they are advising in. We also recommend that this is disclosed to consumers. We would support the introduction of minimum qualification standards for all advisers and the introduction of continuing professional development requirements for all advisers.</p>
63	<p>Is the QFE system achieving its goals in terms of consumer protection and reducing compliance costs for large entities? If not, what changes should be considered?</p>	<p>The QFE model provides a system that requires the QFE to take front line supervision and responsibility for the advice provided by its QFE representatives. For nib, this means that calls are recorded, monitored and assessed. It means that customers have the benefit of speaking to individuals who receive ongoing training, coaching and feedback. This level of detailed oversight is positive as a means of consumer protection to New Zealanders.</p> <p>9(2)(ba)(i)</p>

69	What changes, if any, to the minimum [FSPR] registration requirements should be considered?	<p>We consider that all financial service providers should be subject to additional criminal background checks than the checks currently run by the Registrar. The current criminal background check considers financially-based crimes only but we submit that a wider check should be carried out, similar to the levels of assessment carried out for other professions in New Zealand (e.g. accountants and lawyers).</p> <p>We also recommend that the Register should include information on a financial adviser's qualifications and their disciplinary record.</p>
76	What features or information would make the Register more useful for consumers?	<p>If the FAA is amended to provide for more detailed licensing arrangements (e.g. a requirement to confirm what type of category two advice is provided by an adviser) then this additional information should be included on the register. At present customers can only see that a person is registered to provide financial advice but not the specific type(s) of advice the person is qualified/has the relevant experience to provide.</p> <p>The Register can only be used to verify that a person or entity is a registered financial service provider. The Register could be expanded to be more useful to consumers by providing a facility for consumers to be able to search for an adviser (whether by geographic location or type of advice provided).</p>
77	Would it be appropriate for the Register to include information on a financial adviser's qualifications or their disciplinary record?	Yes, in addition this information should be disclosed to customers in disclosure statements.