

**SOVEREIGN**

**SUBMISSION TO THE CODE COMMITTEE**

**ON**

**CONSULTATION PAPER RELATING TO THE PROPOSED MINIMUM  
STANDARD OF COMPETENCE, KNOWLEDGE AND SKILLS FOR  
AUTHORISED FINANCIAL ADVISERS DATED 23 OCTOBER 2009**

**13 November 2009**

## Introduction

1. Sovereign Limited makes this submission to the Code Committee in response to the consultation paper ("**Consultation Paper**") dated 23 October 2009 relating to the proposed minimum standards of competence, knowledge and skills for authorised financial advisers.
2. Sovereign is New Zealand's largest life insurer, protecting the lives of more than 600,000 people through the provision of personal insurance (including life, income protection, disablement, trauma, and major medical policies) and employer sponsored compulsory and voluntary workplace schemes. Sovereign is also New Zealand's third largest provider of health insurance, New Zealand's largest non-bank lender and has New Zealand's sixth largest retail fund with over \$3 billion in funds under management. Sovereign is part of the ASB group of companies, which in turn is part of the Commonwealth Bank of Australian group.
3. Sovereign has a business model under which its products are distributed exclusively through third-party financial advisers, while all policy processing, underwriting, claims management and customer services are provided directly to customers. Sovereign has relationships with over 3,700 advisers, ranging from sole traders through to the employees of large institutions. Sovereign also has a number of employees that will be providing financial adviser services for the purposes of the Financial Advisers Act 2008.
4. Sovereign's contact for matters regarding this submission is:

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## Consultation Questions

*Question One: Do you think the proposed minimum standards for competence, knowledge and skills are appropriate? If not, what should the minimum standards for competence, knowledge and skills be?*

5. Subject to the comments in paragraphs 6 to 15 below, Sovereign considers that the proposed minimum standards for competence, knowledge and skills appear to be appropriate. However, it is important that advisers be given an appropriate level of time in order to attain the required standards (see response to question seven below).
6. Our comments below in respect of rows 2 to 9 of Table A are made on the basis that Standard Set D is amended along the lines we have suggested in paragraph 7.c.

### National Certificate in Financial Services (Financial Advice) – Row 1 of Table A

7. Sovereign generally agrees with the proposed revisions to the current National Certificate in Financial Services (Financial Advice) (Level 5) as outlined in the Consultation Paper. In particular:
  - a. Sovereign's view is that the unit standards proposed in Standard Sets A to C are appropriate; and
  - b. Sovereign agrees with the proposed review of the two existing unit standards on investment advice (units 25648 and 25649) as contemplated on page 8 of the Consultation Paper.

c. However, Sovereign submits that certain changes should be made to Standard Set D. As Standard Set D is currently drafted, once an adviser has obtained two of the specialist standards, that adviser would have no restrictions in terms of the products on which he or she is able to advise. Sovereign is concerned that this would enable advisers to advise in relation to products in respect of which they have no specialist knowledge. Sovereign submits that advisers should be required to have attained an appropriate level of specialist knowledge in relation to the particular products on which they advise. In the case of some products, it would be appropriate for a specific specialist unit standard to have been attained. In other cases it would not. For example, Sovereign submits that it would not be appropriate for an adviser who only has specialist knowledge in relation to insurance (and no specialist knowledge in relation to investments) to advise in relation to investment products. On the other hand, an adviser that has appropriate specialist knowledge in relation to life insurance is unlikely to also need to have completed a specific unit standard in relation to health insurance in order to advise in relation to health insurance products.

8. Sovereign submits that the appropriate standard unit for business insurance (being unit 25654: Demonstrate understanding of the business risk insurance market and business risk insurance) should be included in the specialist standards in Standard Set 4.

Combination of Diplomas and Standard Sets B and C – Row 2 of Table A

9. Sovereign submits that if an adviser has obtained one of the Diplomas referred to in row 2 of Table A, then it is appropriate for the adviser to be required to obtain Standard Set B but it is unnecessary for the adviser to be required to obtain Standard Set C. The reason for this is that Sovereign understands the relevant Diploma qualifications incorporate appropriate training in relation to financial planning processes.

Chartered financial planners and chartered life underwriters – Row 3 of Table A

10. Sovereign submits that the specific requirement for chartered financial planners and chartered financial underwriters to hold one of the Diplomas referred to in row 3 of Table A be deleted on the basis that this requirement is duplicative. Sovereign understands that one of the requirements to become a certified financial planner or certified life underwriter is that the relevant person has completed one of these qualifications.
11. Sovereign further submits that the requirement to “be able to demonstrate a two-year period of mentoring where assessment of practice has occurred” is duplicative given that one of the requirements to become a certified financial planner or certified life underwriter is that the relevant person must have completed two years of mentoring.

Chartered financial analysts – Row 4 of Table A

12. Sovereign submits that attaining Standard Set D should be included as an additional requirement in row 4 of Table A, in order to ensure that all chartered financial analysts have sufficient knowledge of Standard Set D.

Chartered accountants – Row 5 of Table A

13. Sovereign understands that there are differences between the regulations, professional practice standards and operational guidelines for chartered accountants compared to those for financial advisers. Therefore, Sovereign considers that it would be appropriate for chartered accountants to be required to attain unit standard 25653. If this approach is adopted, chartered accountants would be required to attain all of the four proposed unit standards comprising Standard Set C.

NZX Diploma/NZX Adviser – Row 8 of Table A

14. It is proposed that advisers who have either attained a NZX Diploma (row 6 of Table A) **or** are NZX Advisers (row 7 of Table A) must have also attained Standard Sets B, C and D. However, row 8 of Table A proposes that a person who is a NZX Adviser **and** has a NZX Diploma should only be required to attain Standard Set B. This does not appear to be logical given that only having a NZX Diploma or only being an NZX Adviser is considered insufficient to deem a person to have knowledge of Standard Sets C and D. In other words, how is this perceived gap in knowledge filled by satisfying both the NZX Diploma and NZX Adviser criteria?

