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FAA/FSP Review: Consumer groups

Exploring the value, experiences and impact of obtaining financial advice in New Zealand

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Attention:	[redacted]
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Table of contents

In a nutshell

Purpose, methodology, and objectives

This report is the findings from three consumer focus groups conducted by Colmar Brunton in March 2015 as part of a wider review of the Financial Advisers Act 2008 (FAA) and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA). The summary below provides insight into the three overall areas of interest covered by this research:

- What is the **value** that New Zealanders perceive from obtaining financial advice?
- What are New Zealanders' **experiences**, and the **impact**, of obtaining financial advice?
- What do New Zealanders **understand and value** about the current regulatory requirements?

Consumers value the expertise and time savings that obtaining financial advice provides

Consumers perceive that obtaining financial advice from a professional adviser saves them the time they feel they would otherwise need to spend researching and checking on investment or insurance products in order to assess their risk. In addition to saving them time, many consumers feel they do not have the expertise or experience offered by a financial adviser. These two elements are the main drivers of value for consumers.

Trust in financial advisers is primarily driven by the personal relationship

While consumers do little research on the qualifications, or registration status, of their financial adviser, they have a high level of trust in the financial adviser they consult. This is derived from three elements of the relationship: being recommended a financial adviser by someone they know, developing a personal connection and relationship with the adviser, and the reputation and size of the investment company, bank, or insurance company for whom the adviser works (or is affiliated).

Consumers value the personal relationship they have with their adviser. This has more weight to them than the legislative requirements imposed on financial advisers. Consumers also feel that there is little reason to doubt the authenticity of their own financial adviser, certainly in the absence of any current concerns about them.

The impact of obtaining financial advice is that consumers make better informed decisions and wider investments

Consumers who obtain financial advice feel it gives them the confidence to make a wider range of investments than they would otherwise have done. It gives them the confidence to invest without having to undertake a large amount of risk assessment themselves. Consumers who access what they perceive to be good quality financial advice feel they make informed decisions about investments and financial matters.

Consumers who do not obtain financial advice feel comfortable with the informal and general information they receive from other sources. They also feel they may not 'have enough' to invest to make it worthwhile for a financial adviser to provide them with a good service and advice.

These consumers who do not obtain financial advice feel that doing so would give them greater confidence to invest more (in terms of total dollar amounts) and wider (in terms of range of investments) than they currently do.

Some consumers feel they have less access to personalised financial advice

One consequence of the FAA is that investment advice clients who obtain investment advice from an authorised financial adviser (AFA) noticed changes to how financial advisers provide them with advice since 2011. In some cases, investment advice clients noticed a move away from personalised advice to more generalised/transactional advice from their financial adviser. These investment advice clients feel the impact of the FAA has been to restrict their access to personalised financial advice.

Consumers know little about the legislative changes

Consumers know little about the elements of the Acts that have been designed to protect consumers. However, once informed about aspects of the Acts, consumers feel some elements provide a sense of protection and confidence (to a greater or lesser degree). They feel the legislation could work to eliminate misleading or poor quality financial advisers.

Consumers views about the current effectiveness of the Acts are mixed

While some feel the legislation provides consumers with more confidence in the financial service sector, others feel unable to evaluate the protections of the Acts because they have not yet been 'tested', for example by a repeat of the global financial crisis.

Consumers value the two elements of the Acts that provide them with transparency and a mechanism for redress

Consumers discussed five elements of the Acts that have been designed to provide consumers with the confidence to make informed financial decisions. The two elements of the Acts that consumers feel have the most impact on their trust and confidence in the financial services sector and provide them with the tools to make informed decisions are:

- The need for financial advisers to disclose fees/commissions and affiliations
- The four disputes resolution schemes.

While consumers may not have been aware of these elements of the Acts before, when they were provided information about them, they felt these two aspects provided them with a greater level of confidence in the financial services sector. This is because disclosure is a way for their financial adviser to show transparency, honesty, and integrity, thus enhancing the relationship for consumers. The disputes schemes give consumers reassurance there is a mechanism for redress should they reach a deadlock with their financial services provider.

Three other elements of the Acts were discussed with consumers (the Financial Markets Authority, the Financial Service Providers Register, and the tiered system). Consumers feel these elements relate less directly to their relationship with their financial adviser and they therefore feel they are less likely to contribute directly to consumers' sense of trust and confidence in the sector.

Additional suggestions for giving consumers more confidence in the sector

Consumers made a number of suggestions on elements of the Acts (or legislative framework overall) that might give them greater confidence in the financial services sector. These are:

- More information about the qualifications or experience requirements for each of the two tiers.
- Better differentiation between the RFA and AFA designations, including terminology that better reflects the level of advice each is permitted to provide.
- Better publicity about the dispute resolutions schemes and what the consequences are for transgressions.
- Better publicity about the role and achievements of the FMA (for example, prosecutions or actions taken under the FAA to protect consumers).

Background and research objectives

This report is the findings from three consumer focus groups conducted by Colmar Brunton in March 2015 as part of a wider review of the Financial Advisers Act 2008 (FAA) and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA). The summary below provides insight into the three overall areas of interest covered by this research:

The aim of the review of both Acts is "*to fully identify the range of issues related to the way financial advice is regulated, providing an opportunity for meaningful engagement with consumers and the financial sector to determine if the current regulatory settings are fit for purpose*".[1]

As part of the overall review, MBIE commissioned Colmar Brunton to speak with consumers.

