

member update

SPRING 2018



SHAPING FUTURES 2018



member update

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WELCOME

The highlight of the last quarter was the Shaping Futures National Conference – conference time is always a busy time for members involved. This year was no exception, and the hard work by the conference committee, excellent line-up of speakers and record-breaking numbers meant the bar was lifted to a new level.

We issued a conference special newsletter the week after the conference which can be viewed here: <https://s3-ap-southeast-2.amazonaws.com/ap-southeast-2.accounts.ivvy.com/account71346/events/134343/files/5ba07ff605dbb.pdf>, including the pictures from the event and a roundup of the media response to the conference across TV, radio, print, online and social media.

We also launched the new FSC Code of Conduct at the conference, alongside the fourth and final part in the series of our KiwiSaver Research, Shaping Futures: Closing the KiwiSaver Gap.

The Asia Region Funds Passport (ARFP) event on 21 September was very well attended with Hon Minister Faafoi opening the session and Rob Everett and team from the Financial Markets Authority (FMA) co-hosting. On the same day we ran a members' CEO roundtable with Minister Faafoi, generating interesting debate about life insurance.

The committees have been busy, with all committees reporting progress to the FSC Board over the period. Highlights include the Research Committee launching an RFP for a tranche of new research into attitudes towards risk in New Zealand, and the delivery, by the Regulation Committee and Tax Advisory Group, of five submissions over the period including on tax and insurance contract law reform.

As we head towards the summer, we are focussing on the FSC longer-term strategy to 2023, and the business plan for 2019 to ensure that the FSC leads the development of a strong and sustainable financial services sector. Watch this space for details in the next issue of Members Update.



Rob Flannagan
Chairman



Richard Klipin
CEO

POLICY AND ADVOCACY

FSC Committees are involved in increasing policy and advocacy activities to support the delivery of strong and sustainable customer outcomes. All submitted papers are available on the FSC website, and we share a summary here.



Insurance Contracts Law Reform

The Regulation Committee submitted a response to MBIE in mid-July to the Issues Paper, which had 53 questions. The submission covered four key themes:

- Theme One – Conduct and self-regulation
- Theme Two – Disclosure
- Theme Three – Reinsurance
- Theme Four – Consumer interests

Taxation – UK Retirement Savings

There was a joint response from the FSC and Workplace Savings NZ on 1 August 2018 to the Inland Revenue. We generally supported Inland Revenue's proposals to:

- Shift the liability for tax on a UK pension transfer to a NZ fund
 - suggesting this be elective and not automatic
 - requesting that IR consult further with the FSC on the practical details before a tax bill is introduced
- Remove KiwiSaver provider 'lock-in'

Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Bill

The FSC response to Parliament on 13 August 2018 focussed on

- KiwiSaver enhancements – saying there is more to do
- Requesting clear communication from IR on the practical implication of changes for individual taxpayers
- Requesting guidance on RWT change instruction
- Requesting guidance on the inclusion of PIE income
- Supporting greater flexibility for the Commissioner
- FSC involvement in the consultation on a new regulation-making power for datasets

The FSC is due to present at the Select Committee 17 October 2018.

Insurance Solvency Standards – proposed changes for NZ IFRS 16 Leases

A submission created by FSC Regulation Committee sub-group and was submitted in 24 August 2018, which supported the proposed changes as they are designed to deliver:

- Strong and sustainable consumer outcomes;
- Sustainability of the financial services sector; and
- Increasing professionalism and trust of the industry

Exemptions, other legislative notices, and unnecessary compliance costs

A submission created by FSC Regulation Committee sub-group and was submitted on 31 August 2018 which highlighted three current areas where the costs of compliance appear to either outweigh the intended benefits, or are causing unintended adverse consequences for the industry or consumers.

