

Financial Services Institute of Australasia
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30 September 2008

Finsia – Roy Morgan Poll *The NZ Regulatory Landscape*

Roy Morgan
— Research —

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Finsia – Roy Morgan Poll

Between September 15 and 22, 2008, Roy Morgan Research conducted a survey of 65 of Finsia’s New Zealand members. The survey asked a series of opinion based questions around the trans-tasman agenda and the recent regulatory developments within the New Zealand market.

Methodology

- CAWI Online Survey
- Conducted September 15-22, 2008

Key Findings

1. Which sector requires the most urgent regulatory attention?

Of Finsia’s New Zealand members 49% (up 5% from 2006) believe non-bank deposit takers require the most urgent regulatory attention, followed by the Financial Planning Sector (unchanged on 32%) and Funds Management (unchanged on 14%).

Table 1:

“Which of the following sectors of the New Zealand financial services industry requires the most urgent regulatory attention?”

	Finsia Members	
	November 22-29, 2006	September 15-22, 2008
	%	%
Non-bank deposit takers (friendly societies, credit unions, building societies, industrial and provident societies)	44	49
Financial Planning Sector	32	32
Funds management (ie collective investment schemes) – including superannuation, platforms and portfolio management services	14	14
Banks	9	2
Corporate capital markets	1	3
Insurance sector	-	-
Total	100	100



2. Effectiveness of recent changes to law regarding financial products and providers

Respondents were then asked: *"In your opinion, will the recent changes to the law regarding Financial Products and Providers be effective in the following, or not?"*¹

The majority of Finsia's New Zealand members believe that the recent changes to the law regarding Financial Products and Providers will be effective in *Ensuring NZ sector is consistent with international best-practice* (57%). When the review was conducted in 2006, 62% (5% higher) of respondents thought that it would be effective in *Ensuring NZ sector is consistent with international best-practice*.

Over seven-in-ten respondents (71%) believe that the recent changes to the law will be effective in *Enhancing stability and reputation of NZ financial sector overall*, this is up 18% from the 53% who in 2006 thought that the review would be effective in *Enhancing stability and reputation of NZ financial sector overall*.

A small majority of respondents (52%) believe that the recent changes to the law will be effective in *Improving the quality of financial advice*, this is up only 2% from 2006 where respondents were evenly divided (50% effective, 50% not effective) on whether the review would be effective in *Improving the quality of financial advice*.

Fifty-one percent of respondents believe that the recent changes to the law will be effective in *Reducing conflicting objectives and gaps in the regulatory system and inconsistencies of regulatory treatment for similar products*, this is up 3% from 2006 where the minority of respondents (48%) thought the review would be effective in *Reducing conflicting objectives and gaps in the regulatory system and inconsistencies of regulatory treatment for similar products*.

Fifty-two percent of respondents believe that the recent changes to the law will be effective in *Raising consumer confidence in the sector and increase NZ savings overall*, this is up 5% from 2006 where 47% of respondents thought the review would be effective in *Raising consumer confidence in the sector and increase NZ savings overall*.

Just 42% of respondents believe that the recent changes to the law will be effective in *Protecting Kiwi wealth*. Fifty-eight percent of respondents believe that the recent changes to the law will not be effective in *Protecting Kiwi wealth*, this is down 4% from the 62% who in 2006 thought that the review would not be effective in *Protecting Kiwi wealth*.

Less than a quarter (23%) of respondents believe that the recent changes to the law will be effective in *Reducing unnecessary compliance costs and simplify compliance for financial service providers*. Over three quarters (77%) of respondents believe that the recent changes to the law will not be effective in *Reducing unnecessary compliance costs and simplify compliance for financial service providers*, although still a high proportion this is down 14% from the 91% who in 2006 thought that the review would not be effective in *Reducing unnecessary compliance costs and simplify compliance for financial service providers*.

¹ In 2006 respondents were asked *"In your opinion, will the Government's current Review of Financial Products and Providers be effective in the following, or not?"*

Table 2:

"In your opinion, will the recent changes to the law regarding Financial Products and Providers be effective in the following, or not?"

	Finsia Members	
	November 22-29, 2006	September 15-22, 2008
Ensuring NZ sector is consistent with international best-practice	Yes, effective	57
	No, not effective	43
Enhancing stability and reputation of NZ financial sector overall	Yes, effective	71
	No, not effective	29
Improving the quality of financial advice	Yes, effective	52
	No, not effective	48
Reducing conflicting objectives and gaps in the regulatory system and inconsistencies of regulatory treatment for similar products	Yes, effective	51
	No, not effective	49
Raising consumer confidence in the sector and increase NZ savings overall	Yes, effective	52
	No, not effective	48
Protecting Kiwi wealth	Yes, effective	42
	No, not effective	58
Reducing unnecessary compliance costs and simplify compliance for financial service providers	Yes, effective	23
	No, not effective	77

3. Agree/ disagree with observations about NZ financial services landscape

Respondents were then asked "To what extent do you agree with the following observations about the NZ financial services landscape?"

- *Historically low levels of household savings have compounded the lack of liquidity and depth in New Zealand's capital markets*
- *Compared with Australia, New Zealand's progress on implementing market-based mechanisms for reducing emissions is much more advanced.*
- *New Zealand's co-regulatory model of financial services and product providers (requiring financial advisers to register with an Approved Professional Body) is much preferred to Australia's financial service licensing regime.*
- *KiwiSaver is building a new culture of savings in New Zealand. The wealth being built through the scheme will significantly strengthen New Zealand's economy for generations to come.*

The Finsia NZ members surveyed largely agreed with the observations about the NZ financial services landscape.