The objectives of the consumer research part of the review are to explore the following areas of interest:

- What is the **value** that New Zealanders perceive from obtaining financial advice?
- What are New Zealanders' **experiences**, and the **impact**, of obtaining financial advice?
- What do New Zealanders **understand and value** about the current regulatory requirements?

Colmar Brunton was commissioned to complete this work in March 2015.

[1] Cabinet Committee Paper, Office of the Minister of Commerce and Consumer Affairs. http://www.mbie.govt.nz/what-we-do/review-of-financial-advisers-act-2008/faa-review-cabinet-paper.pdf retrieved 6 March 2015.

Methodology

A qualitative approach

Colmar Brunton employed a qualitative approach to this work. This approach involves use of consumer focus groups comprising between six to eight consumers with similar characteristics. The strength of qualitative research methods is that consumers' views and attitudes are explored in a way that identifies the underlying drivers of their attitudes – understanding why consumers feel the way they do. Focus groups also allow collaborative discussion of the topic at hand, prompting recall and generating ideas about a particular issue.

Consumer sample

Colmar Brunton conducted three focus groups as illustrated by the diagram below.

The Ministry conducted one focus group with consumers (non-users) who are members of the Shareholders Association and results of that group have been analysed separately by the Ministry.

A semi-structured topic guide used

The topic guide was developed by Colmar Brunton and reviewed and approved by the Ministry. The structure of the topic guide followed the areas of questioning specific to each of the three types of consumers. Descriptions of elements of the Acts provided to consumers were based on descriptions in the legislation but worded for consumer understanding.

Notes to this report

Terms used throughout this report:

- 'consumers' denotes all the three groups of consumers listed above
  - 'users' denotes discussion from consumers who have obtained investment or insurance advice from a financial advisor (either an AFA or an RFA)
  - 'non-users' denotes consumers who do not regularly obtain investment or insurance advice from either an AFA or an RFA
- 'financial adviser' refer to both AFAs and RFAs where the comment applies generally to financial advice
  - 'Investment advice client' refers to users who have obtained investment advice (most likely from an AFA)
  - 'Insurance advice client' refers to users who have obtained insurance advice (most likely from an RFA)
- The term 'broker' is used on limited occasions when insurance advice clients refer to the person they obtain insurance advice from.

Any differences in experiences between consumers are noted in the text or are indicated by specifying which consumer group comments originate from at the start of each section.

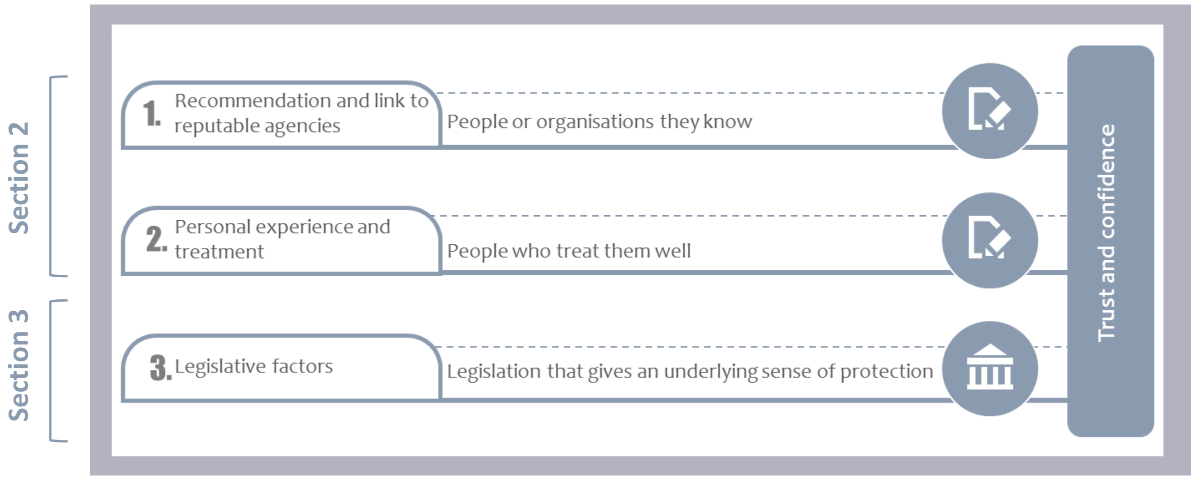
Use of verbatim comments

Verbatim comments are used throughout this report to illustrate key findings. These are attributed by type of consumer.

1. Factors that contribute to consumers' trust and confidence

This section introduces a framework to provide context to the discussion of what elements of the Acts contribute to consumers' trust and confidence in the financial services market in New Zealand. If consumers have trust and confidence in the financial advice they receive, they can make informed financial decisions. This is a key measure of the success of the Act.[2]

Three factors influence consumers' trust and confidence in financial advice and these are shown in the diagram below. The factors are presented in order of influence on consumers' trust and confidence in the financial advice market.



1 Recommendation and links to reputable agencies

Consumers value personal connection to the source of any financial advice. This applies whether they are receiving 'formal' financial advice from a financial adviser, but also from 'informal' sources, such as a colleague at work, or a parent who has made successful investments. A personal connection or recommendation is vital for consumers to feel confident in a financial adviser.

Consumers trust any form of financial advice that is personally endorsed by someone who they feel has some form of expertise in the financial sector.

For users, personal connection and recommendation form the basis for their trust and confidence in a financial adviser. For non-users, information about an investment from a person they know is the basis for them to trust they are making an informed decision. This is because non-users feel people they know have their best interests at heart, even if their level of expertise is lower than that of a professional financial adviser. This element of consumers' perceptions is explored in more detail in section 2 of this report.

