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ADVISER GROUPS

Susan Edmunds' easy-to follow guide to what's on offer with membership of each of the main adviser groups.

14

22 HEALTH INSURANCE APPS

The underwriting process just got quicker and easier. Daniel Dunkley gives us the low-down.

UP FRONT

04 EDITORIAL

Groups face questions about future.

05 KIWISAVER

The benefits of global diversification in KiwiSaver with Michael Lang.



06 NEWS

Generate hack; Fafoi reassures advisers; Kloogh in court.



08 PEOPLE

ASSET rounds up the main people stories from the past month.

REGULARS

28 INVESTMENT COMMENTARY

Is the good financial weather behind us?

30 PRACTICE MANAGEMENT

Russell Hutchinson on the unsustainable IP product.

32 MORNINGSTAR DATA

FEATURES

10 GRTV

Fisher Funds' Sam Dickie on their recent awards and performance achievements.

12 PROFILE

Compliance Refinery's Steve Burgess wants to help advisers flourish.

20 NIKKO AM

Portfolio manager Stuart Williams with his 2020 outlook.

26

ADVISER PROFILE

Former surgeon Ice Zhang and her journey into advice.



Groups face questions about future



The next couple of years will be an interesting time for dealer groups.

The new regime for financial advisers will bring in significant changes for them and how they fit into the rest of the industry.

It seems likely that the overrides that have supported many groups will dry up as insurers respond to Government directives not to pay volume-based incentives.

What product providers will be willing to pay groups to provide for their advisers – and how much – is not yet clear.

Some groups will find the answer in taking out a licence for their financial advisers to operate within, so they do not have to go through the process of licensing for their own businesses.

This provides a real benefit for their adviser members, who may find the process of full licensing in particular too onerous.

But it puts a lot more pressure on groups, too. They will find themselves significantly more liable for the actions of their adviser members – and depending on the size of the group, ensuring every member is following the required processes could be a significant undertaking.

Spreading the cost of that across all the adviser members in a way that everyone deems fair will be another challenge.

To succeed, groups will need to be able to show a value proposition that advisers agree makes sense for their businesses. The groups could have a key role to play in the new regime, helping to improve adviser businesses and helping them grow and succeed – or, if they don't adapt, they could quickly become anachronistic relics from a past the industry is trying to shake off.

We've talked to the groups about what they're up to this issue. The answers were interesting, although it's clear there are still questions to be answered before the new world begins in the middle of the year.

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Is your KiwiSaver manager diversified?

Michael Lang looks at KiwiSaver asset allocation and discusses the benefits of diversification.

Over the last decade New Zealand shares outperformed global shares by 120%. New Zealand shares now trade at a premium to their global counterparts.

Whether your KiwiSaver manager favours local shares over international ones has been an important determinant of historic relative performance, and if history is any guide, it is likely to continue to be so. Despite this there is a paucity of research on local managers' asset allocation.

WHY DO MANAGERS FAVOUR LOCAL SHARES?

The basic problem is something called home bias. Investors and managers the world over prefer companies that are listed on their home exchange. These companies follow local laws and regulations, report and are reported on locally, and raise capital and hold AGMs locally. They are therefore easier to follow than their international counterparts.

In some countries a home bias is more than the warm fuzzies. In New Zealand for instance, the tax regime provides advantages for local investment. For example, Australasian shares are not taxed on capital gains and New Zealand shares enjoy the benefit of imputation credits, removing the potential for double taxation on company distributions. Outperformance during the most recent decade has not hurt allocations either.

WHY OWN INTERNATIONAL SHARES?

Despite this, there are compelling reasons to be globally diversified. It rarely makes sense to put all your retirement eggs in one basket. When the New Zealand economy faces a regional downturn, as occurred during the Asian crisis of 1997, it is useful to be able to draw down on a portfolio of strongly performing global shares.

Whether managers use risk-parity, minimum-variance, mean-variance, or the more sophisticated Bayes-Stein or Black-Litterman, the conclusion is broadly the same – the right allocation to international shares

increases clients' prospective returns, or for the same level of return reduces their risk.

WHAT IS THE OPTIMAL ALLOCATION TO AUSTRALASIAN SHARES?

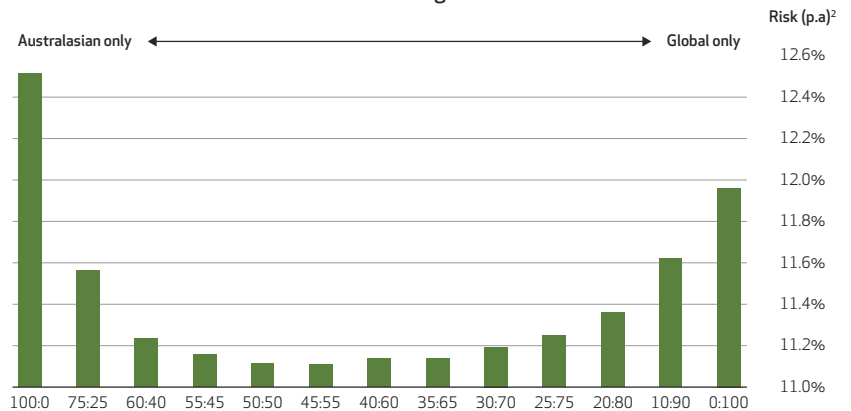
One way to work out a portfolio's optimal Australasian share exposure, is to look at volatility (or variance) instead of return. New Zealand shares will always have a tax-based return advantage but this does not always manifest itself in superior returns – for example, from 1994 to 1999 international shares returned around twice as much as New Zealand shares.

Using minimum-variance to optimise asset allocation gives a range of technically superior allocations – all of which are broadly equal – and shows what is not optimal. The optimal range extends from a minimum allocation to

Australasian shares of around 30% where the SuperLife Growth Fund, NZ Funds LifeCycle – age 0-54 and ANZ Growth Fund sit, to a maximum of 55% where the Milford Active Growth Fund is positioned. Funds outside this range are, on this analysis, sub-optimally positioned, most notably the Kiwi Wealth Growth Fund – although the Juno Growth Fund, Mercer Growth Fund and Booster Asset Class Growth Fund also sit outside the optimal range. Nevertheless, they may have performed well historically. How funds perform in the future will, to a large degree, be determined by their asset allocation. ⁴

Disclaimer: Michael Lang is Chief Executive of NZ Funds and his comments are of a general nature. New Zealand Funds Management Limited is the issuer of the NZ Funds KiwiSaver Scheme. A copy of the latest Product Disclosure Statement is available on request or by visiting the NZ Funds website at www.nzfunds.co.nz.

Global diversification reduces risk for similar long-term returns¹



Share exposure	NZ+Aus	Global	Share exposure	NZ+Aus	Global
Milford Active Growth Fund	57.6%	42.4%	Russell LifePoints® Growth Fund	33.5%	66.5%
Summer Growth Selection	54.6%	45.4%	SuperLife Growth Fund	30.7%	69.3%
Nikko AM Growth Fund	47.3%	52.7%	NZ Funds LifeCycle - age 0 - 54	29.7%	70.3%
ASB Growth Fund	46.4%	53.6%	ANZ Growth Fund	29.2%	70.8%
Fisher Funds Growth Fund	44.6%	55.4%	Booster High Growth Fund	28.8%	71.2%
Fisher Funds Two Growth Fund	44.0%	56.0%	NZ Funds Growth Strategy	28.5%	71.5%
Westpac Growth Fund	41.5%	58.5%	QuayStreet Growth Fund	26.4%	73.6%
Generate Growth Fund	39.2%	60.8%	Generate Focused Growth Fund	25.0%	75.0%
Simplicity Growth Fund	38.0%	62.0%	Booster Asset Class Growth Fund	21.8%	78.2%
BNZ Growth Fund	34.4%	65.6%	Mercer Growth Fund	19.3%	80.7%
Lifestages High Growth Fund	34.1%	65.9%	Juno Growth Fund	16.1%	83.9%
AMP Growth Fund	33.6%	66.4%	Kiwi Wealth Growth Fund	2.5%	97.5%

Source: FMA Sept 2019 Fund Updates. 1. Australasian share exposure including listed property. It is assumed listed property is 50% Australasian, 50% international. Asset allocations at 30 Sept 2019. 2. Risk measured by standard deviation.



Kris Fafoi

FAAFOI REASSURES ADVISERS

Commerce Minister Kris Fafoi has promised the financial services sector there will be no more big announcements this year.

He acknowledged, at the Get in Shape Advice Summit, that he had heard "loud and clear" that a lot of change had been forced on the sector.

Fafoi says he wants to "finish and tidy up"

the FSLAA this year along with some tweaks to the CCCFA. The other big issue was to get proposed new conduct legislation through Parliament by the end of the year. The CoFI bill is expected to have its first reading in Parliament later this week.

The conduct regulations were about bringing banks and insurers up to the same standards that financial advisers already have to adhere to.

Fafoi says if he is the Minister of Commerce after the election later this year he plans to focus on financial literacy.

Generate data hacked

KiwiSaver provider Generate says its members' personal data has been accessed by unauthorised third-parties.

The access happened between December 29, 2019 and January 27, 2020.

It does not affect members' investments, which are held by Public Trust in a separate system.

This affects approximately 26,000 of the 90,000 members that have joined Generate over the past seven years. Generate has contacted all of its members individually to confirm whether or not their own personal information is among the data that was inappropriately accessed.

Chief executive Henry Tongue said the company had taken immediate action to secure the online application system, and is taking further steps to enhance online security.

"Unfortunately, malicious attacks of this nature are becoming more common both in New Zealand and globally, and constant vigilance is required. We have engaged external cyber security specialists to advise on our immediate response to this situation, as well as to conduct a broader audit and testing of all of our systems."

Morningstar: Don't expect another 2019

Investors are still being rewarded for taking risk – but there may not be another year like 2019 for some time, Morningstar's director of manager research for Asia-Pacific Tim Murphy says.

The research house has put out its latest KiwiSaver survey, which showed some of the top performers in the three months were AMP's KiwiSaver Default fund, up 0.7%; Generate's Conservative fund, up 2.1%; AMP ASB Balanced, up 2.9%; Generate KiwiSaver Growth, up 5.2%; and Generate Focused Growth, up 6.6%.

Murphy said it had been a good quarter for the markets, with the NZX50 up 5.2% and 30.4% for the year. Australian shares were up 23.4% over the 12 months.

He said that default funds were the worst-performing group in the survey, which highlighted the need for people to make an active fund choice.

Over 10 years, default funds returned an average 5.7% a year, conservative 6.1%, moderate 6.5%, balanced 8.1% and growth 9.8%. For the year, average annual returns ranged from 23.3% in aggressive funds to 8.5% for conservative.