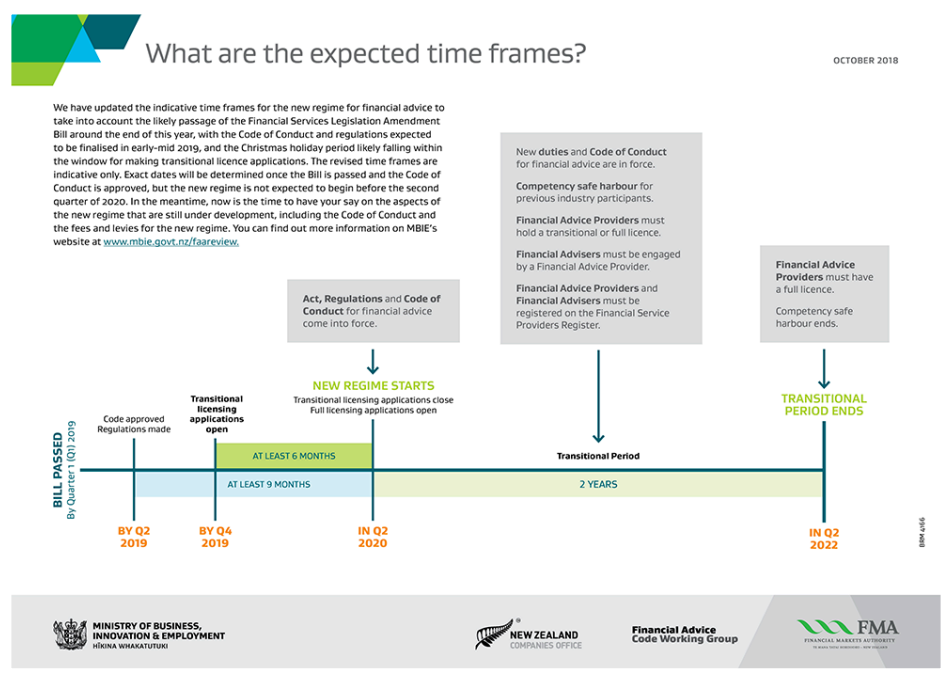
Privacy Bill

The FSC presented to the Parliamentary Select Committee on 28 June 2018 and the Select Committee report is due to be published on 22 November 2018.

Financial Services Legislation Amendment Bill (FSLAB)

At the beginning of the month MBIE launched new information about where the FSLAB process is, a timeline and further guidance. The information can be found on the MBIE website:

<https://www.mbie.govt.nz/info-services/business/business-law/financial-advisers/review-of-financial-advisers-act-2008>.



POLITICAL AND REGULATOR ENGAGEMENT

The political and regulatory engagement this quarter has centred around the annual conference, the launch of the Code of Conduct and part four of the KiwiSaver research, the recommendations paper.

At conference we gained insight from the Hon Minister Faafoi, the Hon Minister Roberts and Hon. Amy Adams MP. Both Rob Everett and Adrian Orr, heads of our respective industry regulators, gave keynote speeches followed by Q&A sessions which were extremely well received by the audiences. Others from Government and regulators spoke at sessions as well as attended the conference. All gave clear messages to the industry around our responsibilities on conduct, short versus long-termism and the need to deliver great consumer outcomes.

As highlighted in the introduction, we also ran a joint event with the Financial Markets Authority on the Asia Region Funds Passport and organised a members' CEO round table with Minister Faafoi on insurance. The roundtable touched on the key areas of conduct, culture and insurance, including conduct law reform, legislation underway and the need to help New Zealanders grow and protect their wealth. The Minister reiterated "The need to help consumers make wise and informed decisions."

Remember the FSC Regulatory Outlook, which provides a view of past, current and future consultations, is available to members on request.



