

Regulating the conduct of financial institutions

Regulations to support the new regime for the conduct of financial institutions

The Ministry of Business, Innovation and Employment is seeking feedback on a Discussion Document titled *Regulations to support the new regime for the conduct of financial institutions*. Feedback will help inform policy decisions on whether regulations are required to support the Financial Markets (Conduct of Institutions) Amendment Bill, and if so, what these regulations should cover. This document provides a summary of the Discussion Document.

TIMELINE FOR THE DISCUSSION DOCUMENT



Sales incentives

- › Sales incentives offered by financial institutions (banks, insurers and non-bank deposit takers) to their staff and intermediaries, or by intermediaries themselves, can drive poor outcomes for consumers.
- › Cabinet has agreed to regulate sales incentives that have a target component based on the value or volume of products sold or advised on.

We are seeking feedback on how to implement Cabinet's decision, including which incentives should be prohibited and which should be allowed.

OBJECTIVES

- › Reduce or manage conflicts of interest
- › Reduce mis-selling
- › Retain access to financial products and services

PREFERRED OPTION

Prohibit sales incentives based on volume or value targets

- Clearly addresses particularly problematic incentives
- Would allow industry to continue remunerating staff and intermediaries on the basis of salary, general sales based on linear incentives and non-sales based incentives
- Aligns with changes already being made by individual financial institutions
- Would impose some cost on industry due to restructuring of incentive structures and practices and amending agency agreements

ALTERNATIVE OPTION

Prohibit any incentive that could reasonably be expected to influence

- a. the choice, volume or value of products or services*
- b. the financial advice given to the consumer*
- Broader and more flexible prohibition on problematic incentives
- Less certain than Option 1
- Risks covering more types of incentives which could have a significant effect on industry, remuneration and the availability of financial advice



Requirements for fair conduct programmes

- › Financial institutions will be required to create and comply with their own fair conduct programme that is designed to ensure they treat their customers fairly.
- › The Bill already contains some requirements for fair conduct programmes e.g. institutions must have systems for managing conduct risks and training their employees, agents, and intermediaries.

We are seeking feedback on areas whether further requirements for conduct programmes may be necessary or desirable.

OBJECTIVES

- › Regulations are **consistent with the fair conduct principle**
- › Regulations provide further **certainty** about the nature of financial institutions' obligations
- › Regulations are **necessary** to support the objectives of the Bill

Possible further requirements

- › Design and distribution of products and services, including identifying likely consumers for financial products and taking steps to ensure distribution of products to those consumers
- › Remediation of issues, for example that remediation processes must be adequately resourced
- › Complaints handling, for example that complaints are investigated in a fair, timely and transparent manner
- › Claims handling, for example ensuring employees' and agents' compliance with claims handling procedures

Other matters

The Discussion Document also seeks feedback on various other more technical matters, including what information financial institutions have to publish about their fair conduct programmes.

Please visit:

www.mbie.govt.nz/have-your-say/conduct-of-financial-institutions-regulations
to read the Discussion Document and make a submission.

If you have any questions please contact financialconduct@mbie.govt.nz

Submissions close
at **5pm on**
Friday 18 June 2021.