"I think it certainly highlights again a reminder for KiwiSaver members who have not taken the chance to actively choose that the default options are not necessarily the best place for long-term savings. We're seeing that now, a far lower return over the long term."

He said investors should not get used to double-digit returns on an ongoing basis and should not expect 2020 to be as strong as 2019.

"I'm confident 2019 will go down as one of the strongest years return-wise for the investment market."

Kloogh in court

Former financial adviser Barry Kloogh, who allegedly ran some type of Ponzi scheme, has appeared in court for the first time.

The Serious Fraud Office (SFO) alleges he defrauded investors of at least \$15.7 million.

Kloogh faces representative charges of false accounting, false statement by promoters, theft by person in special relationship and obtaining by deception. He also faces individual charges of forgery, theft

by person in special relationship and obtaining by deception.

He had approximately 2,000 active clients in May 2019.

The Financial Markets Authority referred the matter to the SFO and assisted the agency in its investigation.

Kloogh's offices were raided by the SFO in May.

He did not enter a plea and was remanded to reappear on March 12.

Part of Kloogh's bail conditions include not having any contact with investors.



InvestNow acquires AMP Capital's retail business

AMP Capital, which has predominantly been a wholesale fund manager, has moved its small retail channel to InvestNow.



Bevan Graham

It has selected InvestNow as the investment platform to support direct investors in AMP Capital's fund range.

Previously retail investors could access AMP Capital's funds through financial advisers and AMP Financial Services.

AMP Capital had \$30 million in retail funds under management and, it is believed, around 500 investors.

InvestNow already has an established working relationship with AMP Capital, offering the full range of retail investment funds on its platform.

InvestNow was founded by former AMP Capital head of sales and marketing Anthony Edmonds.

Bevan Graham, AMP Capital New Zealand managing director and chief economist said: "This is a great outcome for our retail investors. As a well-regarded provider with over 19,000 customers, InvestNow is able to offer a comprehensive investment platform and online services for our clients, and is well placed to continue to meet the needs of direct investors in AMP Capital funds on a platform that is continuously evolving."

The transition to InvestNow's platform will take effect from March 31, 2020.

Regulation 'driving vertical integration'

Fisher Funds chief executive Bruce McLachlan says new regulation is creating an environment in which it is easier for product providers, such as fund managers, to have their advisers in-house.

Fisher Funds has been growing its advice team, now at about 15.

Milford Asset Management is expanding its private wealth offering, planning offices around the country. Pie Funds is also building up its wealth team.

McLachlan said there was now less delineation between fund managers, wealth managers, product managers and investment advice.

"The new world of regulation means product manufacturers have increased obligation to ensure clients get the right outcome. It's easier to manage a client outcome when you have got your own employees selling the product."

But he said clients were also finding their need for advice was largely unmet in the marketplace at present. The market for managed funds was still small relative to where it could or should be, he said.

To grow demand, providers would need to invest in the client end and help to build their understanding of the product, he said, and how it could be of value to consumers.

"It's a natural extension of the growing market as well as regulation." ^A

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Good Returns.

NZ's Financial Adviser News Centre

NZ Funds appoints adviser-focused principal

NZ Funds has appointed a new principal with responsibility for its advisers.

Rebecca Cottrell will take the role.

She will have oversight of the more than 350 advisers who work with NZ Funds through its adviser platform.

She was previously general counsel and corporate secretary to Australian-based Clean Energy Finance Corp, the world's largest green energy development bank. Prior to that, she was a partner of Goldman Sachs Australia and New Zealand, and before that, general counsel and company secretary to NZX Limited.

NZ Funds said she had a strong understanding of how to build world-class financial infrastructure for multiple users, whether they were clients of Goldman Sachs, members of the NZX or independent financial advisers.

At NZ Funds she will be tasked with overseeing the continued roll out of their independent financial adviser business platform.

"I am excited to be returning to New Zealand, to oversee the development and implementation of what we believe is the leading business platform for financial advisers in New Zealand," she said.

"With its financial planning software, technical infrastructure, and adviser/client-centric business system, NZ Funds is ideally positioned to work with large networks of independent financial advisers which is the entire focus of the business."

She joins other Goldman Sachs alumni at NZ Funds, including John Cobb, former Co-CEO of Goldman Sachs JBWere, Stephan Clark who previously held senior roles in legal and compliance and David Haslam, a senior trader for UBS and Goldman Sachs. All four now hold senior roles or directorships at NZ Funds.

NZ Funds' FUM rose 30% over the past year and core profitability 50%.

Chief executive Michael Lang said that was driven by an increase in advisers partnering with NZ Funds, a reduction in client fees and new wealth management solutions offered for advisers and their clients.



Rebecca Cottrell

Mercer appoints board chair

Mercer New Zealand has appointed a new chair and non-executive director.

It has given **Kristen Kohere-Soutar** the chair, after Ross Butler's retirement.

Chief executive Martin Lewington said Kohere-Soutar would oversee the business continuing to deliver strong outcomes for stakeholders.

"In the two-and-a-half years since Kristen joined our board as an independent non-executive director, we have benefited greatly from her insights and expertise.

"Kristen has held previous directorships with Foundation North and Whai Rawa Funds Limited, leadership roles with Kiwibank and NZTE, and has iwi affiliations to Ngāti Porou, Ngāi Tahu and Rongowhakaata. Her experience in governance, corporate strategy, stakeholder management and leadership with iwi among a number of other areas has complemented the skill-set of other directors," Lewington said.

"With Kristen at the helm, I have every confidence that Mercer will continue to create better lives for New Zealanders."

He also thanked Butler for his service. "Ross' leadership over the past seven years as a member of the board and chair has been invaluable. In this time we've made some significant achievements

when it comes to delivering the best investment outcomes for our customers and clients.

"We're indebted to his unwavering commitment to ensuring we hold ourselves to the highest standard when it comes to acting in the best interests of New Zealanders. We wish him all the best in his endeavours," he said.

Kohere-Soutar said Mercer had a strong strategy in place to reach its objectives, and the board and leadership team was well equipped to achieve continued success.

"As the needs of customers and clients change, we must be nimble and agile enough to adapt. We're seeing climate issues and sustainability as major themes becoming more important to

New Zealanders. We are proud to

be committed to responsible investing, leveraging Mercer's local and global investment research and management for the benefit of all New Zealand investors, including foundations and iwi post-settlement entities."

Lewington also announced the addition of **Paula Jackson** to Mercer's New Zealand board, effective February 1.

She serves as a director and trustee of several organisations, including Airways New Zealand and Quotable Value New Zealand Limited.



Kristen Kohere-Soutar

Familiar face returns to underwriter role at Partners

Partners Life has appointed a new, but not unfamiliar, face to fill the role of chief underwriter.

After a number of years in the role of chief technical underwriter **Clayton Gardner** has agreed to step back into the chief underwriter role for Partners Life.

"I am personally delighted that Clayton will once again be the public face of underwriting at Partners Life, and I am sure the many advisers who have had the pleasure of dealing with Clayton over the years will be equally delighted," managing director Naomi Ballantyne says.

"As one of Partners Life's founding employees, Clayton has demonstrated a loyalty and commitment to the company

which is second to none, and his agreement to step back into the Chief Underwriter role is further evidence of this commitment.

"Of course, a lot has changed over the nine years since Partners Life began. Clayton is very confident that the fantastic senior underwriting team that we have developed over those years, alongside our revolutionary MUM software, will facilitate his plans to make Partners Life the modern template for how risk underwriting should/can be delivered.

Gardner is excited about the opportunity to reconnect with Partners' advisers in the way that the chief underwriter role will afford him and he is very much looking forward to touching base with you all over the months ahead, she said.

Plus4 adds another adviser

Plus4 has added another insurance adviser in the South Island.

Dunedin adviser **Tom West** has joined the group. He has 10 years' experience in the financial services sector.

He established his own company, Tom West Risk Advisers, six years ago, providing financial risk solutions incorporating the use of life insurance; income and mortgage protection; disability, trauma and health insurance; and advice to businesses on key person and group insurance plans. He also provides advice for his self-employed clients about how best to structure their ACC cover so that it complements and works alongside their insurances.

He said he had joined Plus4 Insurance Solutions to provide his clients with the collective



Tom West

benefits of belonging to a national insurance adviser and broking group.

Plus4's group general manager Peter Standish said: "Tom is an experienced and highly regarded financial services professional who has established a successful practice in Dunedin. Given that Plus4 is a cooperative, the only specialist insurance and financial broking firm who is a member of the NZ Cooperatives

Association, we are very selective about whom we ask to join our group. Our members need to not only have the necessary experience and expertise but also share our values. We are pleased to welcome Tom to Plus4."

Plus4 now has 50 advisers working from 17 locations between Whangarei and Invercargill. Group members have no affiliations to any specific insurance provider.

Fisher Funds adds experienced faces


Fisher Funds has made appointments to flesh out its top team.

BNZ's manager of wealth strategy and product **Sharon Mackay** will take up the role of head of third-party distribution.

She was with BNZ since 2011 and was previously head of product and marketing at BT Financial.

The fund manager has also hired **Nilesh Mistry** to fill the chief operating officer role, which was vacated by **Vedran Babic**.

He has been vice president, head of Asia-Pacific, Japan and China for World Wide Technology since 2015.

Before that, he spent a decade with JP Morgan Chase & Co. 



Nilesh Mistry

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Who to watch this year

Fisher Funds' senior portfolio manager Sam Dickie speaks to Susan Edmunds about their recent strong investment performance and 2020 investment approach.

GRTV: WELCOME TO GOOD RETURNS TV. I'M SUSAN EDMUNDS FILLING IN FOR PHILIP MACALISTER. TODAY, I HAVE WITH ME SAM DICKIE, A SENIOR PORTFOLIO MANAGER AT FISHER FUNDS. THANKS FOR BEING HERE.

Dickie: Good afternoon.

GRTV: CONGRATULATIONS ON YOUR FUND MANAGER OF THE YEAR AWARD WITH THE RECENT *GOOD RETURNS AWARDS*.

Dickie: Thank you, and thank you very much *Good Returns*.

GRTV: WAS IT A SURPRISE?

Dickie: It's always a surprise to get recognised, but we appreciate it, and it's a testament to the team and how well it's been built out over the last few years.

GRTV: OBVIOUSLY, THE MARKETS HAVE BEEN ON YOUR SIDE FOR A WHILE, I GUESS. DO YOU THINK THAT WILL CONTINUE?

Dickie: That's a very good question. Whenever someone asks me: "Is a correction imminent?" I always say, "I'm absolutely certain there will be a correction. I've just got no idea when or how deep it will be". I think if we take a step back to the start of 2019, no one expected the New Zealand stock market to be up 30%, and we certainly didn't expect that our fund would be up 42%, so as we roll into this year, there are risks on the horizon as there are every year, but we take them one by one, and it doesn't look anything insurmountable right now.

