

# **Submission on Discussion Paper - Financial advice provider licensing fees and changes to the FMA levy**

## **NZ Financial Services Group Limited / Loan Market**

### **1. Objectives**

We agree with identified objectives.

### **2. Transitional Licencing Fees**

**We recommend the application fee to add or remove an authorised body be the same as the application fee of \$39.00.**

We are a Head Group with over 1,000 adviser members. Most are self employed and operate under their own limited liability companies with their own brands. They are not employees or nominated representatives. We plan to become a Financial Advice Provider.

Most members that choose to come within our FAP licence would be authorised bodies. At the stage of us applying for a transitional licence, we expect many members to still be working through their options.

The fee to vary licence conditions by adding or removing an authorised body is high, especially with advisers going through the decision making process over a period of time on whether to apply for their own licence or join a FAP. We want our members to carefully consider their options rather than us applying pressure on them to make a quick decision by a deadline in order to avoid a higher fee.

As an example we may have 500 advisers who have decided to come within our FAP, and 600 undecided at the time of us taking a transitional licence. As more decide to join us, we would be incurring a cost of \$100.00 each time instead of \$39.00. (could be up to  $\$61 \times 600 = \$36,600$  extra we have to pay).

We recognise that the fee of \$100.00 may be there to discourage advisers from forming their own FAP and then moving to come within another FAP (meaning extra work for the FMA). However there may be considerable cost borne by us.

The higher cost of varying the licence may result in FAPs holding off taking a transitional licence until the last minute meaning the FMA would receive multiple last minute applications to process at once.

### 3. Full Licensing Fees

**We believe that there has been insufficient consideration regarding adviser transfers (moving from one FAP to another).**

**We question the fee of \$100 for an authorised body leaving a FAP on the assumption that there would not be any investigation required by the FMA as it is purely an administrative function.**

Advisers (FAs) can move from one FAP to another. As most of our members would be authorised bodies, there would be a cost of \$100 for each movement in or out of our FAP.

Example - FA's can transfer from one FAP to another. The fees in this situation would be \$200 (\$100 charged to the FAP the FA is leaving, and \$100 charged to the FAP the FA is joining). These transfers are common within the industry. We are unclear on the intention here.

**We believe the comparison to current fees can be misinterpreted for multiple adviser businesses.**

The comparison to current fees includes an example for a business engaging 5 FA's. It shows the proposed fee as \$730.00. Whilst this may be correct for a FAP with employee advisers, the more likely scenario is a group of 5 FA's operating under one umbrella but with their own limited liability companies.

Our interpretation is that in this scenario (see further explanation below) the financial advisers would be authorised bodies under an umbrella FAP, and that the fees shown in the example are understated in relation to the more common structure of adviser businesses.

#### Multiple FA Businesses

Adviser businesses are often formed for economies of scale, where they may lease a common office, employ an administration person, and operate under one brand. The umbrella company could hold the lease, pay for advertising and employ an admin person. The advisers may earn commission in their own right, and contribute a set amount to the umbrella company for payment of overheads. The adviser's commission would probably be paid to the adviser's own limited liability company.

In this scenario we believe that each adviser under the FAP would be an authorised body, meaning the cost of obtaining a licence would be  $\$730 + (\$155 \times 5) = \$1,505$ .

The circumstances under which the additional charge for authorised bodies applies needs to be clearly stated. Perhaps the definition of an authorised body needs consideration, and different examples would be useful.

#### **4. Objectives for the FMA Levy**

**We agree with identified objectives. However we believe that the proposed levies will encourage single adviser or small adviser businesses to take their own licence without appreciating the full costs of becoming a FAP.**

We appreciate that the FMA/MBIE want to demonstrate that the costs of the new regime are not prohibitive in order to retain advisers and consumer access to financial advice.

If the result is a proliferation of small adviser businesses becoming FAPs we question whether this will accomplish the desired outcome of improving consumer outcomes. We also believe the FMA will have difficulty monitoring a large number of FAPs.

The major cost to a FAP may not be in the licence fees and FMA levies, but in the ongoing processes that need to be in place to validate the licence. For example there could be audit fees that are payable to a third party provider. There may also be licence renewal fees that the discussion paper does not address.

When fees and levies are finalised and published, we would like to see some reference made to the requirements of a licence holder, and that the stated fees and levies are only part of the costs that an adviser must consider.

#### **5. Proposed FMA Levies**

**We would like to see more clarity around the levy associated with a FAP giving advice on its own account. There is comment that this applies to a digital advice platform.**

In the scenario of 5 FA's working together, all individuals would give advice. However part of their marketing strategy might be to have a common website that has a simple needs analysis to identify that insurance cover is required, or a home loan calculator showing loan repayments and options. This could be considered simple financial advice.

Is it the intention for the extra \$1,106 to apply in this scenario?

There may also be confusion as to whether a single adviser business may have to pay \$1,106 where the adviser is the Licensed FAP.

## **6. Who pays the Levy?**

**If levies are to be paid by the FA, rather than the FAP, then we question the wisdom of moving away from a collection system associated with the FSPR that seems to be working.**

In the Introduction to the discussion paper (point 3) it mentions amending how the FMA levy is collected from the financial advice sector. Presumably this means that it will be decoupled from the FSPR levy payment process.

The continued collection of the FMA levy through the FSPR registration and renewal process at FA level would appear to be the best and simplest option.

We agree with the rationale that by having a FAP pay a levy, there may be over recovery. An FA may need to be associated with multiple FAPs if offering multiple services such as insurance, mortgages and investments.

**We understand that the cap of \$80,000 applies only to FAPs with nominated representatives. If this is correct then this needs to be more clearly stated.**

## **7. Alternative Options**

**The tiered approach suggested would penalise larger FAPs.**

If a tiered approach was used, it should work in reverse to what has been suggested. Larger FAP's should have reduced FMA levies, rather than increased levies, as they should be in a position to take more responsibility for the action of their FAs. Increased FA members equals increased revenue to the FAP to put processes in place. This should result in decreased monitoring by the FMA if the FMA was comfortable with the FAP's processes.

## **8. Relief to single adviser business**

**The definition of a single adviser business needs to be clear. If the individual giving the advice has their own FAP, as well as being a FA, then we believe relief as proposed is warranted. We don't believe that this will discourage future growth.**

We expect to see a decrease in single adviser businesses under the new regime as single advisers choose to join a larger adviser business for economies of scale, training and compliance.

The FMA levy is a comparatively small component of the total costs of running a multi adviser business. An additional levy for additional advisers should be met from the additional revenue generated to the business from the engagement of additional adviser(s).

A single mortgage broker could employ an admin person who gives advice to clients on fixed rate rollovers and mortgage top ups to certain levels. Would this be a single adviser business?

## **9. Authorised Bodies**

**The definition of an authorised body needs to be clear. We recommend that when final fees/levies are published that examples be given regarding authorised bodies and interposed persons if necessary.**

We have two offerings - non branded and branded. Most members operate under NZ Financial Services Group as non branded meaning they have their own brand under which they operate. NZ Financial Services Group is not a public facing brand.

The branded offering is the Loan Market brand. Members within Loan Market use this brand in all promotional material and are monitored in relation to this. However they are still self employed and have their own limited liability companies.

We want to be clear how the definition of authorised body applies in different scenarios.

## **10. Assumptions Used**

70 new applicants for a full licence seems low.