



## FINANCIAL SERVICES FEDERATION

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By email to: [vocationaleducation.reform@education.govt.nz](mailto:vocationaleducation.reform@education.govt.nz)

Thank you for the opportunity for the Financial Services Federation Inc (“FSF”) to comment on the proposed changes to the Vocational Education System (“VES”).

By way of background, the FSF is the industry body representing the responsible and ethical finance and leasing providers of New Zealand. We have nearly sixty members and affiliates providing financing, leasing, and credit-related insurance products to more than 1.5 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A.

### **Introduction:**

The FSF does not believe the financial services sector as a whole has been well served by the current Industry Training Organisation (“ITO”) system since their inception. The financial services sector covers a wide range of disciplines that, while sometimes connected, are also quite diverse. The sector comprises the following (which may not be an exhaustive list):

- Banks: the banking sector, which is one of New Zealand’s largest employers, needs people skilled in consumer credit provision, business credit provision, insurance (life insurance and fire and general insurance), Anti-Money Laundering and Countering the Financing of Terrorism, investment advice, agricultural credit provision, wholesale funding, corporate and structured finance provision, foreign exchange and interest rate management, derivative products, etc. They need to understand the laws relating to the provision of all these products and services as well as the features of each of the products and services and they need to develop an understanding of how to determine the product suitability for each individual end-user;
- Insurance: the insurance sector, again a significant employer of New Zealanders, needs people skilled in understanding life insurance products (term life, income protection, trauma and critical care insurances, etc); health insurance products; business insurance products (business asset insurance, directors’ and officers’ liability, key person insurance, etc); fire and general insurance products (house, motor vehicle, contents, renters, boat, travel etc) and others. The people working in this sector need to also understand the laws

relating to the provision of all these products and services, the features of each of these, how to determine product suitability etc;

- Finance and Leasing: the finance company sector, another significant employer in New Zealand, needs people who understand how consumer credit is provided responsibly; the provision of credit to the business and agri sectors including asset finance; the role of credit-related insurances in responsible lending; anti-money laundering and countering the financing of terrorism; asset and fleet leasing. The people working in this sector have similar needs (tailored to their own sector) as those of the banking and insurance sectors above.

As noted previously, this list is not exhaustive. There are people working in the Trustee Company sector who also help their clients deal with financial matters including drawing up Wills and Trusts and other estate planning matters who will also have similar needs as above but in their own field.

Given the wide nature of the financial services industry in New Zealand, there are a number of industry bodies working in the sector. Aside from the FSF, there is the New Zealand Bankers Association which represents the registered banks in New Zealand; the Insurance Council of New Zealand which represents the fire and general insurance providers; the Health Funds Association which represents the health insurance providers; the Financial Services Council which represents life insurers and funds managers; the Financial Advisers Association of New Zealand which represents individual financial advisers providing advice on investments, financial planning, personal insurance needs, business insurance, finance broking (including mortgage brokers), etc; the Trustee Corporations Association which represents the licenced trustees; the Institute of Finance Professionals (INFINZ) which represents individuals working in wholesale finance and capital markets; the Securities Industry Association which represents the share-broking industry; the Financial Markets Association represents institutions providing corporate banking, trading in financial instruments and trade finance. There are probably others.

As a result of the breadth of the financial services industry in New Zealand and the industry bodies representing each sector of it, when ITOs were first established, the financial services sector was not well represented in whatever consultation took place at that time. The sector therefore did not form or help form their own specialised ITO – which arguably it should have done. What training there has been in the sector – other than what is provided by universities to under-graduate and graduate students through degrees in accounting, commerce and law – has largely been conducted in-house by the firms employing the individuals concerned.

Even those individuals coming into the sector with one or other of the degrees mentioned above, will require considerable in-house training to ensure they understand the legal requirements associated with the products they are selling, the product features, how to assess a credit proposal or how much life insurance an individual requires, etc.

### **The current situation for financial services with regard to vocational training:**

The only ITO providing any qualifications into the financial services sector currently is the Skills Organisation (formerly the Electrical Trades ITO).

When it became obvious that a group of financial advisers would be required by law (the Financial Advisers Act 2008 – the “FAA”) to hold a Level 5 New Zealand Certificate in Financial Services in order to be able to continue to provide individual financial advice in investments and financial planning by becoming an Authorised Financial Adviser (“AFA”), the Skills Organisation developed the qualification and supervised its delivery through various training providers.

The qualification enables all graduates to act in the best interests of their clients by demonstrating professional practice in the application of legislation, regulation, ethics and risk and compliance common to all sectors of the financial services industry; apply understanding of research and analysis proposes to develop fit for purpose financial solutions; operate with understanding of financial institutions, systems and markets and their interdependencies; operate with understanding of the economic environment and its connection to financial markets and their participants.