GRTV: OKAY. WHERE DO YOU THINK THE OPPORTUNITIES MIGHT BE THIS YEAR?

Dickie: I think we'll be sticking to our tried and true playbook. We are a super active fund manager. To give you a quick idea, there's 109,000 companies listed globally, and we handpick 90 of those. In a New Zealand context, the New Zealand fund that I run, we only have 15 companies in our high



conviction portfolio, and that compares to some of our more passive competitors who might have 30, 50 or 90 stocks, so we're sticking with the same stable from last year.

GRTV: SO YOU'RE STILL DEFINITELY COMMITTED TO ACTIVE MANAGEMENT AS THE WAY TO GET THE BEST RETURNS.

Dickie: 100% committed, yes.

I mean, if we think about our flagship fund and one of our oldest funds, New Zealand Growth Fund, which Carmel set up 21 years ago, if you'd invested \$100,000 in that 21 years ago, that'd be worth over a million dollars today. Now, if you'd gone with a passive fund manager and just invested in the market, that'd be worth \$600,000, which is not to be sneezed at, but that extra \$400,000 of active return is what we think our clients really value.

GRTV: YEAH. I CAN SEE THAT. DO YOU THINK THAT CORONAVIRUS IS MUCH OF A CONCERN AT THE MOMENT?

Dickie: The only thing I can tell you for certain about the coronavirus is no one I've spoken to knows for certain the outcome of this thing. History does give us some guide. We look back at SARS, SARS only infected 8,500 people, and so far the coronavirus, as of a couple of hours ago, had infected about 41,000 people, so it is more infectious. The SARS mortality rate was around 10%, and so far, if we look at the data we're using, which is the World Health Organization data, the mortality rate of the coronavirus is only 2%, so that's a good news thing, and it doesn't seem to be spreading significantly outside China, and the Hubei province where it originated from.

GRTV: WILL IT CHANGE YOUR THINKING AT ALL THIS YEAR DO YOU THINK?

Dickie: I think coronavirus is one of many risks that get thrown at us pretty regularly. We're watching it super closely. In fact, in the last 24 hours, I've spoken to about 15 of the companies I have invested in both in New Zealand and globally to see what they're seeing. We do take a long-term view, we always have taken a very long-term view, so unless this looks like it's going to be a full-blown pandemic, I don't think that'll impact the long-term view we have in a lot of these companies.

GRTV: ALL RIGHT. YOUR PERFORMANCE AT FISHER FUNDS HAS BEEN REALLY STRONG LATELY. HAS ANYTHING CHANGED THERE? WHAT'S HAPPENED?

Dickie: I mean, there's three things that have not really changed at all. We're still a specialist fund manager, so all we do is manage clients' money, and that compares to some of the other competitors in the market who might be banks or insurance companies so that they wear many hats. We only wear the one hat. That's what we are focused on. The second thing is we're still a really active fund manager, like I said. We pride ourselves on that globally handpicked 90 companies.

The third thing that hasn't changed is we are super focused on beating the market. That's what we come to work for every day. Maybe what has changed, or what we've got more of an emphasis on now is building out the team. We've now got 21 investment professionals in the team, and we think that's the biggest investment team in New Zealand. What's key there, we've got about 330 years of experience, maybe slightly skewed towards a couple of the more senior members of the team, but the point there is a lot of the analysts and portfolio managers have got significant offshore experience, and that's really critical for two reasons. One is to compare and contrast stocks across geographies, and the second one is to deal with the perceived or real, almost weekly crises that are thrown at us these days.

GRTV: DOES IT MAKE MUCH OF A DIFFERENCE NOT HAVING CARMEL FISHER RIGHT THERE WITH YOU?

Dickie: Carmel's still on the board of the listed investment company, so Kingfish, Barramundi and Marlin, and she's still just a phone call away. She's been great since I've arrived two and a half, three years ago. I think in Fisher Funds 2.0 post-Carmel, a lot of Carmel's influences are still there, but we're really focused on two or three things.

One is building out the team. The other thing is culture, which everyone talks about, but I've worked at investment banks and hedge funds in London, Hong Kong, Australia and New Zealand, and I've never seen such a big focus on culture. The third thing is our

deep-dive proprietary research, which we really pride ourselves on. If we take Xero, for example, that we didn't invest in two years ago or three years ago, we do what every normal financial analyst does, and we painstakingly build our Excel models and we spend a lot of time with senior management, but we take it one step further or two steps further, and we spend a lot of time with the next layer of management.

Recently, I was at Xerocon in San Diego in June of last year. And I spent a lot of time, over two days, with different layers of management. Then we also spent a lot of time with Xero's competitors and with Xero's customers, so it allows us to think more like a business owner than a typical financial analyst.

GRTV: IS THAT A DIFFERENT APPROACH THAN YOU MIGHT'VE HAD, SAY, FIVE YEARS AGO, DO YOU THINK?

Dickie: Me, personally, I wasn't at Fisher Funds five years ago. I mean, it's been similar to the approach I've always had, and I've always been focused on looking at wide economic moats around a business, looking at management, the quality of management, looking for, as Charlie Munger would say, "Intelligent fanatics". That's what we really like, people who are feverish and passionate about their businesses, always looking for long runways of growth and always looking for pricing power, but I just think maybe there's more of a focus on that now at Fisher Funds.

GRTV: THAT MAKES SENSE. YOU'RE NOT WORRIED ABOUT VALUATIONS BEING TOO STRETCHED?

Dickie: I think we're always worried about valuations. It's one element of our investment process, our steep process that Carmel set up 21 years ago. Headline multiples are stretched. We all know that. I'm sure a lot of your listeners will think that as well. I guess the only point I'd make there is you've got to look at equity valuations in the context of the prevailing level of interest rates, and when you compare bond yield earnings, yield gaps, or whatever you want to do to compare equity valuations to interest rates, valuations are not super elevated.

GRTV: WOULD THERE BE ANY COMPANIES IN PARTICULAR THAT YOU'RE KEEPING AN EYE ON THIS YEAR?

Dickie: Yeah, I mean, our favourite companies are our largest companies in the portfolio, so a2, Fisher & Paykel Healthcare, Xero, Infratil, Ryman, Summerset and Mainfreight. Mainfreight actually brings me back to the culture point I mentioned before. When we think about culture, we like to think of ourselves as having a high performance culture, but a real humble and learning-based culture. Why that's important is the best fund managers in the world are wrong a surprising

amount of the time, and that becomes quite jarring for new recruits and other people we talk to because a lot of the people we get have got investment banking backgrounds or are very good students or actuaries, for example. As you know, Susan, those sorts of people are never wrong, so it's quite jarring to realise that it's fine to say, "I don't know". What that does is builds a real trusting and transparent culture. When you're dealing with something as uncertain as the equity markets, that's really, really critical.

The final company I mentioned was Mainfreight. When I joined two and a half years ago, it was pretty obvious to me what the economic moat was around, Auckland Airport, for example. They're not going to build another Auckland Airport anytime soon despite what Air New Zealand tells you. But when I looked at Mainfreight, it wasn't obvious to me what the moat was straightaway, but as I spent more and more time with Don and Tim and other layers of management within the business, it became clear to me that the real moat around Mainfreight's business was its culture. What I mean by that is on the notice board of every lunch room globally, they have the weekly P&L, so it engenders that sort of healthy competition.

They pay out 10% of their profits to all of their team members so that the team members feel like they're really enfranchised. What that does is it makes these guys go the extra mile for Mainfreight. It makes them have better customer service so they can charge premium prices. If you have a large position in a company like that, and you really admire a company like that, it makes sense that some of that culture emphasis rubs off on you.

GRTV: THANK YOU. THAT'S VERY INTERESTING, AND THANK YOU FOR BEING HERE TODAY.

Dickie: Thank you very much, Susan. Thanks for having me. **A**



To watch the full interview, download an audio podcast or to read the full transcript, visit

goodreturns.co.nz/grtv

By Susan Edmunds

Compliance business *takes off*

Changes are coming for advisers but Steven Burgess wants to help them flourish.

Steven Burgess chose the right time to open the doors of his independent compliance firm, Compliance Refinery.

He started taking on his first clients in mid-2018, and has since expanded the business quickly as financial services firms of all sizes grapple with increasing regulatory requirements. He now has a team of three people with plans to hire more staff.

For financial adviser businesses and advisers, it offers things such as a regulatory health check, compliance oversight, advisory board services, education and a plan to take businesses through licensing. Burgess said he tried to offer a personalised service and a long-term relationship – not a box-ticking, audit-and-forget approach to compliance.

Burgess said the business had been “really busy” as advisers were faced with increasing numbers of decisions that they had to make. It was now dealing with individual advice businesses, product providers, digital-focused organisations and dealer groups. “We’ve got good breadth across the industry ... it seems to have been a good time to start

the business.”

He said it was now working on an advisory board for Compliance Refinery to help grow the business further.

The idea for the firm arose while Burgess was working at AMP as a regulatory and adviser compliance specialist. He had previously worked at KPMG, where he was seconded to the FMA, and as a regional compliance supervisor and compliance officer in Canada. Burgess said he had moved as far through the ranks at AMP as he wanted to and was interested in pursuing

“Support staff drive most of the business. If you don’t know their skill set and their approach you are not going to be able to impart change.”

other opportunities.

Burgess said there were a lot of “exciting, really forward-looking” businesses in the market that would be dynamic financial advice providers in 10 years’ time, aiming to harness the power of technology to deliver solutions to clients.

But he said there was still a dichotomy – a lot of advisers still wanted things to be like they used to be, still buried in paperwork and struggling to keep up. Burgess said his experience in Canada was that many of the “old guard” who could not cope with the pace of change ended up clearing out. “Best practice ratchets up and they can’t follow.”

He said it was an exciting time to be in the industry and there was a lot of positive change happening. But the work of starting the business had been harder than he anticipated. “I work more hours than I used to but I do it much more passionately.”

Burgess did not expect it to be difficult for advisers to obtain a transitional licence. But he said many were starting to realise it was more work than they anticipated to institute the processes to document procedures. There were also going to be ramifications for dealer groups, he said.

Some advisers were still hoping that

“As with anything when you look at technology or compliance you need economies of scale to make it work. If we can help them take care of this while they focus on running the business, that works well.”

someone would come and “do it for them” he said. Those who had been AFAs for some time were more proactive about getting on with it and adjusting to the new requirements. He said people could not afford to sit back and do nothing. If people were planning to be part of another organisation’s FAP licence but that group had done nothing about moving towards a licence, they would need to take action or find another option.

Burgess said the opportunities for his business now would come in finding a way to create economies of scale for smaller businesses to help them keep up with a servicing level that was likely to be required to be higher and higher in the future. “As with anything when you look at technology or compliance you need economies of scale to make it work. If we can help them take care of this while they focus on running the business, that works well.”

