

**[Standard 12] Have particular competence, knowledge, and skill for other types of financial advice**

**23. Overall, do you agree or disagree with this standard and proposed commentary?**

Disagree

**24. Please provide any comments on this standard and the proposed commentary.**

The draft code standard could be interpreted to require advisers who provide financial advice on KiwiSaver to demonstrate competency to the level of the learning objectives on the entire level 5 investment strand. We understand, from our discussion with Angus Dale-Jones, that this is intended by the Code Working Group to promote quality financial advice because of the need to consider other investment products in every advice situation involving KiwiSaver.

**1. Submission:**

- 1.1. We submit that Financial Advisers (FAs) should not be required to achieve the level 5 investment strand to provide financial advice on KiwiSaver.
- 1.2. We strongly believe this requirement goes against the stated purpose of the Act of ensuring the availability of financial advice for persons seeking that advice. Firstly, it significantly reduces the availability and accessibility of KiwiSaver advice which has a negative impact on financial outcomes for consumers. Secondly, removing the requirement for FAs to have the investment strand to provide KiwiSaver advice will not reduce the quality of advice if they can refer consumers where required (particularly where there is a requirement to be engaged by a FAP, with the result being the individual and the FAP together meet the investment strand requirement).
- 1.3. Accessible quality financial advice on KiwiSaver can be provided without the need for FAs to achieve the investment strand.
- 1.4. Any need to consider other investment products when providing financial advice on KiwiSaver can be satisfied through referral to another FAP.
- 1.5. We propose that the draft code standard 12 includes that an individual may demonstrate the standard in the additional following way (which will follow the first bullet point under "Individuals" in draft code standard 12):
  - *where giving financial advice on a KiwiSaver scheme:*
    - *have achieved the qualification outcomes of the investment strand of the New Zealand Certificate in Financial Services (Level 5) or of the National Certificate in Financial Services (Financial Advice) (Level 5); or*

- *have achieved the qualification outcomes of one or more other strands of the New Zealand Certificate in Financial Services (Level 5) or of the National Certificate in Financial Services (Financial Advice) (Level 5) and, in respect of the giving of the financial advice, be engaged by a financial advice provider which has procedures, systems and expertise that mean that the financial advice provider and the individual together have the capabilities equivalent to those of an individual who alone has achieved the qualification outcomes of the investment strand.*

## **2. Justifications for this submission and proposed change to the code standard 12:**

- 2.1. Many financial advisers who are currently providing financial advice on KiwiSaver will stop if they are required to have the investment strand. This will materially reduce the availability of KiwiSaver advice for consumers.

We have conducted a survey of 127 advisers (who are external to Generate's QFE) who provide advice on KiwiSaver. 17% of respondents were AFAs and 83% were RFAs. 95% intended to keep providing advice on KiwiSaver under the new regime. However, when asked whether they would advise on KiwiSaver if they were required to have the investment strand, 34% replied that they would refrain from achieving the investment strand and would stop advising on KiwiSaver.

- 2.2. The quality of advice is achieved through meeting the conduct obligations contained in other code standards. These include treating clients fairly and acting in their best interests and to give financial advice that is suitable for the client.
- 2.3. There is a significant need for KiwiSaver advice. The 2018 FMA KiwiSaver Report highlights the need for KiwiSaver advice. Out of 2.8m members, 431,779 were sitting in default funds and 1.3 million were non-contributing at 31 March 2018. The report has a section titled 'Encouraging default members to make active decisions' and states "We regard active choices as important as they are a good indication that the provider's financial literacy efforts have resulted in a member making a meaningful, informed choice in their own interest."

There is general consensus that the focus of the advice provided regarding KiwiSaver is largely to advise KiwiSaver members to have their 'settings' right. This includes contributing enough to benefit from the member tax credit, the benefits of contributing at a higher rate than the minimum of 3%, choosing the right fund, and notifying their provider of their correct prescribed investor rate.

- 2.4. Quality KiwiSaver advice can and should be provided without the need to discuss other investment products. Our experience tells us that the majority of KiwiSaver members do not have other investable assets and are not requesting

advice on other investment products. Therefore, in general, advice on other investment products is not suitable.