A large majority (89%) agreed that *Historically low levels of household savings have compounded the lack of liquidity and depth in New Zealand's capital markets* (46% Strongly Agree, 43% Agree).

Six in ten respondents (60%) agreed that *Compared with Australia, New Zealand's progress on implementing market-based mechanisms for reducing emissions is much more advanced* (9% Strongly Agree, 51% Agree).

Eighty-six percent of respondents (26% Strongly Agree, 60% Agree) agreed *KiwiSaver is building a new culture of savings in New Zealand. The wealth being built through the scheme will significantly strengthen New Zealand's economy for generations to come.*

The only observation that a majority (51%) of respondents disagreed with was *New Zealand's co-regulatory model of financial services and product providers (requiring financial advisers to register with an Approved Professional Body) is much preferred to Australia's financial service licensing regime* (43% Disagree, 8% Strongly Disagree) .

Table 3:

"To what extent do you agree with the following observations about the NZ financial services landscape?"

Finsia Members
September 15-22, 2008

	Strongly Agree	Agree	Disagree	Strongly Disagree	Total
	%	%	%	%	%
Historically low levels of household savings have compounded the lack of liquidity and depth in New Zealand's capital markets	46	43	11	0	100
Compared with Australia, New Zealand's progress on implementing market-based mechanisms for reducing emissions is much more advanced.	9	51	37	3	100
New Zealand's co-regulatory model of financial services and product providers (requiring financial advisers to register with an Approved Professional Body) is much preferred to Australia's financial service licensing regime.	8	41	43	8	100
KiwiSaver is building a new culture of savings in New Zealand. The wealth being built through the scheme will significantly strengthen New Zealand's economy for generations to come.	26	60	11	3	100



4. Ease of conducting trans-tasman business In financial services

Respondents were then asked *"In terms of any regulatory hurdles, how would you rate the ease of conducting trans-tasman business in each of the following financial services?"*.

Respondents largely thought there were more difficulties in financial services when conducting trans-tasman business.

Respondents were fairly evenly divided on the ease of marketing or packaging wealth management products when conducting trans-tasman business, with 52% saying it is difficult and 48% saying it is easy (46% easy, 2% very easy).

Six-in-ten respondents (60%) thought it was difficult (58% difficult, 2% very difficult) to market or package general insurance products when conducting trans-tasman business.

Sixty-one percent of respondents thought it was difficult (55% difficult, 6% very difficult) to raise equity capital when conducting trans-tasman business.

Sixty percent of respondents thought it was difficult (54% difficult, 6% very difficult) to provide or access debt finance when conducting trans-tasman business.

Sixty-three percent of respondents thought it was difficult (57% difficult, 6% very difficult) to manage financial risk when conducting trans-tasman business.

Table 4:

"In terms of any regulatory hurdles, how would you rate the ease of conducting trans-tasman business in each of the following financial services?"

Finsia Members November 22-29, 2006					
	Very Easy	Easy	Difficult	Very Difficult	Total
	%	%	%	%	%
Marketing or packaging wealth management products (incl. managed funds, cash management trusts, property trusts etc)	2	46	52	-	100
Marketing or packaging general insurance products	5	35	58	2	100
Raising equity capital	2	37	55	6	100
Providing or accessing debt finance	2	38	54	6	100
Managing financial risk	2	35	57	6	100

Respondents were then asked *"Thinking now about the recent credit-crunch and market-downturn. What do you believe are the key challenges facing the New Zealand financial services sector over the next 12 months?"*

The Finsia members surveyed largely commented that Consumer Confidence² is a key challenge facing the New Zealand financial services sector over the next 12 months, saying; *"Restoring confidence to New Zealanders as people are confused and nervous about their wealth as all their old views on property have been battered by the financial sector fallout", "Gaining credibility amongst consumers and investors", "Credibility of non-bank deposit takers & flow on effects to other institutions such as banks, building societies & credit unions", "General lack of confidence and the turning off of the taps too far is compounding the situation. There is a real danger of a credit led recession unless confidence is restored to the market place" and "Investor Confidence. Most will be very worried and want to pull their funds out. Need further education and hand holding".*

Respondents also mentioned that Government regulation was a key challenge facing the New Zealand financial services sector over the next 12 months with comments such as; *"The lack of controls in place over finance companies and financial planning organisations. There are inadequate processes in place compared to Australia. To manage people's money adequately; Lack of enforcement over companies that collapse", "Improving financial industry regulation; Limiting/capping financial institution leverage capability; Limit hedge fund leverage" and "Implementing sensible restrictions/ rules on finance companies".*

Other respondents suggested education was a key challenge facing the New Zealand financial services sector over the next 12 months saying; *"Honest, properly informed information being made available", "Increasing financial literacy among members of the public so that they are aware of risk and costs in the market place; Increasing awareness of risk among those in the finance industry, especially those in the non-bank sector; Encouraging higher levels of commercial education among bankers, particularly an awareness of commercial law and the impact of economic fluctuations. The lack of this awareness has contributed to the problems in the non-bank sector. It has been surprising to see so many disregarded Dr. Allan Bollard's warnings last year and early this year, that we were living way beyond our means" and "We also need to build financial literacy in the general population so that people understand more clearly risk and reward without using blunt instruments such as costly legislation that will add layers of cost to the markets further diluting returns to investors".*

² The mid September NZ Roy Morgan Consumer Confidence rating is 109.9 — up 2.6 points from early September and the highest since early March (116.8 points). Despite another rise in the NZ Roy Morgan Consumer Confidence rating it remains 9.9 points below the level it was a year ago of 119.8..