He said while the FMA had made it clear that those who wanted to be a one-person advice firm could do it, his experience was that it did not remain practical over time. In Canada, that had led to a lot of consolidation in the market, he said. “I think some that are quite savvy will be able to do it but others will probably struggle more than they think.”

He said there would be benefits for his business and for clients if it was able to create efficiencies. “That’s one of the things we’re working on, to scale that up so the smaller businesses can take advantage just as well as the much bigger groups.”

Burgess said one of the advisers he worked with in Canada had \$750 million under management. “I know groups of advisers here that don’t have that. Even though some groups think they’re scaled they’re not actually scaled.”

He said the most prosperous businesses he had dealt with in his career

had had the best compliance systems, which allowed tasks to be automated, freeing up advisers’ energy to spend with their clients.

Burgess said when he went into a business, he focused on spending as much time with the support staff as with the directors. “Support staff drive most of the business. If you don’t know their skill set and their approach you are not going to be able to impart change.”

Burgess was pleased with the regulation being introduced for the sector but said there could have been more focus put on clients. A lot of legislation focused on products and advice he said but clients were then left on their own once the advice was given. “I would have liked it to focus more on actual clients.”

Consultation had only happened with financial advisers and product providers, he said. “I don’t know there’s as much of a client lens as there should be.”

New Zealand’s sector could benefit from better use of digital tools, he said. Compliance Refinery has been working with roboadvice providers but they were doing more offshore than they were in New Zealand, he said. “There’s not a huge pickup in digital advice but it’s going to grow every day as younger, more tech-savvy consumers start to access advice and financial services.”

He said Compliance Refinery expected more growth from here, including hiring in Auckland and elsewhere. **A**



By Susan Edmunds

Groups unveiled

Susan Edmunds has produced a comprehensive guide on adviser groups and what benefits and services they will offer member advisers.

Big changes lie ahead for the financial advice sector. But one segment of the adviser space likely to be particularly affected is that of adviser groups.

While the structures of the existing organisations vary, all will face significant changes as they face the prospect of less income, if they currently rely on overrides, and have to decide just how much responsibility they're willing to take for their members under the new licensing regime.

Some have reported significant growth in recent months – Insurance Link has had 28 new advisers join in the last year, Foxplan 14, Newpark 140 and new group Wealthpoint has had 150 transfer from The Association.

A key question for the groups as they contemplate the future is whether they will apply for a licence – and whom they will permit to operate under it. Transitional licencing is now open for financial advice providers (FAPs) and full licencing will take effect in two years' time.

Plus4 group general manager Peter Standish said his organisation travelled the length of the country talking to advisers about their options and asking whether they

wanted to go under someone else's licence or take out a licence on their own account.

The almost unanimous verdict was that they wanted to have their own licences for their individual businesses, he said.

It was primarily a matter of wanting to retain control, he said. That had been a key attribute of the Plus4 group that had attracted its members. "We have never been overly prescriptive in the way they work or operate. The only prerequisite has been that they operate in a compliant manner."

If the group was to crack down on members with new rules and obligations for them to become part of a new FAP it could lead to many leaving, he said.

At Newpark, Melanie Purdey said the business was applying for a transitional licence, but the intention was to use that period of two years to work out what being a licensed entity would mean for the business. In that time, members would probably have their own individual licences, too, and the group would

support them through that.

By 2022 the group would be ready to absorb its members into its licence in time for full licencing.

At NZFSG, advisers would have the option of working within the group's licence if they wanted to, or take their own.

Head of growth Bruce Patten said advisers who opted for the group licence could use the advice processes the group was developing to meet compliance

requirements. That would mean they could focus on business growth – rather than being diverted into developing their own processes to meet regulatory requirements.

Patten said it was still unclear to many advisers what it would cost them to run a licensed business.

He pointed to a release

from Strategi in which it suggested establishing a small financial advice provider might cost \$10,000, then another \$10,000 a year.

But he said it was likely 95% of NZFSG members would opt to be part of the group licence. The Australian



Melanie Purdey

experience had shown advisers who started off on individual licences then moved to the safety of the group.

Insurance Link was taking the same approach, offering members a choice. "Through the consistency of approach we are able to achieve through our Advice Link CRM system, we can provide advisers with consistency of advice processes. Oversight of adviser applications and streamlined audit processes will be saving advisers time and money."

Managing director Josh Bronkhorst said about 80% of advisers had indicated they wanted to come under the umbrella of the main licence. "I think for advisers who have elected to operate under our branded option, for them it's a lot easier. They want the continuation of what we've been doing."

The group had always had a focus on business growth and professional development, he said. "Advisers want to be able to get out and focus on what they enjoy – getting in front of clients, not getting bogged down in the day-to-day operations of working in a



Josh Bronkhorst

regulated environment."

Insurance Link wanted to be the service provider, he said.

The Answers co-op said member businesses that chose to be a FAP will be able to use its "business grant programme" that was designed to help with the application.

At Wealthpoint, chief executive Simon Manning said the group's purpose was to enable its member network by providing an "industry-leading business framework so members can operate sustainable quality businesses as part of a strong adviser group".

He said the offering was fully funded by Wealthpoint and included FAP licence coverage with the option for self-licensing, within a comprehensive compliance framework including professional standards, templates, tools and quality assurance audit functions.

Manning said advisers would want the comfort of knowing they were in a safe place where they were compliant and were receiving good guidance.

"We see a lot of uncertainty from other advisers in the market about what regulatory pathway they should adopt. Many other adviser groups have not acted decisively to indicate whether they will hold a FAP licence, who they will cover, what cost

structures they will pass to advisers and what compliance and monitoring support they will provide, if any.

"In contrast, Wealthpoint confirmed its regulatory strategy and support proposition in mid-2019 and has already built many of the tools, systems and processes to support incoming regulatory change. This will ensure Wealthpoint advisers are well equipped to transition to the new regulatory regime with minimal disruption.

"Our adviser offering also supports business growth by delivering a new adviser recruitment and support programme and initiatives with key distribution partners to develop new business lines in member businesses."

Foxplan said it would be the financial advice provider for its adviser members so they could "continue to do what they love doing in front of clients and we give them the autonomy to do it better, across a wide range of products and services".

AdviceFirst was taking a similar approach because its advisers are employees. "We provide extensive support and career progression opportunities. We are also an experienced acquirer of registers."

The Lifetime brand also has advisers working for its business, focusing on growing that entity and balance sheet, not their own advice practices.

At the other end of the spectrum, The Adviser Platform, "business in a box" tools will

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By Susan Edmunds

be offered to help advisers through licensing, to help them grow their businesses efficiently and cost-effectively.

"Our platform is designed to give advisers a turn-key licensing solution, so they can continue to run an independent business with confidence, and not be bogged down by regulation.

"By providing trained admin staff to take care of the bulk of the operational workload, we are freeing up advisers to focus solely on servicing their book and growing their client base. Advisers can be strategic with how they use their internal support team, without having to employ additional people. We give advisers a platform to scale their business with confidence and efficiency.

"The key to an adviser's growth over the next 24 months is time. More time to service existing clients and also help new clients. Based on feedback from advisers, we can give them at least 10-15 hours a week back via our services. With this time, they can help at least 25 more clients a year. For many advisers, this is as much as 50% increase on what they are currently doing.

"Our question for advisers is, 'If you had the resources to run your business and maintain a licence with confidence, would you rather hold your own, or pay to work with someone else?'"

The groups have had to develop their offerings beyond the existence of a licence, too.

Manning said Wealthpoint would offer a technology solution – including centralised commission management and hosted

Xplan database; an adviser establishment, training and professional development programme; access to a broad range of suppliers across all key product categories; professional indemnity cover and other group insurance benefits; and professional development and networking



Simon Manning

opportunities including online, face-to-face and national conference options.

Foxplan said it would provide daily training for advisers to get them up to competency levels for all products and services that it offered

"Once completed we allow them to plug and play into the Foxplan system – as long as they swim between the flags, they will be able to operate, offer advice and get paid for it across a wider range of products than what they currently can offer. We then complete monthly reviews, and quarterly business planning sessions depending on the size and nature of the adviser's business."

The Adviser Platform said it had built its CRM from the ground, which gave it flexibility and security.

"Having a large in-house team of developers means we are able to continually enhance and refine the system. This is critical with the changing requirements in the industry over the next few years."

Newpark had had to work on its CRM to ensure it was more aligned with advisers' new obligations, Purdey said, and catering for advisers who wanted to be able to spend less time on administration and more on clients. It would pay for or subsidise compliance oversight and CRM on a sliding scale for three years and offered group buying discounts.

Insurance Link would have a full-time compliance and professional development support person.

"Through taking on the compliance related activities in the new regime we can give advisers back the time they would be spending on these activities; valuable time they can spend on revenue generating activities."

Standish said the collective strength of the Plus4 group would allow it to deliver support services under the new regime in a cost-effective manner.

"We will continue to seek product provider support towards greater economies. While there is room for membership growth we will remain selective in our acceptance of new member's applications."

But all this comes at a cost.

Standish said Plus4 had decided to go with a service company model, offering a range of services to members to support their individual licences.

But he said a significant change coming was that as part of the range of services being increased significantly, the co-operative would no longer give profits back to members.

That gave the group greater financial muscle to put into support services, he said.

There would be more need for auditing, he said, and the group would either have its own compliance person or would partner with a contractor but either way it would come at a cost.

Manning said Wealthpoint had had to put

a framework in place to get the structure running and then would have to absorb the ongoing responsibility of meeting licence conditions and ensuring adviser members were, too.

Bronkhorst agreed the increased oversight of advisers who were members of its FAP would be significant. It would involve oversight from a head office level, and audits would be more time-consuming, with additional reporting, he said.

Purdey said the way groups operate would have to change. There would be increased pressure on them to meet obligations to providers and to work to achieve good customer outcomes, educating clients and advisers on what that looked like in practice.

Support services would have to evolve from the odd training day to full compliance coaching and support for advisers, she said and that would need to be more robust than it had been in the past.

Anyone who suggested it was not a big transition was lying to themselves, she said.

But much of the information being given out was delivered in very formal legal and academic language and not easy to absorb, she said.

"It's being delivered by people who deal with regulation not the people at the coalface every day."

She said advisers were under a large amount of stress and their emotional wellbeing needed to be catered for.

Standish said he was optimistic about the new regime because it was customer-centric. Plus4 had always been outward-facing, he said. "My only concern is that a lot of these people are suffering from change fatigue."

That might mean they needed more assistance and support to minimise business interruption, he said. "I can deal with losing members from the group, it's far more difficult to lose them from the industry."

HOW MANY ADVISERS HAVE JOINED IN THE PAST 12 MONTHS?

