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Kia ora Ross,

ICNZ SUBMISSION ON THE PROPOSED TERMS OF REFERENCE FOR THE REVIEW OF ACCESS TO FINANCIAL ADVICE FOR NEW ZEALAND

Thank you for the opportunity to provide a submission to the Financial Market Authority's (FMA) consultation on the proposed terms of reference for the review of access to financial advice for New Zealand.

Te Kāhui Inihua o Aotearoa | The Insurance Council of New Zealand (ICNZ) represents general insurers. Our members accept the risks of over NZ\$2 trillion of New Zealand's assets and liabilities. ICNZ's members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, cyber insurance, commercial property insurance, and directors and officers insurance).

We have feedback on the proposed Scope and Themes of the Review and on Engagement.

Scope and Themes

The FMA has asked:

"Are the four areas we are proposing to focus on appropriate as a basis for us to explore the challenges and opportunities for accessibility of financial advice? Are there other relevant key themes or focus areas that should be included?"

Focus Area 1. Consumer Demographics and Preferences

The proposed focus on consumer demographics and preferences is appropriate for the Review.

There appears to be an increasing trend of adoption of an information-only approach to financial advice. It may be that an information-only model might suffice for large numbers of customers, however, this assumption would need further validation. It is possible that this trend may be limiting access to tailored advice for certain demographic segments.

Consumers also may not fully understand what financial advice entails, which means it can be challenging for them to identify when they want or need financial advice. It may be useful for the

Review to consider consumers' understanding of common consumer products, and when consumers might benefit from financial advice.

Focus Area 2. Innovation and Digital Advice

The proposed focus area of innovation and digital advice is relevant for the Review. The financial advice industry is increasingly moving towards digital solutions, driven by consumer demand and the need for business efficiency. This trend is expected to continue, with financial advice in the digital space becoming more AI-based over time. The AI dynamic merits attention, along with its interaction with the regulatory context.

It is likely that the cost associated with developing and implementing new technologies is one of the primary reasons for subdued innovation in the financial advice industry. Additionally, models focused on providing clients with personalised financial advice may limit the scope of innovation in digital advice. This is because personalised advice often requires human interaction, which can be challenging (and potentially inappropriate) to replicate digitally.

Focus Area 3. Remuneration Structures and Advice Business Models

We agree that an examination of financial advice business models and remuneration structures is important to ensure financial advice is accessible and equitable for consumers. It would be appropriate for this examination to cover the impact of commissions.

Focus Area 4. Ease of Provision of Regulated Financial Advice

We support the proposed focus area around ease of provision of regulated financial advice.

Financial Advice Providers must balance client needs with their regulatory obligations when delivering financial advice and it is possible that this balancing act can sometimes limit access to financial advice.

Regulatory obligations can generate conservative compliance practices which may hinder Financial Advice Providers' willingness to innovate and may affect the choices that firms make about the type of information they can provide.

For example, a call centre might take an overly conservative approach when a consumer asks for help because the firm is unclear on the line between information and advice or concerned about getting it wrong.

Simplifying regulatory requirements could encourage more innovative approaches to providing financial advice and useful information.

Engagement

The FMA has asked:

"Which industry participants, experts or other stakeholders should we engage with as part of this review? Is there existing research, literature and data (e.g. existing studies, market data on net worth and assets held, consumer demographic data, pricing and revenue flows) that you believe would be useful for us to use as part of this review?"

We recommend engaging with larger Financial Advice Providers who advise on domestic insurance lines. These Providers are increasingly moving towards digital solutions or offering general information due to the obligations associated with providing financial advice. Their insights will be valuable in understanding the impact of current regulations and identifying opportunities for innovation and improvement in the financial advice industry.

Thank you again for the opportunity to comment on this consultation. Please let me know if you need any further information or have any questions about our feedback.

Ngā mihi,

A handwritten signature in black ink, appearing to read 'Susan Ivory', with a stylized flourish at the end.

Susan Ivory
Regulatory Affairs Manager
Insurance Council of New Zealand