[2] From *Baseline Review of the Financial Advisors in New Zealand*. Ministry of Business, Innovation and Employment Report, July 2011 (page 63).

2. Personal experience and treatment

Users who obtain financial advice value the personal connection that characterises the relationship. This provides them with a high level of trust and confidence in a financial adviser. The qualities that define a relationship of trust and confidence are discussed in section 2 of this report.

Non-users trust their own experience and success with a financial product, relying on their 'gut instinct' and previous success (or failure) to determine and inform their financial decisions. This element of non-users perceptions is also explored in more detail in section 2 of this report.

3. Legislative factors

Consumers (particularly users) consider the legislative elements of the Acts provide them with some level of trust and confidence in the financial services sector, but these are not the factors that give them the greatest proportion of confidence. They are also relatively unaware of the elements of the Acts, and therefore, feel they have less impact on their trust and confidence in the financial services sector. Specific understanding of consumers' perceptions of the Acts are discussed in section 3 of this report.

2. Experiences of obtaining financial advice

The section discusses the first two aspects of trust and confidence (as described in the diagram earlier) and covers:

- How consumers seek out and determine if a financial adviser is credible
- What gives them trust and confidence in a financial adviser (and what provides value)
- The experience itself (topics discussed, frequency of contact)
- Perceptions of affiliation
- Unintended consequences of the implementation of the Acts
- Implications of obtaining financial advice.

Findings are mainly from users. Non-users' perceptions and experiences are discussed at the end of this section.

Users' experiences

Finding a financial adviser involves limited search and evaluation

Users do not 'shop around' for a financial adviser. They generally access a financial adviser in three ways:

- Cold calling by the adviser (most noted by insurance advice clients)
- Recommendation by a friend
- Referral from another organisation (for example via a bank).

These methods of obtaining an adviser are considered acceptable by users. None of the users feel that finding an adviser was problematic.

> *"The bank just offered them. They looked at your balance and said 'oh you should talk to our wealth advisers.'"*
> ***Investment advice client***
>
> *"[I would] not [go through the] Yellow Pages, I would take the advice of someone I respected."*
> ***Investment advice client***

Users evaluate a financial adviser on a limited number of criteria

Users rarely investigate the credentials of a financial adviser. None of the users in the groups have checked their advisers' qualifications or registration status. Their evaluation about the quality of the financial adviser is deduced from four criteria:

1. **Recommendation from others**. If an adviser is recommended by a friend, colleague or family member, consumers feel a sense of trust in that adviser. This is because they believe a friend would not recommend someone to them if they were not credible, trustworthy and reliable.

2. **Links to a reputable organisation.** Financial advisers who are linked to, or affiliated with a retail bank, a large organisation (such as Tower or Spicers) or an organisation that has been around for a long time are automatically ascribed with the values and qualities of that organisation. For consumers, reputation of an associated organisation is a strong driver of trust and confidence in a financial adviser's advice.
3. **Local organisations.** New Zealand-based organisations are more trusted than offshore-based organisations, because consumers feel that proximity gives them more ability to obtain redress for investments in these companies. International companies with a physical presence or call centre in New Zealand also provide consumers with some sense of trust and confidence in them.
4. **Their experience with their adviser** (often over a long period of time). The advice and service an adviser has provided in the past, particularly regarding investment performance, is a strong driver of trust for many users.

> *"I looked at least two companies maybe three. It's a little long ago but I looked at least two companies and I went with one that had the larger footprint and the largest profile."*
> ***Investment advice client***
>
> *"I look at the reputation of the firm and see if I think they will be around to make a claim? We've had a number of companies that have gone belly up over the years …. I think if you are going to invest money in one of these outfits you want to have some assurance that they're going to be around when you need, them which tends to argue for going for larger firms."*
> ***Insurance advice client***

Users seek a financial adviser that they connect with personally

Users regard the following qualities as important in a financial adviser:

- Knowledgeable
- Expert
- Reliable
- Approachable
- Informative and better informed than they are
- Keeps up-to-date with market and policy/claims developments in the investment/insurance sectors
- Has a track record of successful investments or claims
- Independent
- Provides the pros and cons of an investment or insurance policy (not just the pros).

> *"They would have to be careful not to push one company."*
> ***Non-user***
>
> *"I listen to my adviser and I like to know he has looked into an investment, and that he has done his homework for me."*
> ***Investment advice client***

> *"[You judge a broker] by what they provide to you, you check out the person. She was extremely conscientious, everything was very clear, it was detailed and you could understand it, it wasn't gobbledygook and no use of [complex] words. So when she started to talk to me about insurance I'm listening to her because she was proving herself."*
> ***Insurance advice client***

Users evaluate whether their financial adviser meets these criteria mainly by personal experience rather than independent sources (for example, they do not check the Financial Service Providers Register).

Users value the personal relationship they have with their financial adviser

While users do not always have regular contact with their adviser, when they do have contact, the relationship is very personal. This stems from the types of discussions users have with their financial adviser (often about income levels, estate planning, financial assets and liabilities, and other sensitive topics). It also stems from the longevity of the relationship. Many of the users in the groups said they have been obtaining financial advice from the same person over a long period of time (decades in some cases).

> *"It's a relationship of trust."*
> ***Insurance advice client***
>
> *"It's the same as going to your regular doctor, [you] build a relationship with your regular doctor. There's nothing wrong with going to the locum but it's not the same. The quality's the same probably, it's just not quite the same relationship."*
> ***Insurance advice client***

None of the users mention that their financial adviser has refused to provide them with advice on any particular topic or type of investment.