Beyond this it provides the opportunity for graduates to choose strands of study depending on the sector in which they are working. These are financial advice, investment, life and health insurance, general insurance, residential property lending, personal lending, banking and trustee services.

The Skills Organisation website shows that the qualification and its content was approved in September 2014 and that it was due for review in December 2017. The fact that it is now more than 18 months’ overdue for this review would likely be due to the development of the Financial Services Legislation Amendment Bill (“FSLAB”) which is currently awaiting its third reading in the House and which has been in development to review the current FAA since 2016.

The FSLAB will require that all individuals deemed to be financial advisers – which will include those providing advice on comprehensive financial planning, investment and insurance and finance brokers – will have to abide by a Code for Financial Advisers which is currently in development and will be released once the Bill has passed. This Code will prescribe the qualifications that all financial advisers must obtain (or any equivalence that might be allowed for previous study or experience) in order to be able to practice.

It is highly likely that the qualification required by financial advisers under this Code will be equivalent to the Level 5 New Zealand Certificate in Financial Services but this is going to require a significant level of review in order to bring it up to current requirements, particularly with regard to the raft of legislation passed since the qualification was first developed.

There is also significant work being done to review many of the current laws relating to the provision of financial services in New Zealand. This includes a review of the Credit Contracts and Consumer Finance Act 2003 (“CCCFA”) that is currently in progress together with the

development of supporting regulations to provide more prescription to consumer credit providers as to what is required of them when assessing the affordability and suitability of loan products for the individual consumer, when advertising these products and when undertaking debt collection action. It also includes a comprehensive review of New Zealand's insurance contract legislation – some of which dates back to 1908.

Whichever body is charged with development and ongoing supervision of the provision of this qualification will have to be considerably more nimble and proactive in reviewing it than the Skills Organisation has proved itself to be thus far.

There are several providers accredited by the Skills Organisation to provide the Level 5 Certificate. To the best of FSF's knowledge, these include the National Institute of Credit and Finance, Professional IQ, Strategi and the Open Polytechnic. Aside from the fact that the qualification content is out of date, the quality of delivery of the content is patchy and industry has been reluctant to invest their time and money in putting their people through the Certificate on that basis.

It should be noted here that consumer credit providers and credit-related insurance providers are currently exempted from the requirements of the FSLAB as it has been reported back to the House by Select Committee. This is because the way in which these providers offer their products to consumers, and any advice they provide whilst doing so in relation to the suitability of the product to the consumer's individual need, the affordability of the product for that consumer and in ensuring the consumer's understanding of the key terms and conditions relating to the product, is covered by the requirements on the provider of the CCCFA.

Having said that, however, FSF members are very keen to be able to provide their current and prospective employees with a career path in the provision of consumer credit and related insurances and a relevant qualification is very important to them in helping them to do so.

**What has changed since the qualification was last reviewed:**

Following the Global Financial Crisis of the late 2000's, New Zealand instituted what is arguably a once-in-a-generation programme of regulatory change to ensure that the country never again experienced a situation where 65 finance companies could collapse taking billions of dollars of ordinary New Zealanders' investment money with them. The result of most of these regulatory changes should be covered in any qualification for people working today in the financial services sector but the FSF argues that this is not the case, and on this basis, the Level 5 National Certificate in Financial Services qualification is not fit for purpose for the sector it aims to service now and certainly not into the future.

The FSF has identified the following gaps in the Certificate (this does not purport to be an exhaustive list of such gaps, but these are certainly the most glaring examples of which FSF is aware):