The Adviser Platform:	54
The Answers:	3 (businesses)
Insurance Link:	28
Foxplan:	14
Newpark:	140
AdviceFirst:	3
Lifetime:	5
Plus4:	3

HOW MANY ADVISERS HAVE LEFT?

The Adviser Platform:	5
The Answers:	1 (adviser)
Insurance Link:	3
Foxplan:	2
Newpark:	8
(to other groups) 42 (deregistered)	
AdviceFirst:	4
Lifetime:	22
Plus4:	None

“Advisers want to be able to get out and focus on what they enjoy – getting in front of clients, not getting bogged down in the day-to-day operations of working in a regulated environment.”

*Josh Bronkhorst –
Insurance Link*

WHAT IS YOUR CORE OFFERING?

The Adviser Platform: From the day we opened our doors, TAP has provided systems, processing and staffing to help advisers take advantage of our experience and scale but still run an independent business.

Our “business in a box” platform gives

advisers the tools they need to license with ease, allowing them to grow their business efficiently, as well as cost-effectively.

The Answers: Equal ownership in The Answers co-op (only members own the shares). Learning and sharing with like-minded advisers. There are a limited number of advisers that can be a part of The Answers co-op. Exit strategies for advisers looking to exit the industry. Every member of The Answers co-op is an equal shareholder and benefits via dividends and grants.

Wealthpoint: Wealthpoint’s purpose is to enable our member network by providing an industry leading business framework so members can operate sustainable quality businesses as part of a strong adviser group.

All components of the member offer are fully funded by Wealthpoint and include:

- Independent adviser-owned and led co-operative structure – focused on supporting adviser businesses. Member businesses each own an equal share of Wealthpoint.
- FAP licence coverage with option for self-licensing, within a comprehensive compliance framework including professional standards, templates, tools and quality assurance audit functions.
- Technology solution – including centralised commission management and hosted Xplan database.

- Adviser establishment, training and professional development programme.
- Access to a broad range of suppliers across all key product categories.
- Highly competitive and comprehensive professional indemnity cover, with other group insurance benefits.
- Professional development and networking opportunities including online, face to face and a highly regarded national conference.
- A network that is already a trusted partner for suppliers while building a reputable national consumer brand.

Newpark: Autonomy and cost control – no fees. Run by AFAs and experienced industry professionals. Licencing support. One-on-one coaching/mentoring to grow business success. Headspace support for adviser mental wellbeing. Administration services. Compliance support. Connectivity.

Plus4: The brands and ethos within the group is all around client eccentricity. We believe in the synergistics of a collaborative approach through a high level of collegiality and our members are selected into the group on the basis of compatibility with that culture.

Foxplan: Grow revenue and profit, diversify products and services, success and recruitment, best practice standards.

Insurance Link: We have a strong focus on understanding our adviser business and working with advisers to effect growth in

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- Comprehensive Professional Indemnity Scheme ✓
- Business Branding Option and Marketing Support ✓

By Susan Edmunds

their businesses. Working with advisers to establish an adviser business plan and aligning our efforts to maximise growth. Business development manager support through Danielle Diedericks (15 years' experience with Fidelity Life) and other insurance mentors contracted to Insurance Link regularly engaging with advisers.

We have a strong focus on training and development achieved through professional development days, a national conference every year and other regular training sessions and webinars. Compliance support, documents and templates delivered through our purpose-built CRM (Advice Link) available at very competitive pricing.

Also compliance, branding and marketing support; and succession and exit strategy planning.

Lifetime: A rewarding career helping clients to achieve greater financial certainty through all life stages with an employment package consisting of competitive remuneration, education and equity in Lifetime.

AdviceFirst: All our advisers are employees. We provide extensive support and career progression opportunities. We are also an experienced acquirer of registers.

NZFSG: We are the largest head group offering services to mortgage and insurance advisers. Core offerings are MyCRM client management system, regular training and conference schedules, dedicated adviser services team, referral opportunities to business partners, branded and non-branded opportunities, competitive group PI insurance and an experienced management team.

HOW WILL YOU SUPPORT ADVISERS TO REDUCE THEIR COSTS OF BECOMING A FAP?

The Answers: If they choose to be a FAP, they will be able to use of our "Business Grant Programme" that is designed for assisting with this sort of application in the member's business.

The Adviser Platform: TAP's primary focus is to provide a platform where our advisers can be their own FAP.

We do this by providing:

- a turn-key solution for running a FAP
- trained, affordable and scalable admin solution
- dedicated compliance support team
- adviser branded, low maintenance and easy to use CRM system.

Insurance Link: We provide ongoing support and guidance and have internal and contracted compliance consultants available to assist advisers. We have negotiated corporate rates for advisers wanting to utilise the services of our contracted

compliance consultants.

Newpark: We will pay/subsidise compliance oversight and CRM on a sliding scale for three years. Group buying discounts. Independent of a larger FAP controlling costs.

Foxplan: We will be the FAP so advisers can continue to do what they love doing in front of clients and we give them the autonomy to do it better across a wider range of products and services.

AdviceFirst: All our advisers will belong to our intended FAP, and there is no charge levied for that.

Plus4: We intend to nurture our members through the licensing process, through offering robust processes and systems to support their businesses, together with training and development.

The collective strength of the group will allow us to deliver support services under the new regime in a cost effective manner and we will continue to seek product provider support towards greater economies.

Lifetime: Lifetime will be a FAP, advisers will be financial advisers under Lifetime FAP – Lifetime will support and fund education and competency requirements.

NZFSG: By being part of a larger group, our members will be offered cost effective regulatory solutions. We believe that economies of scale mean that we will have competitive offerings either to come under our licence, or to operate under a member's own licence whilst utilising services we offer.

Wealthpoint: Wealthpoint provides a strong compliance framework and guidance that will minimise disruption, regulatory risk and significant compliance costs from regulatory change and enable members to focus on their businesses.

For example:

- Regulatory compliance costs for member businesses are funded by Wealthpoint. This includes dispute resolution service membership; professional indemnity insurance premiums; quality assurance review and auditing; and training and education costs.

- A key compliance tool Xplan is provided for each adviser, along with templates, standards and processes.

- Wealthpoint is taking on AML obligations on behalf of members. Advisers will become agents of Wealthpoint for the purposes of the AML Act.

- Small adviser businesses can tap into extensive resources and advice provided



Peter Standish

by Wealthpoint.

• Larger adviser businesses who may have (or be contemplating) the cost of resources such as a commissions manager and a compliance manager should be able to reduce or even avoid this cost.

CAN AN ADVISER WHO IS NOT A MEMBER ACCESS YOUR SERVICES?

The Adviser Platform: Yes

Wealthpoint: No

The Answers: No

Insurance Link: Not currently but we will be making a menu of services available to adviser businesses who will be setting up their own FAP licences on a cost for services required basis.

Newpark: No

Foxplan: No

AdviceFirst: No

Lifetime: No

NZFSG: No

DO YOU OWN YOUR CRM PLATFORM?

The Adviser Platform: Yes

The Answers: No

Wealthpoint: No

Insurance Link: Yes

Newpark: Yes

Foxplan: Yes

NZFSG: Yes

AdviceFirst: We have a CRM platform and continue to invest heavily in technology.

Lifetime: All IT is currently outsourced with internal Lifetime support personnel.

DO YOU HAVE A COMPLIANCE TEAM?

The Adviser Platform: Yes

The Answers: We contract this function out.

Insurance Link: Yes

Lifetime: Yes

Wealthpoint: Yes

NZFSG: We have dedicated compliance resources in place. In addition we have an IT development team working on MyCRM compliance enhancements. We will have additional audit resources in place prior to June 2020.

Newpark: This is in progress.

Foxplan: Yes

AdviceFirst: Yes.

WHAT SERVICES OR TECHNOLOGY DO YOU EXPECT TO RE-INVEST IN FOR MEMBERS OVER THE NEXT TWO YEARS?

The Adviser Platform: Here are some of the services we have already started or will be rolled out early 2020.

- Providing specialist commission

management and business accounting packages.

- NZ-based client contact team with a focus on renewal calls and appointment booking.
- Managed client newsletter and social media marketing services.
- Lead generation and networking services.
- Ongoing roll out of new CRM functionality.

NZFSG: Ongoing development of MyCRM. Focus will be on meeting regulatory requirements for our members.

The Answers: Still in discussion.

Insurance Link: Ongoing development of the Advice Link CRM including additional online capabilities, client portal and integrations with providers. Further development of automated communications.

Newpark: Compliance support, business growth, licensing support and training support.

Foxplan: Online point-of-sale tools, CRM enhancements, further automation of tasks.

Lifetime: IT services fully supported ongoing in lending, risk, wealth management, employee benefits and full financial planning.


AdviceFirst: Continue to build our existing support structures including paraplanning,

“My only concern is that a lot of these people are suffering from change fatigue.”

Peter Standish – Plus4

quality assurance, vetting and technology.

Wealthpoint:

1. Lead generation and adviser marketing: Targeted communications online and via social media channels.
2. Business Intelligence: Detailed information on business performance and changes in the market, supported by campaign tools.
3. Automation and compliance: Automation of processes, eg issuing of advice to customers, to ensure compliance and QA.
4. Electronic security: To ensure client confidentiality and minimise the possibility of data theft or fraud. 

ASSET Magazine surveyed insurance dealer groups for this article. The survey started at the beginning of November last year.

Only one group refused to take part and that was My Solutions.

Nicola Smeed said:

"We feel that it would be inappropriate to engage in a public discussion about the relative merits of distribution groups at this point in time.

"Given we are all engaged with various stakeholders discussing strategy, our points of difference and historic performance already.

We feel that it would compromise the progress being made with stakeholders in re-configuring the independent distribution channels if we engaged in any form of public comparison with alternative groups."

The other group not to respond was Kepa. It cited timeline constraints.

The groups excluded from the survey were the like of AON and Crombie Lockwood as they don't deal with independent advisers.



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Succession options AND MUCH MORE.....

By Stuart Williams

What's in store for the remainder of 2020

Following a stellar 2019 and an unexpectedly dramatic start to 2020, Nikko AM's head of equities, Stuart Williams looks ahead to what the rest of the year may bring for New Zealand's economy.

Happily, many of the factors supporting growth remain in place.

Interest rates remain low, meaning New Zealanders seeking to achieve long-term savings goals and/or relatively attractive income streams should consider investing in the share market.

Our geographic isolation means that should continue to be viewed as a safe option for overseas investment.

Irrespective of geo-political manoeuvring and its impact on trade, New Zealand companies are used to navigating a difficult path to international markets – so any fresh headwinds should not prove too diversionary.

We therefore have an abundance of things to be grateful for. However, we also have important issues, both domestic and international, to keep track of. Wage inflation is one such domestic issue worthy of examination.

