



**Submission to the Ministry of Business, Innovation  
and Employment, on the Issues Paper:**

**Review of the Financial Advisers Act 2008 and the  
Financial Service Providers (Registration and Disputes  
Resolution) Act 2008**

July 2015

## **Background**

AIA International Limited trading as AIA New Zealand is a licensed life insurance company and a member of the AIA Group of Companies.

AIA New Zealand is based in Auckland with regional offices in Wellington and Christchurch. AIA New Zealand is a member of the Financial Services Council (FSC), the Insurance and Savings Ombudsman Scheme (ISO) and the Health Funds Association of New Zealand (HFANZ). AIA New Zealand employs 140 staff in New Zealand and distributes its' products primarily via Registered Financial Advisers located throughout the country.

AIA Group Limited and its subsidiaries (collectively "AIA" or the "Group") comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, a 97 per cent subsidiary in Sri Lanka, a 26 per cent joint venture in India and representative offices in Myanmar and Cambodia.

The business that is now AIA was first established in Shanghai over 90 years ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$167 billion as of 30 November 2014.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 28 million individual policies and over 16 million participating members of group insurance schemes.

## **Summary of Submission**

AIA is fully supportive of the review of these pieces of legislation.

AIA believes that underinsurance is a major issue in New Zealand and AIA is focused on ensuring that we deliver real solutions to this problem within a regulatory frame work that ensures consumers have access to quality financial advice.

We believe any regulation needs to be a balancing act between protecting the consumer but at the same time not unduly restricting access to financial advice.

AIA predominately deals with RFA's and we do believe that additional new RFA's entering the industry should be subject to increased educational requirements/competency.

AIA does not believe commission should be regulated but does believe advisers should be encouraged to adopt more sustainable remuneration models. AIA does have concerns about the extent to which the continued use of production based incentives such as overseas holidays in addition to commission payments are being utilised. AIA supports the requirement to disclose the fact they receive commission but detailed disclosure by RFA's would be problematic.

## **Comments**

### **RFA/QFE Requirements**

AIA does agree that RFA's should be subject to increased educational and competency requirements. This will enhance consumer confidence in the FSPR and give consumers greater confidence when obtaining financial advice. However there are a significant number of RFA's who have been providing financial for a number of years. We would be concerned if the increased educational and competency requirements led to a significant number of these experienced RFA's leaving the industry. This could result in fewer experienced RFA's and reduce consumer's access to quality financial advice. AIA recommends that experienced advisers who have worked in the industry for a number of years be allowed to continue to do so under the current arrangements.

AIA believes that in any event RFA's and QFE Advisers (e.g. Banks) should be required to meet the same educational/competency requirements. AIA believes that RFA's play an important part in ensuring consumers have access to financial advice and a range of products from a number of different providers and do not believe that RFA's should be marginalised by any future regulatory changes.

### **Commission**

AIA does not believe that commission should be regulated. New Zealand has a significant underinsurance problem and regulating and/or capping commission will further compound this issue. We do believe that commissions should be based around creating a sustainable business model for RFA's which would in turn retain them in the industry longer and build up the number of experienced quality RFA's. AIA believes that the best way of ensuring this occurs is by offering sustainable commission models to RFA's and has been promoting this as a means of ensuring the above.

AIA does have concerns around the level of production based or "soft" remuneration paid to RFA's which include things such as merchandise and overseas trips. Whilst, as previously stated, we believe sustainable commission models help ensure that we retain a suitable number of RFA's within the industry to service consumers we have concerns that the provision of "soft" remuneration is not always in the best interest of consumers.

AIA has no objection to the disclosure by RFA's to consumers that they will receive commission/remuneration for product sales. We do believe however that providing a detailed breakdown of commission in manner that would be meaningful for consumers would be problematic due to the fact RFA's can work with a number of different product manufacturers who pay differing levels of commission and production remuneration.

We are aware that the Financial Markets Authority is carrying out an investigation into the issue of the churning of life insurance policies within New Zealand. Whilst it may be some time before the FMA releases its findings into the matter AIA believes it is important the consumer has a choice of product and insurers. We believe the majority of movement is for good reason, reflecting movement in the competitor landscape around product features and price, with only a minority of advisors moving business inappropriately.

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