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Committee Secretariat
Finance and Expenditure Committee
Parliament Buildings
Wellington

By email: fe@parliament.govt.nz

**SUBMISSION ON THE FINANCIAL MARKETS (CONDUCT OF INSTITUTIONS)
AMENDMENT BILL – AIA NEW ZEALAND LIMITED**

We are pleased to have the opportunity to submit on the Financial Markets (Conduct of Institutions) Amendment Bill (**Bill**). We support conduct regulation, however there are a number of aspects of the Bill that we believe need to be addressed in order to ensure it establishes a framework that will deliver the best outcome for New Zealand consumers.

Key points of this submission:

1. We support the requirement on financial institutions to implement a fair conduct programme to govern their dealings with consumers.
2. The scope of those required to comply with a financial institution's fair conduct programme should be refined to only extend to distributors who are not already licenced under the Financial Services Legislation Amendment Act (**FSLAA**).
3. Introducing a reporting framework into the Bill would support the FMA's supervision of Financial Advice Providers under FSLAA.
4. The framework for the regulation of incentives is too widely cast and is not focused on problematic incentives.
5. If the Bill is passed into law with its current scope, the passage of the Bill should be delayed allowing for a longer public exposure period and relieve the pressure the industry is under from COVID-19. In addition, the commencement of the Bill should allow FSLAA time to properly embed.
6. Fair conduct programmes should be made available to the FMA as part of the licensing process rather than to consumers.



General Comments:

The Bill is too wide in scope

We are broadly supportive of the introduction of conduct licensing for financial institutions to help give effect to the insurance industry's focus on achieving the best outcomes for customers. We are, however, concerned that the scope of the proposed regime is too wide and, in some cases, overlaps existing licensing regimes, impacting on its effectiveness and workability. As introduced, the Bill goes well beyond measures to address the regulatory gaps identified in the 2018-19 FMA/RBNZ reviews of Bank and Life Insurer conduct and culture ('Conduct and Culture Reviews'), extending to conduct and business activities that were not considered as part of those reviews and industries that are already subject to licensing. That wider scope creates commercial uncertainty for market participants and creates an additional layer of complexity and cost upon the financial services industry where the case for imposing that burden has only been partially made out, or where recently introduced legislation is in the process of being implemented. This commercial uncertainty and added red tape may result in increased costs and negative outcomes for New Zealand consumers whose interests we strive to serve.

Focus on core areas of consumer risk

Given the pace at which the Bill has been developed and is intended to come into effect we believe that it will result in complexity and confusion within the financial services industry which, in turn, may reduce the likelihood that the legislation will have a meaningful impact on consumer outcomes. As a result, we consider that it would be prudent to refine the legislation to focus on areas where the risk of poor conduct leading to poor consumer outcomes has been established. If the Bill is to retain its current broad scope, it would benefit greatly from a more extended exposure period to enable more effective engagement with all stakeholders. This would ensure that the new conduct regime results in meaningful, pragmatic change that delivers the best possible outcomes for New Zealand consumers. Implementing the regime in a more measured fashion would also help ensure that the industry is in the best possible position to be able to continue to prioritise supporting consumers through the COVID-19 crisis.



Our concerns, as well as our submissions on several key elements of the Bill, are set out in the attached schedule.

We have refrained from providing detailed drafting submission points as we felt it would be more helpful to concentrate on the more fundamental aspects of what has been proposed in the Bill.

The Financial Services Council (**FSC**) has also made a submission on the Bill. We support that submission.

We would welcome the opportunity to appear before the Committee to speak in support of our submission, whether that opportunity is made available for an in-person submission or via remote link-in, given the current constraints on physical proximity and travel.

Yours sincerely

Nicholas Stanhope
Chief Executive Officer
AIA New Zealand