While it was arguably following the lead of many companies, public and private, that had already begun to better remunerate their staff, the Government should take credit for increasing the minimum wage. Legislated minimum wage increases (the next increase taking effect on April 1, 2020) and the pay equity settlement have served to push wage inflation all the way up to the \$70,000-\$80,000 pa wage bracket. The positive net impact of increasing wages on the tax and transfer system flows into lower entitlements and abatements, student loans, KiwiSaver, PAYE and company taxes.

The impact of wage legislation on New Zealand's critical SME sector is an element to monitor closely in the year ahead. Upcoming profit announcements for our listed companies should give an early indication as to whether they have sufficient pricing power to offset these wage increases. The importance of monitoring both the producer price index (PPI), which excludes wage inflation, together with the consumers price index, cannot be under-estimated. The PPI – or cost of doing business – has been increasing rapidly. Combined with wage inflation, this will be a headwind for business



in 2020.

Sentiment has always been an important economic metric – and the sentiment associated with increased wages is broadly positive, contributing immediately and in a tangible way. It lifts workers spirits; it carries people along with the view (and my view) that New Zealand is going well; and it assists social cohesion. That it challenges some businesses' profit margin is, broadly speaking, an acceptable trade-off.

Looking at global economic influences, we – like most of the world – entered 2020 fixated on the impending US election, the impeachment hearings and Brexit, only to have the coronavirus disrupt our focus. Comparisons to the SARS outbreak of 2003 are not that useful a barometer, given the enormous increase in Chinese interconnectivity globally in the intervening 17 years – and the speed and manner with which the world has reacted to the outbreak reflects China's global economic importance today. Here in New Zealand, given the considerable economic boost provided by China via our tourism and education sectors, it's also a stark reminder of our vulnerability to the unexpected and the dangers of allowing too many eggs to be carried in the one basket.

Notwithstanding the immediate shock to the system from the coronavirus, over a

“ The sentiment associated with increased wages is broadly positive, contributing immediately and in a tangible way. ”

longer term horizon there remains little for us to fear economically. The New Zealand economy and businesses remain attractive to all stakeholders, local and international. This supports our share market, our property market, our fixed interest market, our government and our society.

And so what should we be expecting for 2020? Well, certainly not a further 32% rise. But with the world addicted to low interest rates and prices for real assets in New Zealand remaining firm, anything up to a high single-digit return seems likely – thus continuing the positive trend. The show, as they say, must go on. **A**

I am

I am Stuart Williams, Portfolio Manager. The culture of our New Zealand Equity team is centred on close collaboration and rigorous debate. Together, we hand-pick stocks in a broad range of areas that we believe have strong potential for growth. Our aim is to create high-performing portfolios that achieve the best outcomes.

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By Daniel Dunkley

Log in to the health app revolution

Health insurers have launched a range of new apps to help advisers place business online. How do they compare?



health insurance

The 2010s saw another giant leap in technological advancements that have transformed global business, from multi-function smartphones to cloud storage, AI and big data. While some industries have leapt into the 21st century with their use of technology, financial advisers have been much slower to adapt to the new way of doing things.

Many advisers still rely on paperwork and the postal service in 2020, particularly when placing complex life insurance business for their clients. But a host of life insurance providers, including Partners Life, AIA/Sovereign, and nib, are using technology to speed up the application process, make things simpler for clients, and delivering better outcomes for customers.

How do apps work, and how can advisers access them? How do they compare on

key features and ease-of-use? And are there any downsides to embracing new technology and leaving the old paper format behind?

Health apps are online web portals designed specifically for advisers. Advisers are provided with a unique login to process client business, and health insurance providers usually offer training in-person or online. Suppliers hope their new systems will make opening an account less of a headache and more of an efficient service.

A new wave of apps has launched over the past few years. In November, Partners Life became the most recent

insurer to start a new digital platform.

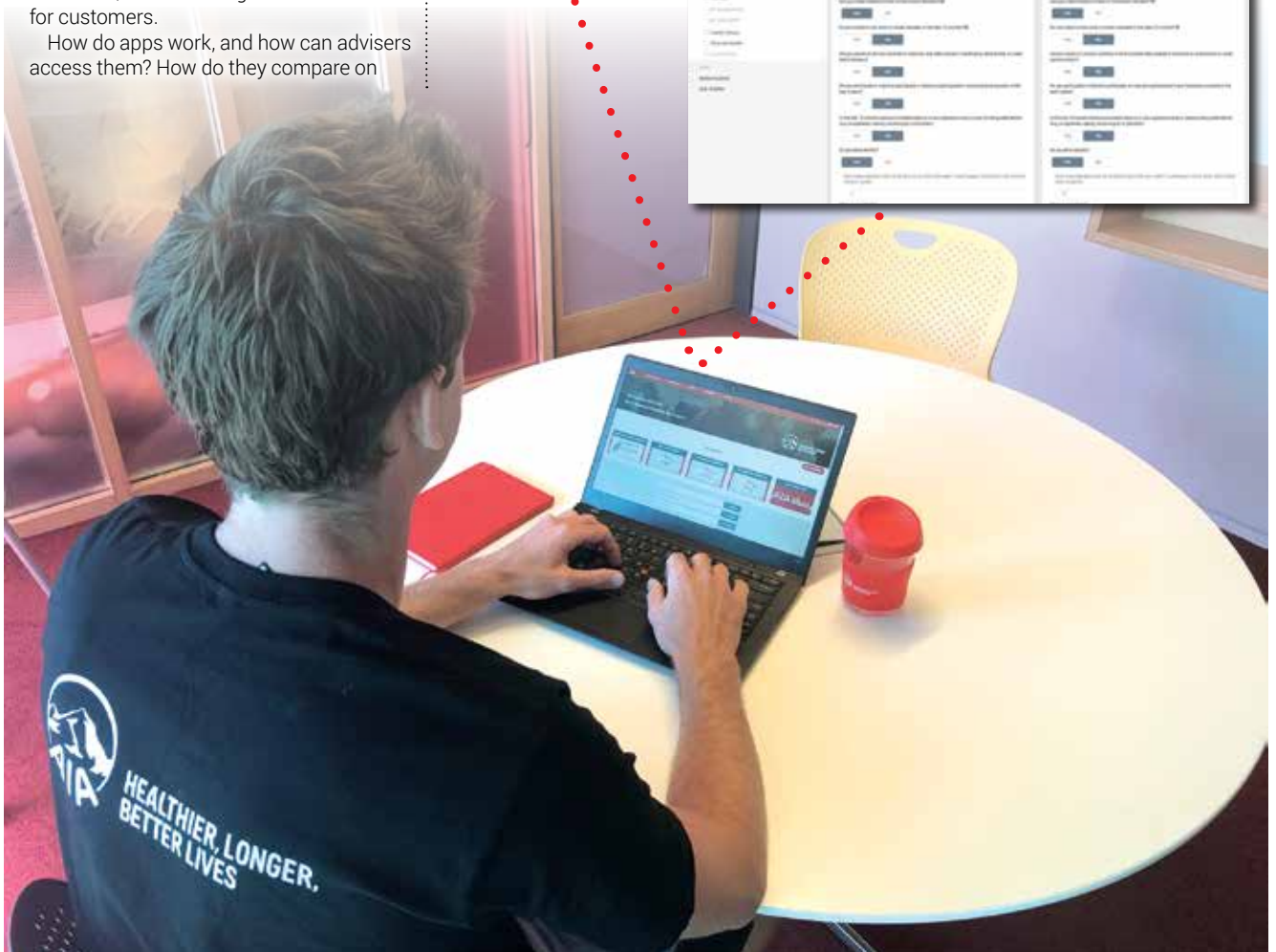
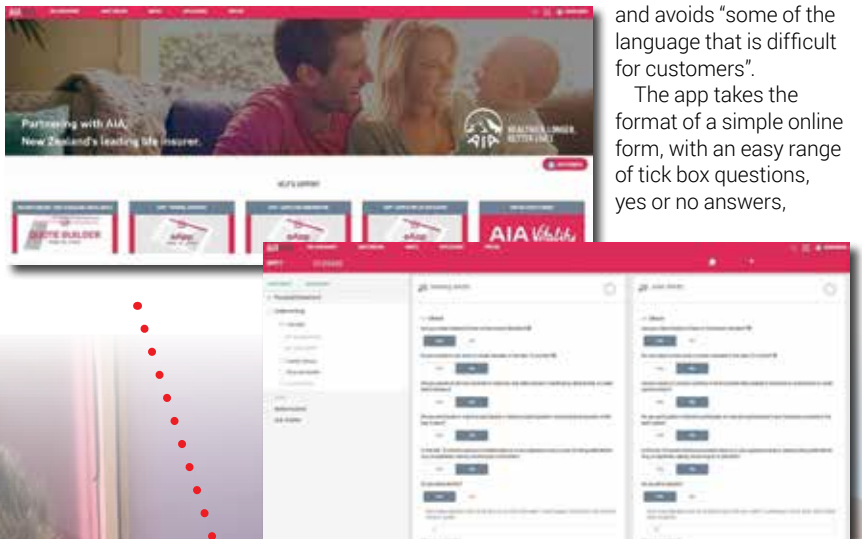
My Underwriting Manager (MUM) allows advisers to run through questions with clients, place business, and provide medical information. The system asks specially-framed questions to prevent non-disclosure issues and can give instant underwriting upon approval in most cases.

Partners Life says its system cuts out unnecessary jargon and prevents customers from becoming "frustrated and disengaged in the process".

