MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

FINANCIAL ADVISERS REVIEW

The Ministry of Business, Innovation and Employment is reviewing the laws that:

- regulate financial advisers, and
- require financial service providers (which include financial advisers, banks, insurers and lenders) to register and to belong to approved dispute resolution schemes.

These laws are critical to promoting investor confidence and making sure New Zealanders get sound financial advice – and we want your feedback before we consider any changes.

This brochure provides a snapshot of the issues and some key questions. You can answer these questions online at www.mbie.govt.nz/what-we-do/faareview/, or contact the review team directly at faareview@mbie.govt.nz. Responses close at 5pm on 22 July 2015.

The Financial Advisers Act

Financial advice in New Zealand is regulated under the Financial Advisers Act 2008. This Act aims to help you have confidence in financial advisers and the services they provide.

How and why should the government regulate financial advice?

Financial advice is advice about whether to buy or sell financial products, such as insurance, investments or savings products. It can range from advice for a one-off transaction, such as choosing an insurance policy, to comprehensive advice on how to achieve your financial goals.

New Zealand Government

Financial advisers can help you make financial decisions that you don't have the expertise or time to fully consider. While good financial advice can help motivate, educate, and empower people to reach their financial goals, following bad advice can have a significant impact on people's lives and wellbeing.

Because it can be hard to tell someone who will give you good advice from someone who won't, the government has applied minimum standards to financial advisers under this Act.

1. What role do you think financial advisers play in helping New Zealanders make decisions about their savings, investments and insurance?
2: What role should the government play in promoting the quality of financial advice?
3: How much confidence do you have in the professionalism and integrity of financial advisers? Has this changed since the Financial Advisers Act took effect in 2011?

How should we regulate the different types of financial adviser?

The Financial Advisers Act requires all advisers to exercise care, diligence and skill and not to engage in misleading or deceptive conduct. There are three types of financial adviser, each with different requirements.

Authorised Financial Advisers	. . .have been authorised by the Financial Markets Authority and are required to meet professional conduct requirements, including minimum qualification requirements and a duty to act in your best interests.	Authorised Financial Advisers can give you advice on any type of financial product, including more complex products, such as KiwiSaver, shares and other investments.
Registered Financial Advisers	. . . must be registered on the financial service providers register, but have not been authorised by the Financial Markets Authority and are not required to meet any minimum qualification requirements.	Registered Financial Advisers can give you advice on less risky or complex products such as mortgages, insurance and term deposits.
Qualifying Financial Entities	. . .are companies, such as insurance companies and banks, that have had their advice procedures approved by the Financial Markets Authority. The Qualifying Financial Entity is responsible for maintaining procedures that ensure you receive adequate protection.	Financial advisers who work for Qualifying Financial Entities can give you advice on less risky or complex products, as well as on more complex products issued by their employer.

4: Do you find the differences between the types of financial adviser easy to understand, and do you think the requirements for each are appropriate? What would you like to see instead?

5: Do you think that people who want advice know how to find the right type of adviser for them?

How do you think financial advice should be paid for?

Financial advisers are typically paid by client fees, commission paid by product providers, or a mixture of these. While advisers paid by commission may charge you less for advice, commissions can create a conflict of interest for them by providing an incentive to recommend products with higher commission rates.

Authorised Financial Advisers and advisers working for a Qualifying Financial Entity must let you know (disclose) if they earn commission, but Registered Financial Advisers do not. Disclosure is intended to help you decide which adviser to use and to think about how the commission might influence their advice. However, evidence suggests that people can struggle to interpret this information.

A number of other countries ban commissions altogether. However, bans on commissions may mean that advisers need to charge higher direct fees and this may discourage people from seeking financial advice.

6: What impact do commissions and other conflicts of interest have on your level of trust and confidence in financial advisers?

7. Do you think disclosure of commission payments is useful and would you know how to interpret this information?

8: How should financial advice be paid for in future and should any restrictions on commissions be considered?

The Financial Service Providers Act

The Financial Service Providers (Registration and Dispute Resolution) Act 2008 requires all financial service providers (including financial advisers) to be registered on the Financial Service Providers Register at www.business.govt.nz/fsp/. They must also belong to an approved dispute resolution scheme if they provide retail services.

Are the providers register and dispute resolution schemes useful to you?

One of the register's aims is to give you information about financial service providers.

9: Do you think the Financial Service Providers Register is useful? Do you have any suggestions for how it could be improved?

The dispute resolution schemes give you a way to resolve disputes with providers quickly and at no cost to you. The approved schemes are: the Banking Ombudsman, the Insurance & Savings Ombudsman, Financial Services Complaints Limited, and the Financial Dispute Resolution Scheme.

10: Were you aware of the dispute resolution schemes and, if so, how did you hear about them?

11: Does the availability of dispute resolution schemes make you more confident in participating in financial markets? How could the dispute resolution regime be improved?

Is there anything else we should consider?

12: Do you have any other comments or suggestions on how financial advisers and financial service providers should be regulated in the future?

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