Certified financial planner with long standing experience – Row 9 of Table A

15. Further guidance is required in relation to what “long standing experience” means in this context. In any event, Sovereign queries whether the criteria contemplated by row 9 of Table A is sufficiently robust to deem an adviser to have knowledge of the concepts contained in Standard Set C.

*Question Two: Do you think the division between those AFAs who can provide unrestricted financial adviser services (Part 3 Table A) and those AFAs who can only provide financial adviser services to wholesale financial services providers (Part 3 Table B) is appropriate?*

16. Further clarification is required in relation to the meaning of “wholesale registered financial service provider” before this question can be answered. However, Sovereign agrees in principal with the concept of differentiating between unrestricted and restricted financial services (subject to the relevant terms being defined appropriately).

*Question Three: Are there groups of financial advisers who it is proposed must complete the revised National Certificate in Financial Services (Financial Advice) (Level 5) that you think should not be required to complete it?*

17. The response to this question necessarily depends in part on the meaning of “wholesale registered financial service provider”. Please also refer to our response to question four for additional examples of advisers who may not be required to complete the revised National Certificate.

*Question Four: Do you think the standards for financial advisers proposed as alternatives to attaining the National Certificate in Financial Services (Financial Advice) (Level 5) are appropriate (as set out in Table A in Part 3 of this Consultation Paper)?*

18. Please refer to our response to question one.
19. Additional options to enable to enable the provision of unrestricted financial adviser services include:
- a. Providing credit for appropriate foreign qualifications (see response to question eight below).
  - b. Providing credit for appropriate degrees (such as Bachelor of Commerce and MBA).

In each case, at a minimum the relevant adviser should be required to have attained Standard Set B. Depending on the qualification, other Standard Sets may be required to be attained.

*Question Five: How do you think “wholesale” financial service provider should be defined in terms of the second class of AFA (as set out in Table B in Part 3 of this Consultation Paper)?*

20. Sovereign submits that the definition should reflect the consumer protection focus of the Financial Advisers Act and that, therefore, the definition should be broad enough to capture those persons or entities that are sufficiently large, experienced and/or sophisticated such that they can be assumed to have a sufficient understanding of the matters in respect of which they are receiving financial adviser services.

*Question Six: Do you think that the minimum standards of competence, knowledge and skills required for those financial advisers who have been deemed certified on the basis of long standing experience (see Part 3 Table A – last category of the table) are appropriate?*

21. Not necessarily in all circumstances. Please refer to paragraph 15 above.

*Question Seven: Do you have any comments to make regarding the practicalities of achieving the proposed minimum standards? Do you have any comments on appropriate timeframes for compliance with the minimum standards of competence knowledge and skills?*

22. Adequate time should be given to advisers to demonstrate compliance with the minimum standards. The time by which advisers will be required to have obtained the proposed minimum standards will need to be set having regard to a number of factors, including the following:
- a. The time required for advisers to undertake self-assessment. Sovereign anticipates a six month period for this, which period could not commence until the minimum standard have been finalised.
  - b. The amount of time it will take to develop courses and assessments.
  - c. The longest length of time appropriate for advisers to complete qualifications on a part time basis. Sovereign estimates that 18 months may be an appropriate length of time for this.
  - d. The timeframes around QFEs, Private Training Enterprises, Registered Training Workplaces and/or Industry Training Organisations administering workplace assessments.
  - e. The large number of advisers involved (and the central role of the ETITO), and the fact that the regime is new, will inevitably mean that there will be some delays. Therefore, some contingency will need to be built into the timetable.
23. Sovereign agrees in principal with the Code Committee's comments in relation to "Future standards" on page 10 of the Consultation Paper. However, it will be necessary to ensure that advisers are given an appropriate period of time to obtain the relevant skills and knowledge. Sovereign notes that any proposed changes would be subject to a consultation process.

*Question Eight: Do you have any comments on minimum standards of competence, knowledge and skills for foreign-regulated financial advisers?*

24. Sovereign's preliminary views in relation to the minimum standards of competence, knowledge and skills for foreign-regulated financial advisers are as follows:
- a. The current qualifications of foreign-regulated financial advisers should be mapped to the current New Zealand unit standards and a recognition of prior learning system could be created.
  - b. A body such as NZQA or ETITO could be tasked with analysing the regulation governing financial advisers in other countries and what the minimum competencies are in such countries. Verification of proof of

qualification could be sought and then the adviser would be required, at a minimum, to attain Standard Set B.

*Question Nine: Are there any other matters you would like to comment on?*

25. Sovereign has the following comments in relation to the "Assessment" section on page 9 of the Consultation Paper:
- a. The way that the various categories of "evidence" are set out on page 9 (that is, that use of "and/or") suggests, for example, that it is possible for assessment to be carried out by way of interview only. Sovereign assumes this is not what is intended in respect of all assessments and submits that it will be necessary for some unit standards to be conducted by examination and for others to involve by assessment by examination and through workplace evidence. We look forward to further clarification from ETITO.
  - b. Sovereign submits that assessment of Standard Sets A and D should also centrally assessed by ETITO. However, assessments could be carried out by any NZQA-accredited training provider, provided that common examinations and assessments are used by all. This is important for the purposes of consistency and maintaining integrity of financial adviser competence.
  - c. Privacy Act issues will need to be considered by the Code Committee and ETITO in relation to using evidence from the workplace (such as client files) for assessment purposes.