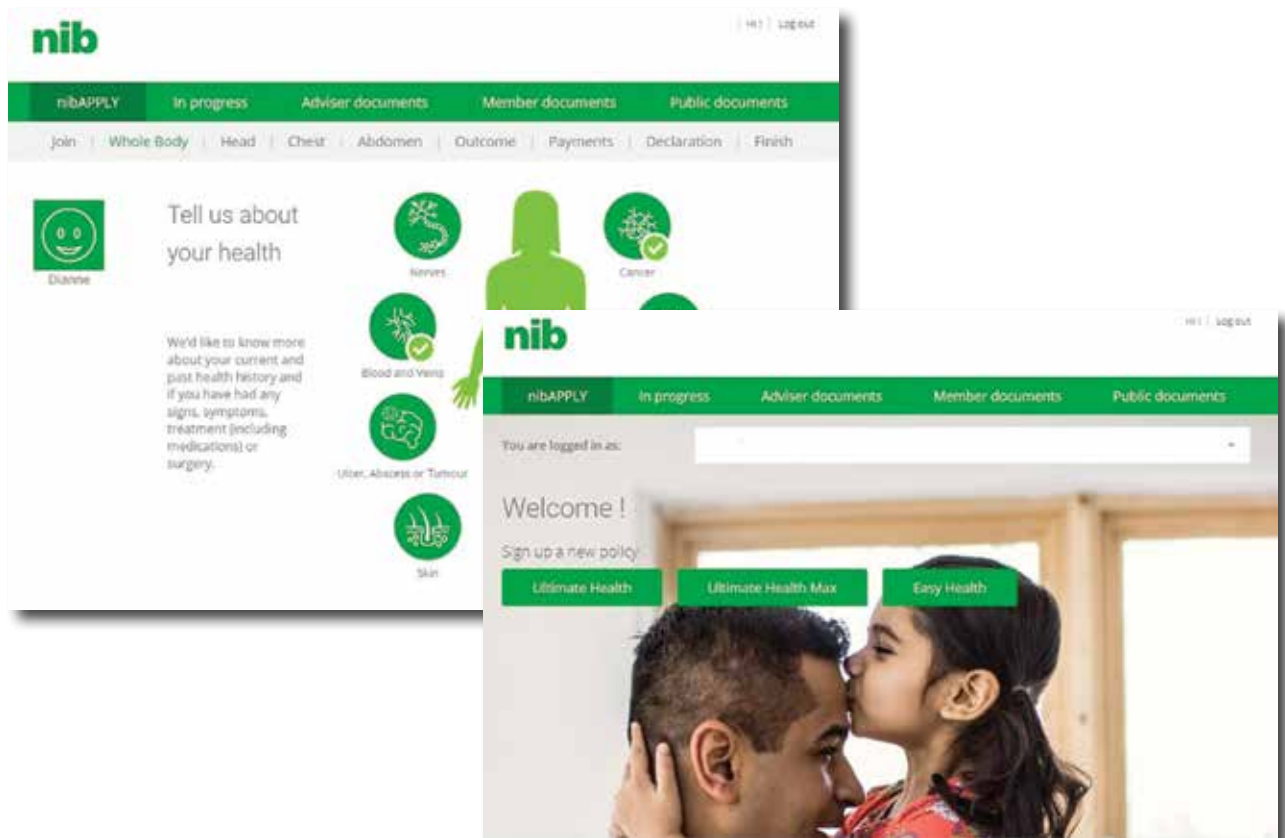
Kris Ballantyne, general manager of marketing and product at Partners Life, said the MUM system frames questions from

a client's point of view and avoids "some of the language that is difficult for customers".

The app takes the format of a simple online form, with an easy range of tick box questions, yes or no answers,



By Daniel Dunkley



“ In this market, everyone wants more time, and this technology gives you the ability to create time. ”

Mark Atherley

Partners Life says the app has an ability of more than 80% to make decisions based on its questionnaire format. Upon launch, the company had a 40% target for straight-through applications on day one.

Rival health insurer nib released a new cutting-edge app for financial advisers in September. nibAPPLY is available through the company's online adviser portal and also cuts down application times. The company expects more than 80% of applications to come through the portal in real-time, resulting in immediate cover for clients.

Nic Dorward, head of member engagement for nib New Zealand, says advisers have typically “liked paper”, but wants to change old habits. Dorward says some insurers have been guilty of merely moving their paper applications online, but says the firm is taking a fresh approach.

“We wanted to make the outcomes for clients faster, more seamless and more fun. So we spoke with a whole lot of advisers, about how to take the process online. In the past, other companies have just put their paper applications online, but we wanted to design something for the online environment. We went to advisers and asked them what they wanted the experience to be like.”

nibAPPLY features a human-body visual interface for advisers and clients to use. “It’s like an interactive experience,” Dorward says. “Less like filling in a form, and more like discussing your history with a doctor on an experiential level.”

“We’re looking to deliver for advisers,” Dorward says. “And make it more fun, so it feels less like paperwork. There’s real-time visibility, supported by underwriting and real-time decision-making.”

Under the old paper format, a health insurance application might have taken anywhere close to 40 days, Dorward says. Under the new system, the process can be completed in as little as 15 minutes.

The app, like others in the market, will help advisers under the new FSLAA regime, enabling them to demonstrate their work for clients and outline how their advice has achieved strong customer outcomes.

Dorward adds: “From a conduct and culture perspective, there is dashboard reporting, and the system asks the right questions. We are also monitoring the quality of advice.”

AIA/Sovereign has also made strides on

technology in recent years. The company's eApp, on AIA Hub, launched in August last year. The company, like its rivals, wants to digitise the process for advisers and bring applications into the 21st century.

Features on AIA Hub include pre-assessments, allowing advisers to discuss existing medical conditions that may not be approved. The app enables husbands and wives to complete their application side-by-side, a move designed to engage applicants and speed up the process.

While using the eApp, advisers can key in information and get indicative results on how underwriters may view a condition. Financial advisers also get “pipeline visibility” through the app, and can track the status of contracts. They can also add attach extra information before they submit an application.

The app is backed by AIA's underwriting rules engine, featuring “reflexive questioning”, responding to what customers input, as well as “behavioural economics”. “We want to ask customers the right questions, rather than 3,000 questions,” says Sharron Botica, AIA's chief customer officer. “It has smarts behind it,” she adds.

“A lot of companies are going down that route, making it easier for customers and advisers through the sales process,” Botica says. “When it’s completed, we will give them an underwriting outcome, whether they have been accepted or whether more information is required to fulfil the contract.”



“ Technology makes your business so much more time-efficient, and you’re still working in the client’s best interests. ”

Sarah Bloxham

The health apps in the market offer a similar proposition. But what do advisers make of the new systems, and how do they compare?

Advisers are encouraged by the progress of new technology, and say it will improve efficiency and help free-up time for sales and clients.

Mark Atherley, group CEO of Breathe Life and Breathe Home Loans, welcomes the efforts taken by the likes of AIA, nib, and Partners Life over the past few years.

“Costs are going to increase for advisers under the new regime, so we are going to have to either make the same money and become more efficient, or increase sales. These apps, and I’ve used all three, are all going to make it more efficient. The application process alone saves hours.”

Atherley likes all three of the major apps but describes the Partners Life system as a “game-changer” due to its

underwriting capabilities.

“The Partners Life system is similar to the systems I used in the UK. The app provides an answer and issues the policy. That’s the point we need to get to with this technology.”

Atherley believes other new technology can complement the health apps.

“You can use Zoom [online video conferencing] to go through the application with the client and share your screen. With Zoom, you can record the whole application and share it, which helps with potential non-disclosure issues.”

Atherley says the apps can save advisers and clients valuable time.

“You can do each life in 20 minutes. So there’s no need for the adviser to turn up to their client’s house, or for clients to spend money and time travelling to an office.

Before, you would have a fact-finding appointment with your client, see them the following week, log the application.

Then it would take three to five days to go into their system. Now, with the Partners Life system, for example, it can be done in two hours.

You can end an appointment with coverage.”

Atherley doesn’t believe there’s a downside to embracing the new technology.

“The apps can save you hours per week and weeks over a year. In this market, everyone wants more time, and this technology gives you the ability to create time,” he adds.

Sarah Bloxham, director at Let’s Talk! Mortgages & Insurance, uses the Partners Life system. She says the app has “changed my life” and enabled her to cut down on travel time visiting clients.

“It has given me back my time. Before I would have to have jumped on a plane, as I have

a big client base across the country. I don’t have to fly any more. I can arrange Zoom meetings at home or in the office.”

“Technology makes your business so much more time-efficient, and you’re still working in the client’s best interests. The time has truly come to embrace this stuff. It is so much easier to do things online than with a humongous paper file.”

Stuart McKenzie, a financial adviser at Borealis Advice, likes nibAPPLY, due to its easy-to-use interface and slick operating system.

“ It’s inevitable that things will be paperless. Once you’ve got keys to a car, you don’t go back to the horse and cart. ”

Stuart McKenzie

“The process is done in digestible bits, without dozens of questions per page, which can leave the client overwhelmed,” McKenzie says. “I’d be happy if the other insurers mimicked what nibAPPLY is doing, because it’s a customer-centric approach, and there’s no confusion for clients.”

McKenzie called on advisers to move with the times and use health app technology to their advantage.

“You’ve got to change at some point, because the future is here,” McKenzie says. “It’s inevitable that things will be paperless. Once you’ve got keys to a car, you don’t go back to the horse and cart.” **A**



Sarah Bloxham

By Susan Edmunds

Ice Zhang:

Not a pushy salesperson

She's a member of MDRT and one of FSN's top performers but Zhang says it's helping others succeed that motivates her.

There wasn't much in Ice Zhang's career history that would indicate she would excel in insurance.

Zhang, who is now unit manager, executive financial adviser and insurance corporate relationship manager at AIA FSN, started her working life as a general surgeon in China. It was a family trait – her husband was also a brain surgeon.

But she said the couple decided that things were getting too busy and they were getting no time together. They moved to New Zealand and she completed a master's degree in human resource management at Massey University.

But a meeting with Lily Liu, senior unit manager and executive financial adviser at FSN, in 2012 put her on a different path.

"I wanted to buy insurance and I met my mentor," she said.

Zhang remembers Liu as being "different"

to other brokers. Zhang wasn't keen on the idea of being a "pushy" salesperson but Liu showed her there was a different way.

"She focused on the detail and didn't push sales aggressively. I also realised I was at an advantage having a medical background to help clients understand insurance, so during parental leave I decided to see how I felt about working as an adviser.

"Since then, I've enjoyed my insurance advisory journey and serving as many clients as I can, just as I did previously when I was a surgeon and helped my patients. People around me said that I was 'born to work in the insurance field'. It is kind of true. I am passionate to read insurance articles and insurance product updates, to interpret policy wordings and to discuss these things with underwriters and claims specialists."

It took a couple of months but soon the sales started to come in. Her client base built through word of mouth and people seeking her expertise. She said she saw her role as a sort of mediator working between the

“The best way to describe me is that I am a manager from FSN who is trying to deliver the best outcomes for our customers. I enjoy it and believe there is a prosperous future in this industry.”

insurance company and the client to achieve the best outcome. "You are the specialist, they consult [with] you. I don't talk about discounts or cashback, they come to me for professionalism, nothing else."

Zhang said the most important thing that FSN provided was a platform to explore the industry more than she would as an individual broker.

"In 2015, I became a unit manager and started to recruit people who really believe in insurance like me. Five years later I became a network manager. I have recruited over 40 advisers and promoted two unit managers."

Zhang has been the recipient of the All-Time Performance Record of FSN and Top Recruiter of 2017. She has been a member of the Million Dollar Round Table since 2014 and qualified for Top of the Table in 2017 and 2018.

Zhang said she mostly dealt with Asian clients, some of whom were new to New Zealand and some who had been here much longer. Some who had recently arrived in New Zealand needed to understand how the local products worked, she said, and found they were quite simple and easy compared to overseas examples.

Often they expected to find something with more of an investment slant. "Once you introduce them to the concept of risk and protection they take [our policies] – why not? If they're in New Zealand you might as well follow the New Zealand culture and protect your family."