Users feel there are a number of benefits to obtaining financial advice

The benefits are twofold:

- **Access to a level of expertise they do not have themselves.** Financial advisers are seen as experts in finance and investments, so users feel they have access to more information than they have personally to make sound investments. For insurance advice, users feel the adviser knows and understands the policy wording and can interpret it for them.
- **Time saving**. Consumers feel obtaining financial advice saves them time researching and conducting due diligence on investments (for example, checking if a director on a board of a company has previously mishandled investors' funds).

> *"[The broker checks] any hidden costs. Any fine print that needs [pointing out], complicated terms that need explaining."*
> ***Insurance advice client***
>
> *"Well it's like you don't necessarily fix your car yourself, or upholster your sofa yourself."*
> ***Investment advice client***

> *"Particularly at that time I was just too busy, and if I had some money and I wanted some diversity in my portfolio, I trusted that an adviser gave me good advice, and went with that."*
> ***Investment advice client***
>
> *"You're basically buying their expertise. Some things change in the marketplace or where the products come along or when law changes in relation to certain things then they will tell you."*
> ***Insurance advice client***
>
> *"It was originally time [when I chose to use an adviser], I didn't have time to track all what's happening in the stock market."*
> ***Investment advice client***
>
> *"[My broker], he just made a comparison between my insurances and then he dealt with the other insurance [company] with regards to cancellation. He dealt with the insurance company direct so I didn't have to do anything, he did that all for me."*
> ***Insurance advice client***

How a financial adviser treats consumers contributes to their sense of trust and confidence

The manner in which a financial adviser treats users is important to them and is one of the main reasons that users obtain financial advice from a financial adviser, and continue to do so over a period of time.

Qualities and behaviours that contribute to the value of this relationship are when their financial adviser:

- Speaks to them in 'non-jargony' language and interprets financial information for them, including the language of insurance policies.
- Looks out for risks and fishhooks for clients (e.g. notices and highlights exclusions for them in insurance policies, and points out any risks associated with a particular investment).
- Provides them with a range of information, some solicited, some unsolicited (but appreciated).
- Gives them an opinion or direction rather than just providing options for the investor to decide.
- Makes them feel like they are valued as people, not 'just a number' of the organisation with which the financial adviser is affiliated. For example, if the financial adviser is linked to Tower Insurance, the user feels that the adviser treats them more as a valued customer than if they purchased their policy directly from Tower.

> *"He gives [us] more security and also because we're not very keen on having all our eggs in one basket, we have really diversified [our investments] and we could not do that on our own."*
> ***Investment advice client***

Frequency of contact varies

Consumers who obtain insurance advice tend to report contact of (at most), once or twice a year.

Consumers who obtain investment advice vary in the frequency of contact:

- Those seeking ad hoc advice tend to have contact about twice a year.
- Those who have funds under management tend to have monthly contact.

Frequency of contact can affect the strength of the relationship, but does not appear to impact on perceptions of the value or quality of financial advice received by consumers.

Users feel they make wider, better quality, and more carefully evaluated investment decisions using a financial adviser

This is the main impact for users. They feel that consulting an expert on their investment (and insurance) decisions give them the confidence to make informed decisions and provides them with peace of mind once they have made an investment or purchased a policy.

Users are aware that financial advisers could be affiliated

Insurance advice clients who obtain financial advice in relation to insurance products specifically are not always sure if *their particular* broker is linked only to the insurance company where they hold a policy. They are aware this is a possibility.

Those insurance advice clients understand that their broker is affiliated in some way to the organisation where their policy is held understand that this affiliation will have had some bearing on limiting the range of policies the broker will research, know about, and present to them.

> *"I think [you have to] be very careful about people who are selling insurance including commission because [it's] their self-interest to sell it to you and they do push."*
> **Insurance advice client**
>
> *"The great advantage, or so it was said, of the old regime was that you got financial advice for nothing. But of course it was tied."*
> **Insurance advice client**

Insurance advice clients who have purchased an insurance policy through a broker feel that some level of affiliation is acceptable. They feel that within the narrower range of insurance policies offered to them, the broker will inform them of the benefits and weaknesses of each one. That is, they trust the broker will provide them with personalised advice *even if they do not present a wide or independent range of policies.* They feel this is an acceptable trade off – that of obtaining personalised service versus access to a wider range of policies that they would have to compare themselves. The advantages of this personalised approach to the policy conditions outweigh concerns about affiliation for these insurance advice clients.

> *"It [affiliation] doesn't worry me. It's their livelihood, it's how the world goes round. People have to be employed, [if] people aren't being employed the country goes down."*
> **Insurance advice client**

In addition, some insurance advice clients feel that brokers can provide them with cost savings by offering them reduced premiums for policies they could not access without using a broker. These insurance advice clients perceive that policy holders who obtain an insurance policy through a broker are offered favourable rates by the insurance companies (compared with policy holders who take out a policy directly). This is another factor that adds value to obtaining insurance advice for these insurance advice clients.

> *"It actually still worked out cheaper going through the broker."*
> ***Insurance advice client***

The impact for insurance advice clients of being made aware of the way brokers are paid is to give them some sense that the broker is being transparent and honest. This is positive for these clients.

Investment advice clients feel similarly. That is, they are aware that their financial advisers may financially benefit by offering them investment products from companies with which they are affiliated. Disclosure of this has the same impact on these investment advice clients as insurance advice clients – it provides them with a sense that their financial adviser is open and transparent.

