

From: Tenancy No Reply
Sent: Friday, 7 June 2019 7:09 p.m.
To: Insurance Review
Subject: Response to Review of Insurance Contract Law quick form

What is your feedback on the overarching duties? Which option do you prefer and why?

We believe it is important that there is no duplication of the Duties of Care which already apply to advisers and advice through FSLAA.
Any new duties should be limited to duties of product suitability and allow FSLAA to provide the framework for the Duties of Care for advice.

What is your feedback on the options to improve product design? Which option do you prefer and why?

We believe there is legislation which already provides the consumer protections described in Options 1 and 2. We believe Option 3 is reasonable however we do not believe that the intended audience for a product can or should be entirely prescriptive – but can be indicative which will certainly help with miss-selling. We do support encouragement to include the customer outcomes at the centre of product design.
What is considered a good customer outcome is challenging to be entirely prescriptive about we believe. For example, we pay for earthquake insurance to cover an exposure that may never occur in our lifetime resulting in potentially low loss ratios for the insurer. Never claiming for that particular risk exposure isn't a necessarily a poor customer outcome, it is more good luck. Differentiating between good luck and what is a genuine poorly designed product with poor customer outcomes will be extremely difficult to prescribe.

What is your feedback on the options to improve product distribution? Which option do you prefer and why?

We believe that Option 1 is the most realistic option of the options presented. There is a risk that too prescriptive regulation in this area will drive unforeseen outcomes which do not necessarily result in better customer outcomes.
Squirrel is a mortgage brokering firm with a full-time staff of circa 50 employees, of which around half are in mortgage advisory roles. All Squirrel mortgage advisers are permanent employees, and all are paid base salaries that range from \$80,000 to \$150,000 per annum. In addition to salaries the mortgage advisers can earn an additional quarterly incentive based on their level of activity – this is designed to be less than 20% of their overall remuneration. We are also looking to include customer satisfaction metrics into the remuneration model, however data capture in this area is complicated. In the last financial year adviser incentives were 18.4% of total adviser remuneration, 9.7% of total company employee costs and 5.6% the businesses total revenue.
Our mortgage advisers have no incentive to place business with any particular lender to avoid any commission bias. All commission revenue is paid to Squirrel directly with mortgage advisers having no incentive tagged to commission structures. Squirrel is therefore one of the only mortgage advisory businesses in Australasia that pays its advisers the majority of their annual income as a salary.
We believe our salary model is very strongly customer-centric and having advisers operating within the Squirrel entity enables strong governance and control to be applied to the advisory process. This risk that we see with being overly prescriptive with the remuneration structures of an adviser who operates as an employee within a company like ours is that it will effectively encourage those advisers to transition to a 'freelancing' model where they receive commissions directly. This obviously removes the governance and oversight that our model provides, but also transitions to an environment where the adviser is arguably incentivised to do exactly what the legislation was trying to avoid. We do not think that is in the interests of customers at all.
We believe there is some merit to the ideas presented within Option 4, acknowledging that ensuring

any restrictions should not have the impact of reducing the availability of independent advice or customer choice.

What is your feedback on the options relating specifically to insurance claims? Which option do you prefer and why?

No comment

What is your feedback on the options for tools to ensure compliance? Which option do you prefer and why?

We think there are many good ideas muted within this section and a combination of ideas from several of the options appear to be useful.

As muted by Option 1, we believe the FMA is probably the appropriate regulator to be tasked with monitoring and enforcement however we suspect that the role may be broader and more aligned to Option 3.

We support an increased role for industry bodies (Option 8) and more regular industry reporting (Option 7) however we have reservations about the release of industry/company level data widely in the public arena (as opposed to within the industry) due to widespread misinterpretation of relatively complex and sometimes incomparable data between companies.

What is your feedback on who the conduct regulations should apply to? Which option do you prefer and why?

It seems reasonable to ensure there is a level playing field for operators within each industry sector, however ensuring the consequences and compliance costs aren't overly prohibitive for the smaller operators must also be considered.

What is your feedback on the initial preferred package of options?

We generally accept the initial preferred package of options other than the straight ban on target-based remuneration. We believe a complete ban to be unnecessary in all situations without strong evidence supporting a systematic failure of that form of remuneration. We do however support including an overriding intent to encourage good customer outcomes and experiences with incentive schemes.

Do you have any other general feedback?

We thank the MBIE for the opportunity to contribute to this review.

We strongly encourage the regulators in New Zealand to consider a forward-looking and global view of the marketplace during this process due to the rapid changes occurring globally around financial services and fintech in particular which is increasingly rendering traditional business models out-of-date. Over-emphasising an internal focus may also have negative consequences for customers as innovation is stymied. We have some concerns that out-dated business models may unduly influence the direction of future regulation without due consideration of new breed of agile and commercial operations such as our own. To date we have not seen officials acknowledge the rapid rate of change occurring in this industry globally and that concerns us somewhat.

Your name

Tim Bowen

Your email address

Privacy of natural persons

Your organisation

Squirrel Mortgages Limited

In what capacity are you making this submission?

business

Other capacity

Privacy act/release

Can we include your name or other personal information in any information about submissions that we may publish?

yes

We intend to upload submissions to our website. Can we include your submission on the website?

yes

You may ask us to keep your submission, or parts of your submission, confidential. If so, you'll need to attach reasons and grounds under the Official Information Act 1982 for consideration.

no

You've indicated that you would like us to keep your submission confidential. Please give your reasons and grounds under the OIA that we should consider.

PROACTIVELY RELEASED