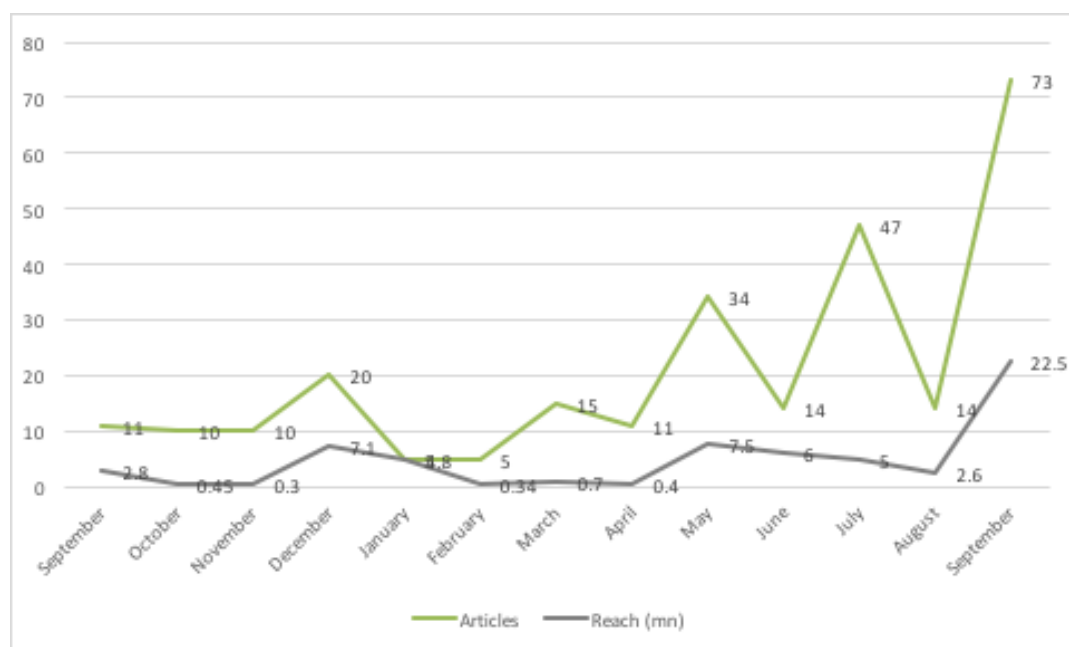
FSC IN THE NEWS

We continue to attract media requests and attention on our key topics and this period issued press releases around Conference, Code of Conduct and KiwiSaver. See the Conference Special Newsletter to view coverage <https://s3-ap-southeast-2.amazonaws.com/ap-southeast-2.accounts-ivvy.com/account71346/events/134343/files/5ba07ff605dbb.pdf>.

Conference, Code of Conduct and KiwiSaver

This year we delivered a significant increase (see graph) in activity to drive the FSC as the 'Voice of the Sector' by spreading the message of the conference and the two launches, the Code of Conduct and KiwiSaver: Shaping Futures – Closing the KiwiSaver Gap.

Media activity since September 2017



Social media activity

This year we tested social media channels pre-, during and post- conference. We included highlights, pre-reading and tweeted every session as it was happening. We also promoted the Code of Conduct launch and KiwiSaver research, and we are continuing to push this content daily, as well as starting to promote our YouTube channel as recordings of the last few conference sessions are published.

There is still some way to go to build these channels and we will monitor progress.

The FSC social media channels can be viewed by clicking the links below:



www.fsc.org.nz

INDUSTRY BEST PRACTICE

CULTURE AND CONDUCT

The theme of this quarter has very much been conduct and culture. We have noted already in this Members Update the views of New Zealand Government and Regulators from the recent events, including at the Shaping Futures conference.

The message has been very loud, and very clear: as an industry, we must step up to the plate. You can hear Rob Everett (CEO, FMA) and Governor Adrian Orr (RBNZ) presentations from conference on the FSC YouTube channel, alongside Minister Robertson, Minister Faafoi and Amy Adams MP <https://www.youtube.com/channel/UC4JI999ymxIAiMkzTBi-2gg>.

In his speech, Rob Everett talks about the conduct and culture reviews underway:



It's why in our work with the Reserve Bank NZ, in looking at Conduct & Culture, we have spent less time trying to unearth isolated but dramatic failings to publicly humiliate banks or insurers with.

But we have focused more on whether the fair treatment of customers is actually embedded in how these firms are set up:

- What are the criteria for paying or promoting people?
- What are the fundamental design principles for new products?
- How are complaints handled? What do you do where even though the facts were short of a breach of the law, nonetheless there is a disappointed and confused customer?
- How did you build the processes or training so that customers understand the limitations of the product sold to them or the risks inherent in the investment you recommended?
- What's in place to make sure customers understand that the employee is only advising on, or offering products from their own employer?
- Are sales staff trained to listen for the questions that aren't asked – to identify customers who might need more help to make a good decision?