One of the investment advice clients feels that his financial adviser's affiliations will affect the source of investments offered to him. He tempers this with the sense that he has access to investments and information he might not have otherwise.

> *"I always think if someone else is paying them, I will always think 'OK where's their motivation, come performance appraisal time, what are they being appraised on?' And consequently I have to take their advice with a grain of salt. But having said that they have a take on things that I don't have ready access to otherwise, so it's very useful to hear it and then evaluate that."*
> ***Investment advice client***

A number of people in the **non-users group** raised the issue of fees/commissions and affiliations. They feel these ties can make a financial adviser feel like a 'sales agent' for an organisation. They are not sure how this would affect their perceptions of a financial adviser, but some comment that these affiliations might be a trade-off. That is, they would have access to professional advice, which is positive, but this is tempered with the awareness that this advice may have some biases.

> *"You friends and family are not always right. You might have to talk to someone professional. They might make a commission off you. It makes it a bit negative, but if they had been recommended by someone [I knew] that would make them more trustworthy."*
> ***Non-users***

'Downgrading' of service from personalised to generalised

The investment advice clients were the only group of consumers to mention they noticed a change in the way their financial adviser provided them with financial advice around 2011.

They mention a number of ways this came to their attention:

- Notification from their financial adviser in the form of:
  - Providing them with disclosure documents
  - Asking them if they would like ‘specialised’ or ‘general’ advice.
- Information in the media

A number of the investment advice clients in the group opted to ‘downgrade’, or were downgraded by their financial adviser, from the personalised service they had been receiving to less personalised ‘transactional’ advice. Some investment advice clients understand that the reason for this was because the investment vehicles they hold are simple/low risk and therefore do not ‘qualify’ for personalised advice. Others are not sure of the reason why they now receive less personalised advice. Some recall being advised of a fee associated with receiving personalised service. For example, one investment advice client said her financial adviser offered to conduct a personalised investment plan for her mother (whose investments she has under management) for a fee of $2,000 - $3,000. She declined this.

> *“It's different now since the regulations changed, because I used to have funds in a particular group and a particular person that managed it all and I would talk to him quite regularly about stuff. But since the law change that they had to be on certain levels or whatever, they started charging for different levels of advice… So I'm less likely to seek that now.”*
> ***Investment advice client***
>
> *“I had that experience. Someone who was very open at giving me advice, suddenly when the law changed I got a financial adviser’s disclosure, and suddenly I became a transactional account. As a transactional account I can access materials that are available, buy, hold, sell, recommendations and so on but I can't actually ask and receive advice from the [adviser] like I used to be able to.”*
> ***Investment advice client***
>
> *“I get informal advice but the person was handling my portfolio [was] through a bank. And because I decided to take simple deposits, although the amount was such that I warranted silver service management, they said your instruments are too simple so we're not going to give you any advice anymore. So you don't qualify anymore.”*
> ***Investment advice client***
>
> *“Again I think that's changed in the law. It used to be that we had conversations about what would be a good stock to buy, or what would be a good stock to sell. But more recent conversations have been along macro trends and what's happening in the energy sector, the IT sector and there might be the hint about a certain company that they're recommending a buy on in the IT sector, but nothing like the specific advice [I used to get].”*
> ***Investment advice client***

The impact (for the investment advice clients who receive a lower level of service than previously) is they feel they:

- Invest their funds in less of a spread of investments, because they simply do not hear about, or have the time to research the full range of investment options available.
- Invest their funds for longer in some products when they feel they should perhaps be looking to better quality or higher return investments.

> *“I’m investing less.”*
> ***Investment advice client***

> *"I used to make two to three investments a year. These days I'm only making one or two investments a year. I would like to be back in the old days I think I'd still be investing in two or three companies a year at more substantial amounts."*
> ***Investment advice client***
>
> *I think I'm investing as much money as I used to before, but I am investing it in fewer companies, so whether you call it investing less or the same I'm not sure."*
> ***Investment advice client***

The impact of the legislation has therefore been, for some investment advice clients, a reduction in their access to personalised financial advice. There is no indication from this research about how widespread this consequence might be.

Non-users' experiences

Sources of information

Non-users who make financial decisions use a number of sources other than formal financial advice to inform themselves about an investment or insurance product. Many appear to be informally seeking financial advice from those they see as expert and experienced in financial matters, or successful in their investments. While these sources of information may not be financial experts, as long as they have some level of experience, non-users trust and value their views and advice. These sources of information include:

- Parents and older family members (such as an older sister).
- Neighbours
- Workmates and colleagues
- Friends (sports associates, team mates)
- Friends in the financial services sector (e.g. accountants, lawyers, banking staff, insurance staff)
- Media, business pages, internet and Google searches
- Company websites (for investment offerings such as IPOs or KiwiSaver options).

> *"I talk to my Dad, he is open about his investments and supportive. If I am interested in something I would ask him, he's made a lot of money."*
> ***Non-user***
>
> *"Friends and family are best because they have your interests at heart. You can learn from their experience."*
> ***Non-user***

Non-users feel that have a number of options for finding out about financial products and services, but express interest in the option of using a financial adviser.

As well as asking other people, non-users have a number of criteria to help them determine an investment or insurance product's risk level. They seek out the following information:

- How long has the company offering this been in business?
- Do they have support and a base in New Zealand?

- Who are the people/directors involved in the company?
- Do others' seem to have invested in this product as well? Is it visible (this provides some sense of legitimacy)?