In our recent survey, we asked advisers to estimate what percentage of their KiwiSaver clients have assets to invest in addition to KiwiSaver. For clients under age 45, 51% of advisers estimated zero to 10% of their clients would have additional assets and 92% of advisers estimated less than 50% of their clients would have additional assets to invest. For clients aged over 45, 27% of advisers estimated zero to 10% of their clients would have additional assets and 77% of advisers estimated less than 50% of their clients would have additional assets to invest.

We also asked advisers what percentage of their KiwiSaver clients request personalised advice to take into consideration their full financial position. Advisers estimated 73% was zero to 10% of clients, 87% was less than 50% of clients and 13% was over 50% of clients.

- 2.5. Where it is suitable for consumers receiving KiwiSaver advice to also receive advice on other investment products, nominated representatives are able to refer consumers to other nominated representatives who have competency to provide that advice.

It follows that if quality advice can be provided by a referral between nominated representatives in a FAP then it should equally be provided by a referral from a FA to another FAP (or from an FA to a nominated representative within another FAP) who has the relevant competency. The quality of advice through referral will be the same.

- 2.6. The quality and accessibility of KiwiSaver advice to consumers will be negatively impacted where a FA is not permitted to provide advice on KiwiSaver but is providing advice on mortgages or insurance. Where a financial adviser does not meet the proposed particular competence standard, KiwiSaver will be scoped out of any advice conversation. This does not reflect the relevance that KiwiSaver has in financial advice services that are not focused on wealth products.

Some hypothetical scenarios where this applies are below. In each of these situations the person either misses out on benefits or pays more for debt.

- Jane visits a mortgage broker to talk about buying her first home. The mortgage broker does not advise Jane to consider switching her KiwiSaver from an aggressive fund to a conservative fund. The markets also experience a market correction before she finds her first home. Jane's KiwiSaver balance is significantly impacted which finds her borrowing more to go towards her first home.
- Liam visits a mortgage broker to talk about buying his first home. The mortgage broker does not mention the HomeStart grant. Liam fails to apply for a HomeStart grant and misses out on \$10,000 towards his home.

- Annie is diagnosed with a condition that means she is totally and permanently unable to engage in work. She meets with her financial adviser who confirms Annie's insurance policies do not provide cover for her condition. Her financial adviser does not recommend that she consider applying to withdraw her KiwiSaver on ground of serious illness.
  - Ben visits a financial adviser. He has significant arrears and high interest debt. Ben's financial adviser informs him how he can reduce the interest on his debt but does not recommend Ben consider applying for a significant financial hardship withdrawal of part of his KiwiSaver. Ben pays more interest over a longer period of time and his overall credit score is further negatively impacted by the debt arrears.
  - Valerie meets with her financial adviser to talk about buying her first home in 10 years' time. Her KiwiSaver is currently in a default fund. Valerie's financial adviser does not discuss other KiwiSaver fund types that may be better suited to her investment time horizon.
- 2.7. The obligation for an FA to achieve and maintain particular competence, knowledge and skill at a level in excess of what is required to provide quality KiwiSaver advice, represents an unnecessary compliance cost. This is a cost imposed on the FA. As noted above from our survey, 34% of respondents would not be prepared to offer KiwiSaver advice if the level 5 investment strand was the required benchmark.

## Final questions

**29. What is your name?**

Henry Tongue

**30. Your role or professional title?**

CEO

**31. Is this an individual submission or on behalf of an organisation?**

On behalf of an organisation

**32. If you give financial advice, are you an AFA, RFA, QFE adviser or other?**

n/a

**33. What types of financial advice do you or your organisation give?**

Financial advice on KiwiSaver

**34. What your organisation's name?**

Generate Investment Management Limited

**35. What type of organisation is it? (e.g. bank, dealer group, independent adviser, education provider . . .)**

QFE and KiwiSaver provider

**36. Is your organisation's size small (1–10 staff), medium (10–50 staff) or large (50+ staff)?**

Medium

**37. If there are other things we should know about you or your business that would provide context to your answers, please provide details below.**

The Generate KiwiSaver Scheme is distributed through QFE advisers, and AFAs and RFAs. We surveyed 127 AFAs and RFAs and we have incorporated their comments and concerns in our submission.

**38. Please indicate whether your submission contains any information that is confidential or whether you do not wish your name or any other personal information to be included in a summary of submissions.**

Our submissions do not contain any information that is confidential.

**39. Please provide your contact details (email and/or phone number) Your contact details would not be released publicly. We may get in touch with you in order to help us understand particular points from your submission.**

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