



**National Council of
Women of New Zealand**

Te Kaunihera
Wahine O Aotearoa

National Office
Level 4 Central House
26 Brandon Street
PO Box 25-498
Wellington 6146
(04) 473 7623
www.ncwnz.org.nz

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Submissions to the Tasforce on Regulation of Financial Intermediaries
Measuring up financial advisers and marketers

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 42 nationally organised societies. It has 33 branches throughout the country attended by representatives of these societies. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action.

There are 10 Standing Committees, which respond on specialist issues. Members of the Economics Standing Committee have prepared this submission.

Preamble

Since the 1960s there has been an accelerating growth of financial intermediaries (money managers, brokers, et al) establishing their businesses in New Zealand. Some are independent firms. Most are subsidiaries of banks, insurance companies, law practices and industries such as motor vehicle dealers. Some are regional or national businesses. Most are international. The "Financial Services" pages in any telephone directory are indicative of this almost explosive growth. Even then, provincial directories seldom cover the very large players in the field – those occupying the multi-storey blocks in downtown Auckland and Wellington. Their economic activities are heavily involved with Government capital projects and open market operations. It is their impact on our economic, social and natural environment which concerns members of the National Council of Women of New Zealand considerably more than the individual relationships that members have with financial intermediaries.

Our reasons for this assertion should become clear as we answer the set questions but we ask your committee not to infer from the above that we are dismissive of the value of sound financial advice to people wishing to invest, and who have ownership stakes in the private sector. Members who have studied the status of women in poorer countries realise how essential is the individual and collective ownership of income generating assets. The same principle applies to women in our own country, which is why we are heartened by messages such as recently pronounced by people like David Skilling of the New Zealand Institute "think tank", that we need an "ownership society". It is a view which complements the NCWNZ focus for 2005-2006 of Income Equality – a focus intended to cover all issues around income. Hence our approval of the Task Force intention in relation to the reliability and transparency of financial advice/services, and the assurance that the approach is described as "broad exploratory" (1.1 in the *Initial issues paper*).

One of the questions (no. 17) following Section 2 of the paper asks if there is consumer confidence in the financial intermediary industry in New Zealand. In a submission we made in November 1992 to the Securities Commission on the 'Review of the Business Practices of Investment Advisers and Financial Planners', NCWNZ said "We are concerned that the public confidence in the financial sector has been eroded and consider that there is a need for positive measures by government and regulatory agencies to help restore confidence."





In the year 2005 there are signs of improvement in the private sector, judging by various reports in the news media but there is a level of cynicism reflecting the mishaps overseas such as Enron (US) and HIH Insurance (Australia). Back in 1992, memories were still fresh of the 1987 “Crash” and the personalities involved. When it comes to the public sector, however, we in NCWNZ have strong reservations – and criticisms – as to the financial participation of mainly large companies in the sale or privatisation of state-owned assets. For example, Deloitte’s Ross Tohmatsu were thanked in Parliament for assisting with the corporatisation of our electricity assets. At a more local level we have seen the sale of Egmont Electricity after scoping by Macquarie of Australia. Added to this is the billion dollar-plus debt owed by our District Health Boards to mainly Australian banks, facilitated by the financial intermediary advice provided. There is scant, if any, public consultation on these transactions, yet the effect of higher energy prices and debt-servicing requirements reduces disposable income and often forces people’s savings into medical and surgical procedures in private hospitals when there should be a social dividend from public provision. Women and children are particularly affected by government policies which permit such outcomes.

Response to Questions

NCWNZ has selected the following questions for comment: 1, 4, 8, 10, 11, 16, 17, 18, 27, 35.2, 36, 39, 45, and 46.

Comments on the definitions/scope

1 Do you think there are people who do not fall within our working definition of financial intermediary but, having regard to the Task Force’s objectives, should be considered? If so, who are they?

The Task Force has not been specific as to whether “financial intermediaries” applies to those working in the public sector or the private sector. We commend the “broad approach” criterion in 1.1 and trust our response will cover aspects of the topic not considered by others. We have already explained our rationale for concentrating on the public sector involvement of financial intermediaries.

4 We would like your comments on whether the working definitions should include people who “deal in”, “hold” and/or “transfer” financial products on a customer’s behalf. Do you think these activities should be included? Why or why not?

To be consistent, the working definition of a financial intermediary should include people who “deal in”, “hold” and/or “transfer” financial products on a customer’s behalf, as suggested in this question. We are thinking in particular of those engaged in purchasing and selling financial products for one of this country’s largest consumers (if not the largest), namely the New Zealand Government. This includes the state-owned organisations and commissions which hold Crown bank accounts. The Debt Management Office (NZDMO) which operates currently from the Treasury building would fit the definition.

A financial intermediary “industry”

8 Do you think there is a “financial intermediary industry”, as such, in New Zealand? That is, is there sufficient commonality in the activities or practices of financial intermediaries to constitute an industry for the purposes of this review? Why or why not?

We reiterate the observation made in the preamble about the “explosive” growth of firms/agents in what is obviously a “financial intermediary industry” and so support any approach by the Task Force which recognises such an industry.



10 Are there any significant changes or trends occurring in the industry (eg new markets emerging, new customer demands)? If so what are they?

11 Do you think there is an increasing demand for financial intermediary services in New Zealand? Why, or why not?

One of the most significant trends of recent times has been the news media emphasis on the “savings industry”. In New Zealand there has long been a culture of saving. Older citizens may remember the Post Office savings books encouraged by the schools. With inflation very low for those decades, savings were encouraged for reasons of thrift, not handsome returns.

