

FINANCIAL ASSURANCE BROKERS LTD

- PERSONAL, BUSINESS AND MARINE INSURANCE
- LIFE AND DISABILITY INSURANCE
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Financial Markets Policy
Ministry of Business, Innovation & Employment
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26 February 2016

SUBMISSION REGARDING THE REVIEW OF THE FINANCIAL SERVICES SECTOR

I wish to comment concerning some aspects of the review of the financial services sector as outlined in the Options Paper released on 25 November 2015 by the Minister of Commerce and Consumer Affairs.

I have read through the Options Paper and I have also read through submissions by SiFA Incorporated, which is written from an AFA bias, plus a Review of Retail Life Insurance Advice written by Melville Jessup Weaver.

Background

I have worked in the insurance industry for 44 years, within the Fire & General Insurance field and Life Insurance sector. Since 1983 I have worked as a sole trader in my own insurance brokering company.

Perceived Difficulties with Sales & Advice

Very rarely would an insurance policy be sold without some form of advice being proffered. A simple question asked by a customer requires an answer. No expert in a specialised field has all the answers constantly at their fingertips. In my situation, if I am asked a question and I want to be certain that I am able to provide the correct answer, I often seek recourse to a policy wording and then advise the customer accordingly.

Determining the Necessary Level of Expertise In Specific Financial Products

Whilst there will need to be a recognizable insurance industry standard that can establish an adviser has the necessary skills in order to advise on a particular insurance product, I consider that there should be "grandfathering" provisions set down that recognize advisers who have spent a considerable number of years within the insurance field. Those advisers, who have had extensive experience within the insurance areas that they are currently practicing, should not be required to sit examinations, and therefore should be accepted as possessing the requisite skills to be granted a practicing license (should that become a requirement).

...2/

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- 2 -

Personalised Financial Advice Given by Other Sources

I realise that deciding who should be exempt under the Regulations with the provision of financial advice has been a challenge to the FMA. There are various forms of financial advice being given e.g. by accountancy staff within an accountant's office who do not fall under the FMA's umbrella. Understandably the type of advice given will vary, not only according to the customer's specific needs, but by the nature of the financial products themselves. Because of the many different types of financial products available covering a wide range of requirements, I do not consider that a uniform standard for the sale of, and advice on all financial products is necessarily going to provide a panacea.

Disclosure of Commissions

As a result of working for a number of years within the Life Insurance and Fire & General industry, I understand there are different commission structures applicable to both the Life Insurance and Fire & General Insurance market. The Review of Retail Life Insurance Advice written by Melville Jessup Weaver highlights the impact that life insurance industry commissions can have on the cost of life insurance cover. The disclosure of life commissions to the consumer may in itself mitigate the effects of higher upfront commission by identifying when the commission applicable is substantial, and then addressing this by providing an alternative commission structure that would more beneficial to the consumer. Market forces should ultimately dictate what would be fair and workable without the need for a government restructuring of the life industry commission system.

The Fire & General Insurance industry has a completely different commission structure than that of the Life Insurance industry. Fire & General Insurance initial commissions and renewal commissions are paid at the same rate (although varying according to the class of insurance business), and are at a considerably different level than those paid by the Life Insurance industry. The premium structure of broker aligned Fire & General Insurance companies has already factored commissions into their premiums, regardless of whether the consumer buys direct or through a broker or intermediary. I am unsure as to what beneficial effect the disclosure of Fire & General Insurance commissions would be to the consumer.

Dispute Resolution Schemes

Overall, I believe that having an accessible dispute resolution scheme is a good concept and one in which the consumer can seek "genuine" redress. However, a consumer with an axe to grind, bringing forth a questionable issue could involve the advisor in unnecessary costs. Unfortunately, the way in which disputes resolution companies operate is by the adviser paying the attributable costs, with none borne by a dubious claimant. Whilst genuine redress should be available, it does not seem fair that this is always at the adviser's expense. (Incidentally, I have had no customer who has been dissatisfied and required dispute resolution).

Compliance Costs

In my own professional capacity, I already experience considerable compliance costs, such as professional indemnity insurance premiums, FMA levies, Dispute Resolution Provider fees and associated costs. I hope that the forthcoming changes and licensing costs are not prohibitive.

...3/

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- 3 -

In conclusion, I trust that a pragmatic approach will be taken with the review of the financial services sector, balancing all interested parties, so that a viable solution can be achieved without over regulation.

Yours sincerely
Redacted

Wayne Lean
DIRECTOR