> *"Companies based in New Zealand feel like a safer investment."*
> **Non-user**
>
> *"I saw them advertising [insurance] on television. The advertisements have been engaging."*
> **Non-user**
>
> *"I check the members of the board before investing."*
> **Non-user**

Barriers to obtaining financial advice from a financial adviser

There are a number of barriers to non-users seeking personalised financial advice. These are:

Rational concerns

- Not 'having enough' funds to invest. For example, some non-users were not sure how much the threshold is to 'get in' to talk to a financial adviser. One had investigated the threshold with an adviser and said it was a higher amount than she had to invest.
- Uncertainty about how a financial adviser is paid and how much it might cost them.

> *"I don't have much money [to invest]. I think that's an influence to stop people going."*
> **Non-user**

Emotive concerns

- Feeling like 'small fry' for a financial adviser. Some non-users expressed this as feeling they would not be 'worth it' for a financial adviser to service as a client. While this may be related to the amount of funds they have to invest, it also speaks to a sense of being unimportant for non-users.
- Feeling they need to be 'brave' and get some information before they talk to a financial adviser. These non-users may feel intimidated by the thought of interacting with a professional financial adviser. Some feel they do not know enough about financial products and investments to even know how to engage in a conversation with a financial adviser.

> *"If I had $500 to invest, it's not enough. You would be small."*
> **Non-user**
>
> *"I would want to do my research first before I even walked in the door."*
> **Non-user**

Non-users feel obtaining personalised financial advice would give them more confidence

Non-users do not necessarily express concern they are not receiving financial advice from a formal financial adviser, but they do feel they might make more investments or better quality investments if they were exposed to professional advice of some sort. This is because, while they trust the sources of information they use (as above) they can feel that a professional financial adviser offers more expertise than their current sources.

> *"I'd invest more."*
> ***Non-user***
>
> *"I think I would get insider info if I had broker. I would invest more with them."*
> ***Non-user***

3. Consumers' understanding and value of the FAA and FSPA

This section describes the legislative implications of some elements of the FAA and FSPA discussed with consumers in all three groups. Their overview of the effect of the legislation is provided prior to discussion of the specific elements.

Market failure and the legislation

The investment advice clients were the only consumers to strongly link the implementation of the legislation with market failures, although some mention was made of market failures in the other two groups. Consumers' perceptions of the effectiveness of the Acts are mixed:[3]

- Some feel regulation make the financial services sector more accountable and therefore more effective for consumers.
- Others feel consumers who made financial investments in financial companies that failed may have done so directly (without obtaining financial advice). These consumers feel consumers are not protected by legislation because not all investments are made under advice. In addition, these consumers feel that no legislation could prevent another global financial crisis.

> *"[Not all investments are made under advice]. All the people that would have invested in finance companies may not have been advised to do that, because you could just see all the ads all over the place."*
> ***Investment advice client***
>
> *"I think there's always a cost to regulation and that's always a hidden cost. It's not clear to me whether the system is any safer for anybody now than it was before."*
> ***Insurance advice client***
>
> *"We like to think its reduced some of the risk of people making ill-informed decisions but we won't know until we get the next… [global financial] disaster."*
> ***Insurance advice client***

One investment advice client feels the effects of the legislation have been mixed.

> *I'll make a distinction here. I think at a macro level it's been positive because it has kept the cowboys out, and has engendered a better trust in the industry and so on. But on a personal level I'll come back to the fact that I get less advice than I used to. So at a micro level it's not been beneficial for me."*
> ***Investment advice client***

[3] The discussion is mainly from the investment advice clients.

Perceptions of specific elements of the Acts

Consumers were presented with descriptions of a number of elements of the Acts and asked to comment on them. The elements were:

1. The tiered system (AFA and RFA)
2. Fees/commissions/conflicts of interest (disclosure)
3. Disputes resolution services
4. FMA (Financial Markets Authority)
5. FSPR (Financial Service Providers Register)

Each of these was discussed unprompted first. That is, consumers discussed what they know about the element without any explanation. Once this had been explored, an explanation (with descriptions developed in conjunction with the Ministry) was provided, and discussion of this new information formed the basis of the remainder of the conversation.

Summary

The diagram below summarises consumers' perceptions of each of the elements of the Acts.

Element	Awareness	Perceptions	Value	Impact on consumers
Disclosure of commissions and affiliations	**Limited** Most awareness among investment advice clients	Appealing to consumers. Provides a sense of honesty	Moderate	Positive. Provides a greater sense of transparency and honesty.
Dispute schemes	**Limited**	Appealing to consumers but some uncertainty about how effective they can be.	Moderate	Positive. Provides a sense of redress and that financial advisors can be held to account.
The tiered system	**Limited** Most awareness among investment advice clients	Confusion about role and authority of each tier	Limited	Nil.
Financial Markets Authority	**Limited**	Appealing to consumers but some uncertainty about role and how much authority it has.	Low	Positive. Provides a sense of confidence that the markets are regulated for consumers.
Financial Service Providers Register	**Nil**	Appealing to consumers to consumers to help them determine the quality of their advisor	Low	Positive. Provides as sense of assurance that financial services providers are regulated and managed.

Each element is discussed below.

The tiered system (AFA and RFA designations)

Awareness of the system is low (qualitatively)

Only a small number of consumers in the groups are aware of the tiered system. The investment advice clients had the highest level of awareness. These clients were made aware of this change to the legislation by their financial advisers.

Non-users and insurance advice clients have lower levels of awareness of the tiered system.

None of the consumers are aware of the qualification or registration requirements that define each tier.