In the Conduct & Culture review, we and the RBNZ are making assessments across four broad themes:

- Governance
- Conduct risk management
- Customer focus
- Remediation

This is designed to get under the skin of how these organisations are operating – so not only looking at intent but looking at how it is actually working in practice.”



INDUSTRY BEST PRACTICE



With the Australian Royal Commission's interim report issued this week following the first four rounds of hearings, public perception of the financial services sector has perhaps taken another hit.

There is much to review with over 1000 pages across three volumes. The interim report can be found here <https://financialservices.royalcommission.gov.au/Pages/interim-report.aspx>.

It covers a range of issues identified across the first four rounds of hearings between March and July 2018. These hearings were informed by the information provided by the public, regulators, consumer advocacy groups and financial services entities.

Additional topics, including superannuation and insurance, considered in hearings held in August and September 2018, will be covered in the final report due by 1 February 2019.

With the interim report now publicly available, the Commission is inviting submissions in response to the issues that have emerged in the report and the next and final round of hearings for the Royal Commission will be held in Sydney (19-23 November 2018) and Melbourne (26-30 November 2018).

The final report is due to be submitted to the Governor-General by 1 February 2019.

INDUSTRY BEST PRACTICE

FINANCIAL SERVICES COUNCIL CODE OF CONDUCT: THE BEGINNING OF THE FSC APPROACH

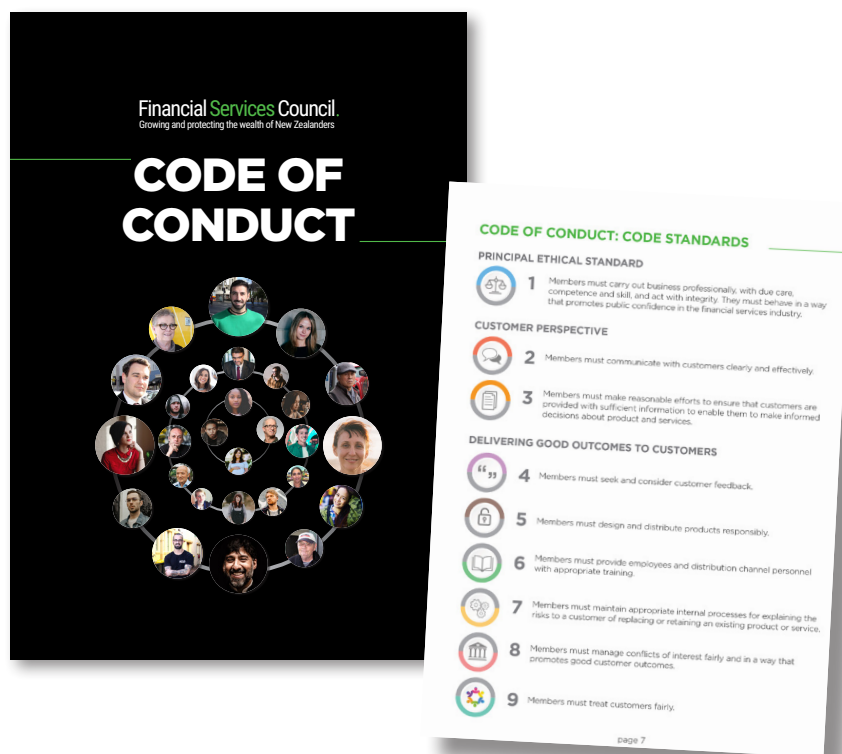


Developed over two years by FSC members, the Code of Conduct is designed to build the professionalism of the industry by reinforcing the need for good conduct and a strong consumer-focussed culture. It was launched on the 5 September 2018 with a go-live date of 1 January 2019.

Between now and 1 January, all FSC members should be conducting training and communication activities to ensure readiness for go-live. Remember that all FSC members must comply with the FSC Code of Conduct from that date.

The Code Implementation Team has designed tools and resources to help FSC members prepare for go-live. This support includes 'Train the Trainer' workshops in Auckland and Wellington. Please contact us at fsc@fsc.org.nz if you would like more information on these sessions, or any other support as you implement the code.

This is just the beginning of the FSC approach, as the FSC Board agreed at the last full Board meeting to meet in a special Board workshop early next month to discuss and lead on how we, as an industry, develop best practice and answer Government and Regulator calls on conduct and culture.



