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Changes to bill could hike costs of financial advice

Authorised Financial Advisers (AFA's) could face a dramatic increase in costs as a result of changes to the Pre-Implementation Adjustments Bill announced on Friday.

Under section 153, the Bill states that a levy will be applied to all AFA's to cover (in whole or in part) all the costs of the Commission, the Commissioner, the Code Committee and the Disciplinary Committee.

While this section was present in the previous version of the Bill, the revised version released on Friday outlined levies would be backdated to 1 January 2009, forcing advisers to pay for the long and drawn out legislative process. A smaller number of AFA's would also have to shoulder a greater proportion of the burden following the exemption of advisers offering only insurance or mortgage broking advice, which is expected to substantially reduce the number of AFA's.

IFA president Lyn McMorran says, "As a direct consequence of these changes there is likely to be a dramatic increase in the levies paid to recover the costs of this new legislation. Despite the new legislation being for the benefit of all New Zealanders, we strongly disagree that the cost is being imposed solely on AFA's."

This is on top of the already considerable cost for advisers wishing to become Authorised – which includes the actual cost of becoming authorised and maintaining their authorisation, the cost of belonging to a registered disputes resolution scheme and other costs to each individual adviser depending on their current qualifications.

McMorran also says while clarification of the Code around insurance and mortgage brokers was welcomed, the need for sound financial advice around these products tailored to the clients' need, can be as great in terms of the financial impact on the client and their family as for investment products. It was the need to protect New Zealand consumers from adverse financial impacts as much as possible that the legislation was designed.

For example, a husband with three children on \$65,000 and a \$500k mortgage might simply be recommended that the family insures themselves for the amount of their mortgage. If the client then suffers a major stroke the whole family could be left without enough income to pay their living expenses, no life insurance payout and possibly, due to the ultimate lack of ability to meet day to day living commitments, the necessity at some later stage of having to sell the house in order to make ends meet.

“It is possible for clients to suffer adverse financial consequences as a result of poor advice around Category 2 products such as insurance,” McMorran says.

Removing the word "guidance" from the definition of financial advice is also a concern because giving guidance can have financial consequence for a client. In particular this could be an issue for exemptions given to lawyers and accountants who provide advice “in the ordinary course of business”. “It is not an uncommon experience for advisers to prepare a plan for a client having used a good advice process only for the client to run it past their accountant or lawyer who then advises the client not to proceed. I think this guidance constitutes financial advice.”

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Background information on the Institute of Financial Advisers

The Institute of Financial Advisers is the professional body for some 1,200 members, representing financial advisers in New Zealand. All members are individual members, not corporate members. We estimate that our members provide advice to some 200,000 New Zealanders each year, many of whom would be couples rather than individuals, with an overall client base of around 600,000.

Our members provide advice to their clients in the areas of insurance, investments, financial planning, work-based savings and insurance, retirement planning, estate planning and financial services generally. Their professional practices reflect the broad spectrum of New Zealand businesses – they operate as local SME's, are part of large regional or national dealer groups, are associated with strong financial organisations, services companies in banking, funds management, or insurance, work

in employee benefits organisations, or sometimes practice as lawyers, accountants and other professional advisers.

The Institute reinforces compliance with a code of ethics and practice standards, runs a Professional Conduct Committee and Disciplinary Tribunal that are independently chaired, offers education pathways that can lead to professional designations and the attainment of internationally recognised adviser marks, maintains and ensures compliance with a continuing professional development programme, and provides networking, education, development, and business practice forums at a national and regional level for members.