> *"What does that [the tiered system] mean?*
> ***Insurance advice client***

The terms used in the legislation do not provide consumers with the ability to differentiate

The investment advice clients (with the highest level of awareness of all consumers in the three groups) comment that the terminology used to describe the tiered system does not clearly distinguish the differences. They do not feel that the term 'registered' and 'authorised' provide any indication to consumers of the tier (lower/higher) of the advice they receive. That is, the tiered system does not help consumers differentiate between financial advisers in a way that is meaningful to them.

> *"Well now that I understand how it works, but what does authorised and registered, those are terms that don't seem to match what you just read out."*
> ***Investment advice client***

Investment advice clients suggest a better way to distinguish between types of advisers might be similar to other tiered systems.

> *"Like in teaching, you've got your teachers, and then underneath that you've got teacher aides that [have] limited authority to teach, which means that they can be left in front of a class for a short period of time, but they're not teachers."*
> ***Investment advice client***

Consumers perceive limited impact and value in the tiered system

None of the consumers across the three groups feel the tiered system has had any impact on their trust and confidence in the financial advice they receive in order to make informed financial decisions. This stems from a lack of awareness of the system, but also confusion about the differentiations.

> *"I don't even know if they have to be registered, or what qualifications they need…"*
> ***Non-user***

Fees/commissions and disclosure of affiliations[4]

Consumers were aware of fees and commissions prior to the regulations changing in 2011

Regardless of the current need for financial advisers to disclose fees and affiliations, consumers say they were mostly aware of the way financial advisers were paid prior to 2011. Most are philosophical about this and feel that 'they have got to be paid somehow'. That is, that financial advisers' costs have to be paid by *someone*:

- Some consumers believe the *organisations* pay financial advisers *directly*.
- Some consumers believe premiums and investment rates 'build in' the costs to the *consumer indirectly*.

> *"It's [the cost] is coming out of the company's end."*
> ***Insurance advice client***
>
> *"It's a service industry they must be getting paid somewhere. You don't get anything for free in this world."*
> ***Insurance advice client***

Users feel the way financial advisers are paid is a trade-off between independence and cost

Users *in theory* prefer that financial advisers are independent and not affiliated with any particular organisation. But in *practice*, they are comfortable 'trading off' independence with not having to directly pay financial advisers themselves.

> *I think for me both, it [disclosure] makes me both aware and wary of their recommendation, but also confident that I know that that's on the table, and I can factor that into my decision."*
> ***Investment advice client***

When asked if they would prefer to pay financial advisers directly to avoid the affiliations and commission paid to them, most consumers in the groups baulk at the idea of having to pay directly. They do not feel they would get as good 'value for money' as they do currently.

Some investment advice clients have refused to pay their financial adviser for a service when offered it. Similarly, one insurance advice client was offered a personalised financial service but refused to pay for it.

> *"He [financial adviser] said I want to give you a financial something, a financial health check, and he said it will take two or three hours and he said it costs $200 and I said 'I ain't paying you.'"*
> ***Insurance advice client***

[4] An explanation of how financial advisers are paid was not provided in the groups. Non-users were not specifically prompted on this element but discussion below includes their views from unprompted discussion.

Consumers perceive some impact and value in the need to disclose fees and affiliations

Consumers perceive there is some value and impact in the need for financial advisers to disclose fees, commissions, and affiliations. They feel this provides them with a sense of the financial services sector being more transparent about the way they are paid and contributes to their sense of trust and confidence in the sector overall. The impact of the change in the legislation has two aspects:

- It has not changed users' perceptions of their *own advisers*. They trusted them before 2011, and they trust them now.
- It has changed users' perceptions of the *financial services sector overall* in a positive way. They feel that the need for disclosure has lifted confidence levels in the sector at an overall level.

> *"We get on quite well with our adviser and that really is quite important, as much as the company is good, we know it is, but he himself is excellent. I feel I think a wee bit secure now as well with all this regulation. He has to be quite clear in saying well this is what I say but, and then he does put disclaimers on it. But at least then you know."*
> ***Investment advice client***
>
> *"I'd have to say it's not clear whether the quality of the advice has improved or changed in any way as a result of the fact that they now have to make disclosure. I know my [broker] sent me a form the other day and I went through it. I had trouble reading the whole damn thing. And it says basically that he gets money from [the insurance company] any time I review my insurance. Well actually I knew that."*
> ***Insurance advice client***

Disputes Resolution Services

Discussion of this element of the FSPA did not arise spontaneously in any of the consumer groups. The four schemes available are:

- the Banking Ombudsman
- the Insurance and Savings Ombudsman
- Financial Services Complaints Limited
- Financial Dispute Resolution Scheme.

Consumers are aware of the Banking Ombudsman, and one or two mentioned they are aware of the Insurance and Savings Ombudsman. However, none of the consumers mentioned the two latter schemes above.

Some consumers question the necessity for four schemes and ask how consumers would know which scheme to complain to about their financial adviser. These consumers questioned the regulatory cost of maintaining four schemes.

None of the consumers in the groups comment that they had needed to complain about their financial adviser. One user had received poor service from a financial adviser at a bank and had pursued avenues within the bank to resolve this issue.

Reaction to the need for financial advisers to belong to a scheme is positive

Consumers feel that the existence of the disputes resolution schemes, and the requirement that financial advisers must be a member of one of them, gives them a measure of confidence in the financial services sector. They view the existence of the disputes schemes as useful should they have any issues with their financial adviser. This also applies to non-users, who also feel the same way regardless of their current non-use of financial services providers. Non-users feel the disputes schemes could contribute to them feeling more confident about obtaining financial advice.

