



Access to Advice

How effective will the financial advice reforms be?

While the coming reforms of the financial advice sector should improve the quality of financial advice being provided to retail customers, one of the stated purposes of the reforms is to improve access to high quality financial advice¹. Financial capability has been identified as a significant factor in ensuring vulnerable people get access to good quality financial advice. So what are some of the specific outcomes of lack of financial capability that could be addressed by the new regime?

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Remedying chronic underinsurance is one identified by ICNZ². While New Zealand ranks fourth in the world in terms of insurance penetration, it also has the second highest annual losses expected from natural catastrophes³. So what impact will the new regime have on these numbers? Where to date advisers on general and life insurance have only been subject to very light-handed regulation (such products being Category 2 and therefore only requiring advisers to be registered), from mid

2022 these products will come fully within the new regime, with providers of financial advice required to be licensed, and advice provided by qualified advisers. But will better qualified advisers mean greater access for vulnerable customers to advice?

KiwiSaver default funds are another example. Despite good uptake of KiwiSaver, there is a continuing issue with investors remaining in default schemes. Approximately 715,000 people remain in default schemes, with 430,000 of those not having made an active choice to stay there. That's 15% of all KiwiSaver members⁴. In the current review of KiwiSaver default schemes, consideration is being given to options for improving outcomes for members of default schemes. Lack of financial capability has been identified as one of the factors that encourages individuals to remain in a default scheme. Could easier access to quality advice have an impact on this problem? How is the new regime going to facilitate this?

'Robo advice' has been touted as the primary mechanism for providing access to financial advice to a wider audience. One of the key changes in the new legislation will be to allow Financial Advice Providers to provide advice through mechanisms other than just individual advisers. The current exemption under the Financial Advisers Act 2008 was granted to get around the restriction in that Act preventing technologies such as robo advice or digital advice facilities providing personalised financial

advice. Currently there are 8 entities permitted to provide personalised advice through digital advice facilities. However to date very few of these facilities give truly personalised advice. Has the ability of such facilities to reach a wider audience been overstated? What else can be done to make advice more accessible?

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On-line calculators are tools that are widely available to be used by investors wanting to know how much they need to save to reach their investment goals, particularly for retirement. These tools are easily accessible and easy to use. However the Financial Markets Authority recently wrote to KiwiSaver providers advising them they were expected to apply the assumptions set out in the Financial Markets Conduct Amendment Regulations 2019, which apply to retirement savings and income projection for KiwiSaver annual statements, to any KiwiSaver retirement saving projection calculators or projection tools they offer. The restrictions have the effect of preventing investors from personalising their calculations to match their investment goals. For example, they cannot factor in changing funds over time, different tax rates or making withdrawal to purchase a first home. Quite apart from the question of whether the Amendment Regulations can be extended to such calculators in this way, it must be asked how such restrictions benefit investors? Arguably it's a backward step in the fight to improve financial literacy and encourage investors to seek good quality advice.

While we are supportive of the changes being made to the finance advice regime, we question whether they will be effective in driving improvements to financial capability. We look forward to continuing working closely with the financial advice sector to achieve its aims in this regard.

¹ Press release from Minister of Commerce and Consumer Affairs, Jacqui Dean, 18 February 2017.

² ICNZ Newsletter November 2018, Improving New Zealanders' financial capability.

³ Lloyd's, A world at risk - Closing the insurance gap, October 2018.

⁴ MBIE, Review of the KiwiSaver Default Provider Arrangements, Discussion paper, August 2019.



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