

24 July 2015

Media release

Financial Services Council commissions report on personal insurance sales incentives

The Financial Services Council (FSC) has commissioned consulting actuaries Melville Jessup Weaver (MJW) to investigate sales incentives in the personal insurance industry (life and income protection insurance) and to suggest remedies for any misalignment of incentives between salespeople and their clients.

FSC CEO Peter Neilson said New Zealanders often switch their policies between companies because their new policy is better value, has better coverage or is being provided by a company with a better solvency rating or better claims record. "Churn" occurs when a policy is switched to the benefit of the salespeople but not the customer such as a switch that results in the customer losing coverage for a pre-existing condition.

The personal insurance sector is currently responding to these issues in a Section 25 information request from the Financial Markets Authority (FMA) and the review of the Financial Advisers Act being undertaken by the Ministry of Business Innovation and Employment (MBIE).

"We expect the MJW independent report will identify possible solutions for these issues," said Mr Neilson. "The FSC aims to have its own firm recommendations available by the time we submit on the Financial Advisers Act Review proposals later this year."

He said MJW had been asked to consult widely on the issues and possible solutions. Based on earlier Massey University research the FSC believes New Zealanders are underinsured when it comes to life cover and even more so in respect of income protection insurance.

Mr Neilson said the products the industry sells address issues like premature death and unexpected serious illness that prevents earning an income, issues that most people would prefer not to talk about. As those products are sold not bought, the industry mainly relies on an agent and broker distribution channel.

"For that reason MJW is already meeting with agent and broker organisations to discuss the issues, options and opportunities. The FSC and its members want solutions that can receive wide buy in from consumers, producers, agents and brokers."

Earlier this year MJW brought to New Zealand John Trowbridge who undertook a similar exercise in Australia and he will be an adviser to MJW for the project.

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About the Financial Services Council

The Financial Services Council (FSC) was established in 2011 to represent the interests of the New Zealand financial services industry and the financial well-being of all New Zealanders. Its objectives are to:

- Develop and promote evidence-based policies and practices designed to assist New Zealanders to build and protect their net wealth
- Promote the financial services industry for the economic benefit of New Zealand
- Promote best practice in the financial services industry, including the publication of guidance for industry participants
- Promote the financial services industry as a medium for investment or protection

The FSC has 22 member companies and 16 associate members. Members manage more than \$80 billion in savings and provide financial services to more than 2.5 million New Zealand investors and policyholders.