Nowadays, savings companies try to attract customers with promises of high returns, far more than was done in past years. Post Office Savings, mutual societies and building societies do not feature as they once did on the savings scene. Trusts, hedge funds, etc have become far more prominent in recent years, as have reverse mortgages. The fact that there is such growth in the savings and money management industries is proof of greater demand.

Issues

16 What issues do you think the Task Force should focus on in this review?

For the National Council of Women of New Zealand, the fifth item under the Terms of Reference (p. 1) is the most important, ie “Formulate and evaluate possible options for reform to address any identified issues”. We hear of other organisations advocating reforms in this area of economic activity but we are very wary of some on offer. One of the most disturbing recommendations comes from New Zealand Stock Exchange chief, Mark Weldon, who wants SOE debt listed on the exchange’s debt market (NZDX). Ostensibly this is to invite

New Zealanders to buy some of this debt, instead of so much being sold overseas. Such a reform fails to examine the legitimacy, let alone the ethics, of so much public debt being owned by private investors. As we said in our submission to the Minister of Finance on the 2005 Budget Policy Statement, we hope there will be a more thorough and open discussion about fiscal and monetary instruments employed by Government in managing the economy when the Reserve Bank of New Zealand convenes a conference indicated for the near future. Like Government, NCWNZ is committed to promoting a sustainable economy. We are not convinced that this is possible with the level of debt-servicing our resources have to sustain.

Effectiveness of current regulation

17 Speaking generally, do you think that consumers have confidence in the financial intermediary industry in New Zealand? Why or why not?

Confidence in the financial intermediary industry is difficult to measure. To some it appears to be a “necessary evil” while others appreciate the entrepreneurial role it plays. We have mentioned two examples of how assets are sold or privatised from advice given by certain large corporations. When these firms have clients all too willing to buy into assets such as debt equities, it is not unexpected that they advise local and central government to divest themselves of the so-called risk of ownership. The politicians involved seem ignorant of the fact that such assets are given a low risk-weighting in guidelines formulated by the Bank of International Settlements in Basel – guidelines agreed to periodically by Government officials.

18 Should effective regulation address the matters identified in paragraphs 2.3 and 2.4? Are some of these more important than others?

“Effective regulation” is the responsibility of any democratic government. As a supplier and consumer in the political market, it must be responsive to the concerns of citizens. Therefore political intervention should be seen as legitimate when required. It is hypocritical to decry political intervention (misnamed “interference” in some quarters) when the money markets are so heavily dependent on owning sovereign debt secured by the taxpayers.



Self regulation initiatives

27 To the extent that you have experience or understanding of self regulatory practices (for example, the NZX Market Participant Rules ...) please comment on these. In your view, are they effective? Why or why not?

NCWNZ acknowledges that there have been significant improvements in recent times. From our response to Question 18, the Task Force can see that NCWNZ is of the opinion that the self-regulatory practices leave much to be desired.

35.2 Should current regulation provide for, and does it effectively provide for positive international perceptions of the New Zealand financial markets?

The implication in this question is that positive international perceptions of New Zealand's financial markets are good for us. Some members of the Economics Standing Committee feel that whether good for us or not, this nation is locked into what is often termed the "international financial architecture" regardless. Others of us are sceptical of assertions that we cannot progress without substantial foreign investment. New Zealand's history reveals many occasions when domestic investment has proved to be adequate, efficient and beneficial and free of the "leakage" from the economy of long-term debt servicing. As long as our Official Cash Rate (OCR) is attractive, our public revenues acting as security, and our government perceived as stable, our financial markets will appeal to the overseas investor. There is too little investigation on how we can finance ourselves.

Norms and trends

36 Are there international norms and trends that impact on the New Zealand financial intermediary industry?

We have mentioned the international trend toward private investment in public utilities and state strategic assets such as energy. Secured by rates, taxes and legislation, such low-risk investments are valuable and substantial additions to the portfolios of financial intermediary clients. For the brokers, the 1-2% commissions are more than handsome when large sums are involved.

Relationship with Australia

39 Please describe the financial intermediary roles and activities you are aware of that have a trans-Tasman context ...

With Australian-based banks handling nearly 90% of New Zealand's banking transactions, our link with Australia is tightly bound. Former Prime Minister, Jim McLay, now heads Macquarie's infrastructure investment office in New Zealand, while Origin is the major shareholder in Contact Energy.

Objectives

45 Do you agree that financial intermediaries do, or can, contribute to the objectives set out in the Terms of Reference ...

46 If so, how? If not, why not?

We observe that financial intermediaries involved in the savings industry persist in promoting the idea that savings must be expressed in dollar terms, but that they are unable to assure the public that those dollars will at least maintain their value in the future. Public discussion is urgently needed on the value of savings expressed as assets, not only as family homes but in the form of durable public infrastructures (hospitals, schools, rail-tracks, bridges, etc) designed to prevent personal savings having to be expended on private surgery, student loans, higher energy prices, compounding interest on water and sewage reticulation, etc.



Any other comments

NCWNZ is concerned at changes to legislation proposing to allow, even encourage, Crown bank accounts to be lodged in overseas banks. There is also the challenge facing any democracy as to the degree our investments are ethical. Little is known, for example, about the alleged “independent” decisions of firms charged by the Guardians of the New Zealand Superannuation Fund to invest the \$2.2 billion in this year’s Budget dedicated for this purpose (Budget Policy Statement, 2005).

The Task Force is to be commended for initiating such an important undertaking and we look forward to further participation.

Christine Low
National President

Heather M. Smith
Convener, Economics Standing Committee