INDUSTRY BEST PRACTICE

ISI FILES WORKING GROUP



The Financial Services Council (previously known as the 'ISI') set definitions in 2008 to define an industry standard format for the transmission of interfund investment information (the 'inter fund investor report'). The need for a standard format has become more critical with the introduction of the PIE legislation which will require significantly more information to be passed between organisations on a daily basis.

The purpose of the group was to review the ISI files schema and business context definitions to reflect regulatory changes. The revised documents aim to clearly define the report requirements in a business context. It defines the data fields required and the business meaning of the data within them. A key part of the business meaning is to define the business context of each data field (ie what business element the data field relates to).

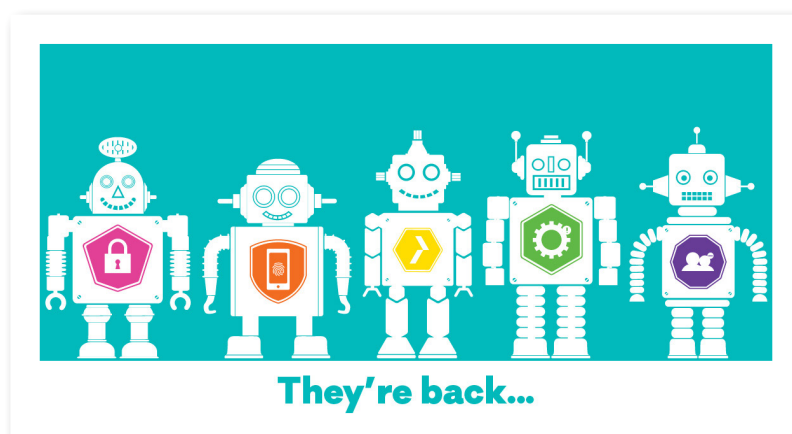
The last time the files were updated was in 2012 and the group updated the schema and tested the updates, ready to be implemented into software for a launch date of 1 April 2019.

PROTECT YOUR ONLINE SELF THIS CYBER SMART WEEK: 8 - 12 OCTOBER

This year, the FSC has become a partner of Cyber Smart Week, an initiative by the Government Agency CertNZ.

We live in an increasingly digital world, where everything is connected. Our relationships, our jobs, our finances — everything is online. And, while there are some real benefits to digital life, any weaknesses in our online connections can make us vulnerable to a cyber security attack.

See the Cyber Smart Week website <https://www.cert.govt.nz/cybersmart> for more information.



SHARING INSIGHT AND KNOWLEDGE

The FSC helps members to share insight and industry knowledge through presentations and events to members and the wider financial services community in New Zealand. This period this included:

- The FSC made a presentation to a group of close to 200 Chartered Accountants (from CA Australia and New Zealand) in the room and via webinar about the FSC, the Code of Conduct and our latest KiwiSaver recommendations paper, Shaping Futures: Closing the KiwiSaver Gap.
 - The FSC team joined the Reserve Bank of New Zealand (RBNZ) at their Auckland workshop to discuss the Quarterly Insurance Return and Insurer Survey. The RBNZ are currently consulting on their proposed changes and were seeking feedback. The key messages are that the updated definitions and guidance will be published in early 2019, there will be no further formal consultation, and the aim is to ensure consistency between RBNZ and FSC statistics.
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INDUSTRY LEADERSHIP AND INSIGHTS

PROPOSED CHANGE TO FSC LIFE INSURANCE STATISTICS



The Life Insurance Committee is proposing a number of changes to the regular publication of insurance statistics sourced from FSC life insurer members to better meet the needs and provide a deeper source of data.

The committee will be sending members their proposed new approach shortly. The proposed new approach includes:

- changes to the split of in force and movements by benefit type
- introduction of data by age to be provided quarterly – the age data may be sensitive and we believe it individual company data should be confidential to the FSC with only aggregate data circulated
- introduction of claims statistics data including cause of claim – to be produced annually.

If you would like any further information, contact fsc@fsc.org.nz.