> *"My perception of the word Ombudsmen means that they are defending the little guy, they're there for the little guy. So without any personal experience I would anticipate that I could take something to them, and they would help sort that out with the big guy who I'm in dispute with. I might not win but at least I have someone who is on my side."*
> ***Investment advice client***
>
> *"This is good, it gives me more confidence knowing there is a back up."*
> ***Non-user***

While mostly positive, a few consumers feel they would need to know more about how much regulatory 'clout' each of the disputes schemes has before determining if the scheme's existence contributes to them feeling more confident in the sector. Some consumers feel that unless the schemes have the mandate to fine, deregister, or otherwise punish offenders in the sector, they provide little increase in confidence.

> *"How much power have they all got? It's not great is it?"*
> ***Insurance advice client***

In addition to this, some consumers feel that some disputes schemes act in the interests of the industry body they represent. They would like to know if the disputes schemes are independent, or managed by the financial services sector themselves.

Consumers perceive some impact and value in the need for financial advisers to be members of one of the disputes resolution schemes

Consumers value that they have a mechanism for redress if they are provided with poor or misleading financial advice. However, there is some scepticism about how effectively the schemes protect consumers. Consumers are unsure if they could seek financial compensation for lost investment funds via the schemes, or if the schemes are sufficiently punitive to discourage poor or unethical financial advisers from practising.

The Financial Markets Authority

Consumers are mixed in their awareness of the Authority. Some consumers in each group were aware that the Securities Commission had in some way evolved into the Authority.

Consumers are not clear of the role of the Authority, or how much capacity it has been given under the FAA to punish members of the financial services sector for transgressions.

> *"I guess time will tell though whether it has got teeth or [not]. We are rather used to finding that the people who want to be naughty always find a way, there's always other avenues…"*
> ***Investment advice client***
>
> *"I don't know what they do. How do they monitor [the market]?"*
> ***Non-user***

Consumers feel the existence of the Authority is positive, and it could potentially increase their trust and confidence in the financial services sector.

> *"[It gives me] greater confidence, if they're going to hit hard at the people who break the rules."*
> ***Investment advice client***
>
> *"I like the idea that there's a higher authority that you can appeal to."*
> ***Investment advice client***

One investment advice client was confident that, given time, the Authority would protect consumers' rights.

> *I think they give me a lot more confidence because I get the impression that Financial Markets Authority is basically spoiling for a fight, they're just waiting to be given some high profile examples to get their teeth into."*
> ***Investment advice client***

One insurance advice client feels that the regulator is not important to him as he has had no problems with his adviser.

> *"When we've got no problem who cares who the regulator is."*
> ***Insurance advice client***

Consumers consider the impact of the existence of the Authority has (so far) been negligible to them.

The Financial Service Providers Register

None of the consumers who took part in the focus groups were aware of the register. One or two consumers mention that they would find a register useful and valuable before they were prompted to comment on it.

Consumers had a number of questions about the register, as it raised questions for them about the registration process. Questions are:

- How do financial advisers qualify to get on the register? What are the skills required?
- Who maintains the register and can they deregister a financial adviser for misconduct?
- What are the implications if I find my financial adviser is not on the register?

Consumers are not sure what information the register holds, but comment that they would like to know:

- Name of adviser
- Affiliated organisations
- Success or track record
- Any transgressions or convictions
- Contact details.

One of the investment advice clients was unconvinced about the value of the register, as he felt it 'was just a list' and provided no assurance of quality or credibility for him.

> *"There are lists of taxi drivers and there are lists of car salesman as well. It gives a level of confidence, but I wouldn't use it [*as a way to evaluate my adviser*]."*
> ***Investment advice client***

One of insurance advice clients feels similarly. A list or register does not provide him with confidence in the integrity of the people on it.

> *"[It's similar to] Master Builders It doesn't tell you anything really other than they're registered and we know they're registered."*
> ***Insurance advice client***

Once they are made aware of the register, consumers are generally positive about this aspect of the legislation. They feel its existence would have a positive impact on their trust and confidence in a financial adviser, and in the regulation of the sector overall.

> *"[The register provides] trust that you pay for what you, you get what you pay for and hopefully you're not going to get a cowboy."*
> ***Investment advice client***

One insurance advice client feels the register would be ineffective as consumers would not use it even if they are aware of it. This is because consumers tend to trust recommendations from people they know over a regulatory requirement. There is also a sense that consumers are not aware of the register.

> *I think that's good there is a register, [but] the value to the public of the register I would have thought is pretty minimal. Because most people aren't going to use it."*
> ***Insurance advice client***

Six overall insights

The following insights highlight the key themes from the research.

- Consumers most value access to the expertise and time saving elements that financial advice offers.
- Financial advice also gives consumers greater confidence as they feel their investment decisions are better informed.
- Consumers have strong relationships with their own financial advisers. This builds a high level of trust with their adviser, even if this does not extend to the sector as a whole.
- Consumers who do not obtain professional financial advice can feel that advisers are mainly interested in clients with larger funds to invest. As these consumers have not developed a personal relationship with an adviser, they also feel that other sources of advice (e.g. family and friends) are more likely to have their best interests at heart.
- Once informed about the elements of the Acts, some consumers feel these give them greater confidence in the financial services sector. Others feel the Acts have yet to be 'tested' (e.g. by a global financial crisis).
- The elements of the legislation that provide the most confidence for consumers are more closely related to their personal relationship with their adviser (the need for financial advisers to disclose commission and fees, and the existence of a number of disputes schemes).