



22 July 2015

Corporate Law  
Labour and Commercial Environmental Group  
Ministry of Business, Innovation and Employment  
PO Box 3705  
Wellington

Emailed to: [faareview@mbie.govt.nz](mailto:faareview@mbie.govt.nz)

To Whom It May Concern,

**TOWER submission on the Review of the Financial Advisers Act 2008 (FAA) and the Financial Service Providers (Registration and Dispute Resolution) Act 2008**

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1. Thank you for the opportunity to submit on the review of these two Acts. We have contributed to the Insurance Council of New Zealand (ICNZ) submission, and would like to reinforce our support of that submission.
2. We have structured our letter into the following main points:
  - First, we describe TOWER Insurance Limited and our interest in the review.
  - We then outline our support of the ICNZ submission and its key points. As part of this submission we will outline our perspective as a Qualifying Financial Entity (QFE) offering general insurance products to the general public and small businesses.
3. If you have any questions please contact myself or our Senior Legal Counsel, Megan Bonetti directly. Our contact details are at the bottom of this letter.
4. TOWER Limited is an NZX listed company and its subsidiary TOWER Insurance Limited is a licenced insurer. We are a significant insurer in New Zealand and offer products across the domestic and small business space in both New Zealand and the Pacific Islands. We have been in business since 1869.

**Support of QFE model**

5. We recognise that under the FAA at present, the discussions our sales personnel have with customers and potential customers fall within the definition of financial advice. Therefore, we have chosen to become a QFE, which enables our staff as QFE advisers to have meaningful discussions with customers, understand their insurance needs and ensure a suitable product is offered and sold. We have been a supporter of the QFE regime, and believe it is an efficient

mechanism in recognising the efforts of employers such as ourselves to ensure staff are trained, supervised, and monitored.

6. As an employer we want to take responsibility for our staff, in ensuring that they are trained, supervised and monitored to sell the most suitable product to customers. All TOWER's products are category 2 products.
7. QFEs are best placed to train their staff and select internal training standards, and we do not believe it is appropriate for external training standards to be set for QFEs and their QFE advisers. Our call centre sales staff are trained in a classroom based environment for two-three weeks, and then carefully monitored in the "Incubation Period" by Team Leaders and senior staff. We conduct quality assurance over our sales calls and listen to an average of three sales calls per sales agent per month.

#### **Disclosure of commissions**

8. Like the ICNZ, we do not support a ban on any types of commission in the fire and general insurance industry, however we do support disclosure of commissions. Commissions in the fire and general insurance industry are materially lower than they are for the life insurance industry, e.g. 5-20% for fire and general versus 80-250% for life.
9. Our Alliance Partners offer their customers fire and general insurance as it is a natural extension of their lending activity. Banning commissions may have serious unintended consequences and lead to an exacerbation of underinsurance among consumers.

#### **Technology**

10. We submit that the FAA in its current form will potentially hinder the development of innovation and technology in insurance markets. Only a person can give advice currently, not a computer, and a company can only give class advice. We believe that the FAA needs to be future proofed, so that a company can give advice through technology.
11. The fundamental principles of digital user experience design are to create online experiences which are useful, usable, efficient, effective, predictable and desirable. In a financial services and insurance context this includes helping people to make decisions about products and services that suit their needs. The current digital standard practice across most industries is to provide customers with content and information about the different types of products or services on offer. Providing this information creates effort for consumers and puts the onus on the individual to research, understand, interpret and make a decision on the product or service that is most appropriate for them.
12. We believe there are two potential future digital considerations: firstly, automated rules based decision tools/assistants. An improved user experience (in addition to providing full product/service information) would be to create rules based decision tools or assistants which would ask customers a series of questions about their situation and preferences in order to

narrow down product/service choices and provide recommendations. In doing this, we would be able to provide consistent rules based advice that is able to be personalised, rather than necessarily class advice as would be permitted at present. Offering these online tools/assistants would provide support to consumers giving them the confidence to choose products/services in an efficient, effective and predictable way. It would also reduce the risk of consumers making a poor choice of product/service due to a lack of understanding or knowledge.

13. The second future digital consideration is sales through digital channels. Alternative digital communication channels such as live chat are becoming more prevalent. The rise of these forms of customer interaction challenges us to continually simplify our communications. Live chat is predominately a support channel in which customers can ask questions in order to clarify or understand online information. It is a way for customers to have personalised support while remaining in the digital/online channel. Live chat agents should have the ability to be able to freely help and support customers with product and service choices online. This is currently possible by having a disclosure statement for consumers prior to the interaction, and we submit that any reform of the legislation considers this sales channel.

#### **Cost of compliance for QFEs**

14. While in general we find the QFE model to be efficient in allowing us to use our existing supervision and training arrangements, there are some elements of the standard conditions for QFEs that are administratively burdensome. For example, there is a requirement in the Standard Terms and Conditions to ensure the Adviser Business Statement (ABS) is maintained and kept current:

1.5 The QFE must maintain and keep current a written ABS, in accordance with the current QFE ABS Guide.

The ABS is a significant document to update and most organisations of our scale will go through an internal sign-off process, therefore it is impractical for an organisation to constantly update such a document. A pragmatic approach for organisations such as ours is to update the ABS annually and submit it with the annual report to the FMA, while notifying the FMA of any significant changes to the QFE throughout the year.

15. We also submit that it is administratively burdensome and goes against the core principle of the QFE taking responsibility for its staff, in requiring a QFE to advise the FMA of any breaches as per section 77 ( c ) of the FAA:

c) if the QFE is aware of any breach of a financial adviser obligation by an employee, agent, or nominated representative of the QFE or of a member of the QFE group, stating—  
(i) the name of that person; and  
(ii) the nature of that person's breach or breaches;

16. As a QFE, we would prefer to take responsibility for any such breaches within our own organisation through training or performance management and would prefer not to have to report such breaches to the FMA.

#### **Financial Service Providers Act review – dispute resolution**

17. We support competition between dispute resolution services and believe that this contributes to their efficient operation. We do not see any need for the review of this legislation to change the status quo.
18. As a QFE, our recorded disclosure statement notifies customers of our membership of the Insurance and Savings Ombudsman scheme on every incoming phone call. This information is also available on our website and in our Complaints brochures. We do not believe that potential customer confusion is a sufficient justification to remove the competitive element and market forces in place between the dispute resolution schemes.

#### **Next steps**

19. Thank you again for the opportunity to submit. Please feel free to contact myself or Megan Bonetti<sup>18(d)</sup>

Yours sincerely,



Glenys Talivai  
General Manager, Strategy and Performance  
TOWER Insurance Limited

<sup>18(d)</sup>