INDUSTRY LEADERSHIP AND INSIGHTS

ASIA REGION FUNDS PASSPORT



With over 70 attendees, the 'Asia Region Funds Passport' morning event on 21 September, co-hosted by the FSC and FMA, provided excellent debate both with the panel and those attending.

At the ARFP event Hon Minister Faafoi and Rob Everett welcomed the guests from the passport country regulator representatives (Japan, Australia, The Republic of Korea and Thailand).

Each regulator detailed their approach to the passport, and the FMA announced at the event that the ARFP officially launches on 1 February 2019 for those countries that have the regulation and laws in place (as listed above plus New Zealand).

The presentations from the event are available on the FSC website:

https://www.fsc.org.nz/bulletin_display/x_blog_code/2042/cat_start_cust/00211.html



COMMUNITY OF PROFESSIONALS

THANK YOU TO...

Now that the Interfund Investor Report Business Context Definitions files been completed, the ISI Working Group has been disbanded. Thank you to all those involved for their commitment and the updated documents.

At the last FSC Board meeting, it was agreed that the Cyber and Fraud Committee would be paused for the foreseeable future due to the need to focus member bandwidth on core FSC activities. Thank you to all members that have contributed to date, and watch this space for future activity.

WELCOME TO...

The new IFRS17 committee that was formed this quarter (first meeting to be held on 10 October 2018), and we would welcome interest from members who would like to be part of the group. Please contact Haydee Stroud (haydee.stroud@fsc.org.nz) to register your interest.

ANNUAL GENERAL MEETING – SAVE THE DATE – 28 NOVEMBER 2018

The Financial Services Council Annual General Meeting will be held on 28 November 2018 in The ANZ Centre from 3.30pm. Save the date, and look out for more details closer to the event.



DEVELOPING THE FSC

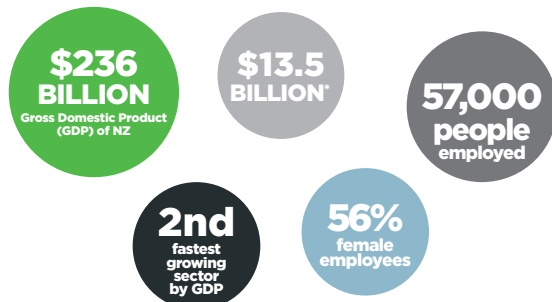
NEW MEMBERS

We are pleased to welcome ASB to the FSC, who joined as a full voting member this month.

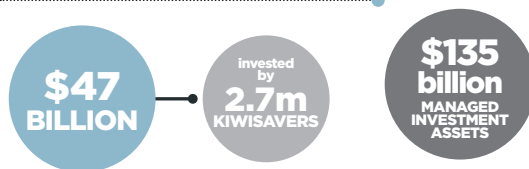


KEY FACTS

FINANCIAL SERVICES INDUSTRY CONTRIBUTION TO NEW ZEALAND

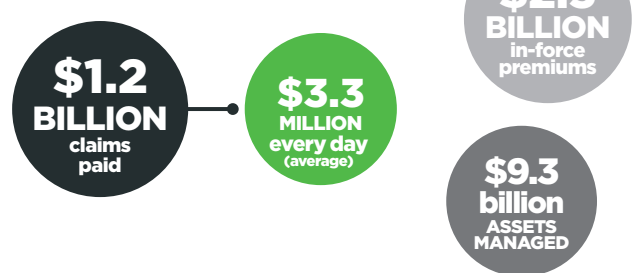


GROWING WEALTH: THE INVESTMENT INDUSTRY



* Financial and insurance services GDP.
Sources: Stats NZ, LEED, FSC Statistics, RBNZ, Morningstar, FMA.

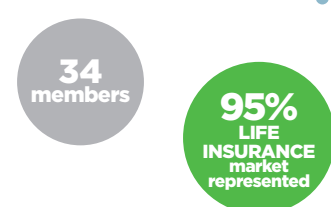
PROTECTING WEALTH: THE LIFE INSURANCE INDUSTRY



DISTRIBUTION AND ADVICE



THE FINANCIAL SERVICES COUNCIL



Thanks for reading the spring newsletter. We're always interested in your feedback. Please contact us on **09 985 5762** or fsc@fsc.org.nz with your thoughts and opinions.

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