- Anti-Money Laundering & Countering Financing of Terrorism Act 2009: the commencement date for the first part of this Act was 30 June 2011. It placed significant compliance obligations on financial reporting entities under the Act (which includes most if not all financial services firms) including requiring them to undertake a comprehensive assessment of the risk they face of being used to launder money or have money pass through them to finance terrorist activities; having a comprehensive process in place, that is auditable by external auditor and the Government supervisor, to mitigate this risk; having a process by which their staff are trained in their AML/CFT reporting obligations; being subject to annual audit of their AML/CFT processes and procedures by external auditor or by the Government supervisor, etc. This is a significant compliance obligation for financial services firms, but the requirements and obligations of the Act are not covered in the existing Level 5 qualification;
- The Credit Contracts and Consumer Finance Act 2003: this Act was reviewed in 2014 and this review introduced 7 Lender Responsibility Principles and the need for a Responsible Lending Code to provide guidance to lenders as to how the Principles should apply. It came into force in June of 2015. Given that the current Level 5 Certificate has not been updated since 2014, it is unlikely that in any of the strands that relate to the provision of credit to consumers – residential property lending, personal lending or banking – there is any reference to the key piece of legislation governing responsible lending behaviour in New Zealand;
- The Financial Advisers Act 2008: as previously mentioned, the review of this Act is all but complete. The Financial Services Legislation Amendment Bill is expected to pass within the next week or so and this will cause significant change in who is covered by the scope of the revised legislation and the Code for Financial Advisers arising out of it. As previously mentioned, the FSF believes that the Code will require all advisers covered by this new legislation to hold the equivalent of the Level 5 Certificate or a similar qualification prior to the expiry of the implementation period, and the FSF is not aware that any work is currently under way to ensure the Certificate is fit for purpose and appropriately updated to be relevant to all those who will be required to hold it;
- Financial Markets Conduct Act 2013: this Act completely overhauled New Zealand's securities law and came into force over a phased period from 1 April 2014 – 1 December 2015. The main purpose of the Act is to promote the confident and informed participation of businesses, investors and consumers in the financial markets; and to promote and facilitate the development of fair, efficient and transparent financial markets. It provides for fair dealings in financial markets; disclosure requirements; governance of regulated products; dealing in financial products on markets; financial markets services; etc, it prohibits activities such as insider trading, and allows for licensing of financial markets participants.

**The FSF's views on the proposed changes for vocational education:**

The FSF supports proposal 1 to form Industry Skills Bodies if it means that the financial services sector is able to participate in such a body dedicated to providing vocational education to the financial services sector. The FSF sees the establishment of a Financial Services Industry Skills Body as a way to mitigate all the issues and challenges the sector has faced in ensuring its people are sufficiently skilled to meet their compliance obligations and do their jobs – as outlined in the previous pages.

If the proposal goes ahead, the FSF would work with the other financial services industry bodies operating in New Zealand listed on page 2 of this submission to achieve this. The FSF would also encourage other financial services industry bodies to become involved in the Industry Skills Body to ensure it remains relevant to the sector and is able to be proactive in providing for its changing needs.

The FSF is also supportive of the proposal to set up Centres of Vocational Excellence if the rationales for doing so as described in the consultation document, specifically: to incentivise high-quality provision; to lead programme and curriculum development; and to improve consistency across regions. For this reason, FSF is also supportive of proposal 2.

The FSF is also supportive of proposal 3: a unified vocational education funding system because the FSF believes that, if proposals 1 and 2 are followed through on, the financial services industry will be better served than it is currently where employers in the sector now contribute to the cost of training but are not receiving value for that investment.

The FSF would once again like to express its appreciation for the opportunity to provide feedback on these proposals. Please do not hesitate to contact me if there is anything further FSF can do to assist in this process.



Lyn McMorran  
EXECUTIVE DIRECTOR

**Appendix A**  
**FSF Membership List as at 31<sup>st</sup> March 2019**

Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Credit Reporting Other	Insurance	Affiliate Members
<u>Rated</u> Asset Finance (B)	BMW Financial Services ➤ Mini ➤ Alphaera Financial Services  Branded Financial Services  Community Financial Services  European Financial Services  Go Car Finance Ltd  Honda Financial Services  Mercedes-Benz Financial  Motor Trade Finance  Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance  Onyx Finance Limited  Toyota Finance NZ  Yamaha Motor Finance  <u>Leasing Providers</u> Custom Fleet  Fleet Partners NZ Ltd  ORIX NZ  SG Fleet  Lease Plan	L & F Ltd ➤ Speirs Finance ➤ YooGo  Avanti Finance  Caterpillar Financial Services NZ Ltd  CentraCorp Finance 2000  Finance Now ➤ The Warehouse Financial Services  Flexi Cards  Future Finance  Geneva Finance  Home Direct  Instant Finance ➤ Fair City ➤ My Finance  John Deere Financial  Latitude Financial  Pioneer Finance ➤ Personal Finance  South Pacific Loans  Thorn Group Financial Services Ltd  Turners Automotive Group	Equifax (prev Veda)  Centrix  <u>Debt Collection Agencies</u>  Baycorp (NZ)  Illion (prev Dun & Bradstreet (NZ) Limited)	Autosure  Protecta Insurance  Provident Insurance Corporation Ltd  Southsure Assurance	AML Solutions  Buddle Findlay  Chapman Tripp  EY  Finzsoft  KPMG  Paul Davies Law Ltd  PWC  Simpson Western  FinTech NZ  HPD Software Ltd  Receivables Management  Experian  Intercoll  Total : 57 members