



Submission on the Review of the FAA 2008

Adelphi Insurance Brokers Ltd. is a nationwide Advisory Business that has contracted advisers throughout New Zealand and provides a lead generation model through a designated call centre. Additional information on Adelphi is available at www.adelphiinsurance.co.nz

While I have left my run a bit late to offer a full submission there are a few points I'd like to make.

I believe Option 3 is a good choice having Advisory Businesses licensed and advisers requiring to be competent to provide the service they are providing.

Do consumers understand the regulatory framework?

I believe the regulatory framework is confusing for advisers and consumers alike. I believe the term RFA suggests a qualification and, unless you are in the industry, consumers and most advisers don't know what a QFE is. I believe that an RFA should be a minimum of Level 5 certificate in financial services (financial advice) and all financial advisers including QFE advisers, lawyers and accountants should be required to adhere to the same code of professional conduct.

Should commissions be restricted or banned?

There are several reasons restricting or banning commissions would compromise consumers.

Cost structure and underinsurance and the misinsured in NZ

A number of advisory businesses run a call centre or similar marketing programme to contact potential clients with the view of reviewing their insurance needs. Our experience shows the vast majority of people our advisers visit would never have booked an appointment unprompted or would have ever actively sort health or life insurance. An equally large number were underinsured or misinsured and when a claim came around they would have been left compromised, some significantly. The cost structure to run this type of model is significant and restricting or banning commissions would compromise a business model like this restricting the number of consumers we can reach and which would ultimately perpetuate the underinsurance issue we have in this country.

The majority of advisers in New Zealand run their own business and incur significant costs in doing so. There are a number of issues facing advisers such as

- time and cost spent on compliance
- funding their business
- time away from family and home
- the responsibility of doing 'it' right
- time spend on helping clients with claims

While upfront commissions seem high from an outside point of view but it allows advisers to be fairly remunerated for the effort they put in. It also allows us to attract a higher calibre candidate to the industry. If the commission model were to change you will see a mass exodus of advisers which will only compound the underinsurance problem in New Zealand.

Fee v commission

Our experience is that the average New Zealander will not pay for insurance advice. I believe the only people prepared to pay for insurance advice are the higher end professionals and this demographic is usually already well insured. It's hard enough to get the average Kiwi to spend \$100/\$200 on actual insurance let alone asking them to pay a fee for reviewing their insurances.

Spread v upfront commission

While spread is ideally best overall upfront commission has a place by allowing new people enter the industry and fund themselves through the early years of their career. Forcing the industry to have a spread commission structure only will certainly be advantageous to established advisory groups or advisers that had purchased a book of business but won't help new entrants to the industry. There is a danger to consumers who are part of a purchased book of business that they are left on a product that may not be fit for purpose.

Incentive trips

Incentive trips don't necessarily cause advisers to write for a particular insurance company. Incentive trips help the advisers to work harder to see more people than they would not necessarily see. Incentive trips are used in a multitude of industries, it's unfair to single one industry out and say you can't offer incentives for working hard to achieve goals.

Regards
Redacted

Chris Boon A.F.A
Managing Director
Adelphi Insurance Brokers Ltd.