

**INVESTMENT SAVINGS & INSURANCE ASSOCIATION OF NZ
INC**

Submission
to
Ministry of Economic
Development
on the
Discussion Document:
Financial Service Providers
(Registration and Dispute
Resolution) Act 2008 and
Financial Advisers Act 2008:
Fees Regulations

13 November 2009



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Investment Savings and Insurance Association of NZ Inc.

1.0 Introduction

1.1 The Investment Savings and Insurance Association ("ISI") is the industry association for the companies that issue and manage life insurance, superannuation and managed funds in New Zealand. ISI members are responsible for approximately \$50 billion funds under management. ISI members are also the leading providers of KiwiSaver funds and all six default providers are members of ISI.

A list of members is attached.

1.2 ISI supports the development of workable regulations in the interests of consumers, advisers and product providers and has maintained a close interest in the development of the financial adviser legislation.

1.3 We welcome the opportunity to comment on the discussion document *Financial Service Providers (Registration and Dispute Resolution) Act and Financial Advisers Act 2008: Fees Regulations*. These regulations will have an impact on ISI members and also on their relationships with the distributors of their products and advice.

1.4 This submission provides some general comments and then responds to the specific questions in the discussion document.

2.0 General Comments

2.1 Criminal Checks

The tables in the discussion document for initial registration and application fees and ongoing confirmation and renewal fees, do not indicate the extent of criminal checks that will be required within a financial service provider that is a QFE. As the prescribed form for an application for registration is not yet available, it is not certain who will need to be individually named in the applications. If this is intended to include every adviser nominated by a QFE it could represent a significant expense for QFEs. We recommend that QFEs should be responsible for conducting criminal checks on their own nominated advisers and that checks on advisers not within QFEs should be conducted by the Ministry of Justice as proposed.

2.2 Securities Commission Levies

Paragraph 8 (ii) notes that section 153 of the FAA allows for an operational levy to be imposed by regulation for the purpose of funding costs incurred by the Securities Commission in the performance of its duties. The Securities Commission proposes to impose levies for surveillance and enforcement work it will undertake. It is not clear what will be covered by 'surveillance and enforcement' in comparison with 'supervision' which is proposed in paragraph 38 to include review of QFE annual reports and updating AFA and QFE risk profiles. An annual charge of \$250 is proposed for supervision of each AFA and QFE.

If ‘surveillance and enforcement’ covers disciplinary action we would expect the charges to be recovered from the entities involved.

The discussion document states the intention to review all fees within 3 years, by which time the number of registered financial service providers will be known. In order to give a clearer picture of likely costs on which we might comment, we strongly recommend provision of the likely levy for surveillance and enforcement, based on the best estimate of the number of QFEs and AFAs is as set out in footnote 1 on page 6.

2.3 Amendment of Financial Advisers Act

The amendments to the Financial Advisers Act announced by the Minister on 13 October 2009 are likely to affect the number of advisers who will want or need to apply for authorisation. The proposed changes may bring more advisers under the umbrella of a QFE and therefore remove the need for them to be individually authorised, unless they also advise on third party products.

2.4 Double-Charging QFEs

Some QFEs will have advisers who need to be individually authorised because they provide a financial planning service or because the QFE is not the issuer or promoter for some of the products on which they are approved to give advice. In those cases it appears that the QFE will effectively be paying double fees as it will pay to cover its employee advisers as a QFE and will also pay for those employee advisers to be individually authorised.

We recommend that a discounted fee should be available for a QFE paying for the individual authorisation of its employee advisers.

2.5 Wholesale Financial Service Providers

We note that there is no differentiation between financial service providers that provide wholesale advice, for instance to trustees of superannuation schemes, and retail advisers. We recommend a lower fee for initial registration and annual confirmation for wholesale financial service providers.

As the FSP Act requires membership of an approved dispute resolution scheme only in respect of a financial service provided to the public, we recommend that no fee for the dispute resolution regime should apply to wholesale financial service providers.

3.0 Responses to Questions

3.1 Are our best estimates of financial service providers currently doing business in New Zealand accurate and/or reasonable in the current economic environment?

It is difficult to comment on the appropriateness of the numbers used in this paper, and we would like to have a greater understanding of how the numbers were estimated. It is important that MED uses accurate estimates, as it is essential for businesses to be able to budget likely QFE and AFA fees correctly.

3.2 Have all feasible options been considered in respect to how the fees detailed in this paper will be paid and the method of collection?

We agree that the simplest method of collection is to have one central agency as the single point of collection.

List of ISI Members

ISI MEMBERS

AIA New Zealand
AMP Financial Services
Asteron Life Ltd
AXA New Zealand
BNZ Investments and Insurance
CIGNA Life Insurance NZ Ltd
Dorchester Life
Equitable Group
Fidelity Life Assurance Co Ltd
Gen Re LifeHealth
Hannover Life Re of Australasia Ltd
ING New Zealand Ltd
Kiwibank Ltd
Medical Assurance Society NZ Ltd
Mercer
Munich Reinsurance Co of Australasia Ltd
Public Trust
RGA Reinsurance Co. of Australia Ltd
Sovereign Ltd
Southsure Assurance
Swiss Re Life & Health Australia Ltd
TOWER New Zealand
Westpac/ BT Funds Management Ltd

Associate Members

Bell Gully Buddle Weir
BNP Paribas
Bravura Solutions
Burrowes & Co
Chapman Tripp
Davies Financial & Actuarial Ltd
Deloitte Touche Tohmatsu
DLA Phillips Fox
Ernst & Young
InvestmentLink (New Zealand) Ltd
KPMG
Kensington Swan
Melville Jessup Weaver
Minter Ellison Rudd Watts
Morningstar Research Ltd
PricewaterhouseCoopers
Russell Investment Management
Russell McVeagh
Simpson Grierson