Those moving from Asia were familiar with the AIA brand, she said.

People who had lived here longer were more interested in taking out health cover or critical illness protection.

Zhang said she enjoyed finding new advisers and helping them to grow and help more clients. The FSN systems would help its adviser comply with the new legislation easily, she said. "We're not scared of the change ... I'm lucky to be in my team with the strength of AIA there as backup, we're not working independently. We're a big team. If we need anything, we call AIA. That's a good feeling."

Zhang said a good adviser would have a mix of skills but it helped if they brought an interesting background to stand out from the rest of the market. "Clients will pick that up ... they want to come to know you."

They also had to have good learning skills, she said, because the job required keeping up with a range of policy wordings.

"FSN has never been a sales driven organisation; first and foremost we aim for great customer service. We promote insurance and the benefits it can bring, share our successful claim experience and provide a professional service. Our advisers and management team work closely towards the same goal of protecting more customers.

"The best way to describe me is that I am a manager from FSN who is trying to deliver the best outcomes for our customers. I enjoy it and believe there is a prosperous future in

“People around me said that I was ‘born to work in the insurance field’. It is kind of true.”

this industry.”

FSN is a New Zealand incorporated company owned by the AIA Group, the largest life insurer in the world by market capitalisation.

FSN works directly with more than 75 insurance advisers who help to protect New Zealanders across the country.

FSN's advisers come from a broad range of backgrounds and cultures. Between them, FSN's advisers speak English, Mandarin, Cantonese, Hindi, Gujarati, Urdu, Punjabi, Tamil, Malayalam, Hokkien, Teochew and Japanese.

They deal with a range of insurances including life, health, travel and critical illness and work out of offices in Hamilton, Auckland, Tauranga, Wellington and Christchurch.

From life insurance, to health insurance, travel insurance and illness insurance, FSN's advisers work to find the right insurance solutions for their customers.

FSN advisers deal with a number of different insurance

companies enabling them to find the best possible insurance fit for their customers. The advisers also work to a code of conduct outlining ethical business practices.

Zhang said FSN was able to leverage best practice insurance practices from AIA Group and AIA New Zealand to enhance the training and quality standards of its professional advisers.

When she's not working, Zhang said she enjoys shopping and spending time with her family. **A**





By David van Schaardenburg

Investment forecast: changeable

Like the seasonal patterns, the best of the financial weather may now be behind us.

Like most who had their summer break in New Zealand, I was able to enjoy a sojourn characterised by relatively dry and sunny weather with none of the wild weather that often conveniently turns up just when outdoor living is at its annual peak.

Apart from the bushfire catastrophe afflicting our Australian cousins, the news flow over the summer break, especially financial market sensitive headlines, was also relatively benign. What featured more were regular announcements of new record sharemarket levels and the stunning calendar year returns earned by investors from most asset classes through 2019. Even gold had a good year.

Now back in the office reality starts to set in – the holidays are over. Despite being able to enjoy looking at blue skies, summer continues even if one can't participate in it to

“ While no clear catalyst for disaster is presently apparent, bond, property and equity markets are all valued above long-term averages. ”

quite the same degree.

On the investment front, clients are by and large contented with their portfolio returns and feeling rather relaxed as the media infers the good news means: "All is ok in financial markets." But just like the seasonal patterns, the best of the financial weather may now be behind us – for the near term anyway.

In the latest annual Natixis Global Survey of Institutional Investors 500 fund managers with US\$15 trillion of assets under management showed concern that with ongoing low yields, stalled trade talks and slow global growth, there will be significant impacts on portfolio performance. In fact, 83% expect a GFC-type event within the next five years.

Over 75% of the survey respondents said that individual investors have unrealistic return expectations, don't understand their own risk tolerance and may even liquidate their assets prematurely due to fears of a recession. The survey also revealed the tendency of individual investors to focus too heavily on short-term results.

Simply speaking, in contrast to the investing public, professional investors are worried.

Investors, be they professional or not, are going to have to readjust their future long-term return expectations to be quite different from the recent past. While no clear catalyst for disaster is presently apparent, bond, property and equity markets are all valued above long-term averages. If one believes in mean-reversion this implies future returns from the mainstream asset classes may be less than the average of the last decade.

All fine in theory but how do advisers temper their clients' expectations to a more average or lower return world of say 4-6% pa, when they've been hearing in recent times of circa 20% annual returns? And how do you do it without either sounding alarmist or increasing the potential of losing your client to those of your competitors who trumpet their recent high returns?

My start point is to reduce the subjective elements in how clients view their finances. Experienced advisers and fund managers will remember past cycles of client "greed" where existing and prospective clients lock in an expectation that recent high or above average returns will continue.

This is typically driven by two human traits or biases that we are all prone to:

Recency bias – the phenomenon of a person overweighting their more recent experiences often in contrast to longer-term statistical evidence.

Overconfidence – this has two components: overconfidence in the quality of your information, and your ability to act on said information at the right time for maximum gain. This is often fuelled by recent successes and ego means we are more likely

to ascribe success to our own prowess as opposed to simple luck or time in the market.

The combination of these two biases leads to one of the most common investing influences – an overconfident or naive belief in predicting the future by studying the recent past. Notwithstanding the usual industry disclaimers – "past performance is not indicative of future results".

“ Build up your clients' understanding of what long-term average asset class and portfolio returns they can expect in the future. ”

So, how do you as the adviser, combat this?

Most of your clients are investing for multi-decade periods (NZ female life expectancy at 65 years of age is 89.2 years) so short-term returns, say over the next 12 months, are unlikely to matter much. In my opinion advisers should forget about trying to predict them.

Client's tolerance for loss is likely to be much more influential on them staying the long-term course. So, ensuring the client doesn't get carried away and stays in the right portfolio from a risk perspective is your key to retaining them in future difficult times.

Build up your clients' understanding of what long-term average asset class and portfolio returns they can expect in the future. Educate them around how in recent times returns on risky assets have been well above this average. In other words, don't expect them to continue.

Putting the onus back on clients to answer a few questions may also help them have a more balanced approach to investing.

Are you more likely to achieve your financial objectives by shifting to a riskier strategy or staying the course with last year's winners?

If you choose a riskier path and you're wrong, to what degree might your long-term financial objectives be compromised?

Have you made decisions like this in the past that haven't worked out to plan?

This process is likely to identify the payback for taking on more investment risk may be modest, the regret factor high and this is not the first time the client has leapt on the bandwagon. When discussed in an objective setting, most clients will accept they don't really want their retirement portfolio to be "riskier". For the more dogmatic client, it may be pragmatic to agree with the client an allocation of some "play money" to satisfy their needs while not risking the achievement of their longer-term overall objectives.

So, let's get rational with our clients. Educate. Be patient. For the next decade is unlikely to deliver as good returns as in the past. But, with the right advice, it still should be much more profitable than clients squirrelling away their life savings in the bank. **A**

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By Russell Hutchinson

APRA and the NZ IP Market

Russell Hutchinson looks at the increasingly unsustainable income protection product.



As APRA announces a series of measures to make income protection more sustainable it is time to consider the problems with the product in New Zealand.

What problems? Well, as one insurance executive put it last week no-one in the industry has made any money on IP products in the last five years. On about \$400 million of in-force premium, and in spite of some eye-watering premium increases, the product remains stubbornly resistant to turning a profit. A glance at the claims payable as a proportion of premium in, say, the FSC stats might suggest that the problem is limited – but what they don't tell you is the volume of admitted claims that will probably not terminate until age 65. It is this long-tail of claims, and the continual disappointment in clearing long-running claims, that keeps forcing insurers to allocate more capital to these future payments.

For some time now the problem has been growing. APRA has previously warned that if the product could not be brought to some level of sustainability, then they would act. In

“As one insurance executive put it last week no-one in the industry has made any money on IP products in the last five years.”

December last year they signalled that action would be taken at the start of this year. The first step in that action has been announced: APRA instructed the Australian industry to stop selling agreed value products, and also proposes a series of other restrictions that are still being consulted on. Below is a summary.

APRA has signalled it expects insurers to make the following changes to new income protection policies:

By March 31, 2020:

Cease offering agreed value income protection policies

By July 1, 2021:

Base cover on income at time of claim, not older than 12 months. This may mean that indemnity policies where income is measured as the highest 12-month period over two or three years may no longer be issued.

Where additional features and benefits are offered, limit the income replacement ratio to 100% of earnings at time of claim for first six months and thereafter 75%. This could lead to policies with fewer extra benefits being issued.

Restrict guaranteed renewability to five years. It is proposed that the terms and conditions of policies would be able to be reset after five years and any changes to the policyholder's occupation and financial circumstances could be considered at that time.

Other measures to control the risk of benefit periods greater than five years eg applying stricter disability definitions.

APRA is inviting feedback from the insurers on some of the changes scheduled for next year and will finalise its position by June 30, 2020.

That response is because Australia has seen more than a decade of bad news for

income protection and cumulative losses well over \$2 billion.

Although the situation in New Zealand is not quite as bad, it is so similar that no-one can be confident that the next recession will not plunge insurers' IP books deeply into the red. That worries APRA a lot in Australia and RBNZ-FMA enough that a reduction in solvency capital was highlighted in their recent report on the sector. Actual solvency capital for the top 17 insurers in the industry (including health insurers) rose from about \$2.6 billion five years ago to about \$3.3 billion in last reported accounts. That looks healthy enough until you compare it to minimum solvency capital required. Capital required rose from about \$1.6 billion five years ago to about \$2.6 billion. That accounts for a decline in the ratio of capital to the minimum required from 1.6 times to 1.3 times the minimum.

Agreement about causes are debated, but replacement ratio comes in for particular attention in APRA's view, and indeed, the whole concept of guaranteeing the product over the long term is also being called into question.

Andres Webersinke, GM and head of region of Gen Re Australasia, published a paper on the problems of the income protection product. The paper has a great summary, and highlights a point I think is particularly important; it is not the adviser's fault that the IP market is a mess, nor the fault of just one category of claims (say, mental health), nor economic factors such as lower interest rates or low wage increases. It is inherent in the product.

Advisers, concerned about offering the best solution to clients, prefer to choose the most generous products. (Declaring an interest: I own half of the research business Quality Product Research Limited.) I agree with the choice that advisers have made, and I am unsure how else the choice would be made, but if insurers cannot sustainably offer the product, we also need to consider the risks to customers. These are not well understood. I am not alone in my lack of understanding – after all most insurers in Australia and New Zealand have been hoping that IP experience would level off, sparing further

“ No-one can be confident that the next recession will not plunge insurers' IP books deeply into the red. ”

sharp increases in premium. I share in that – it seems we were all wrong.

Once you discard all those other explanations, product design comes much more sharply into focus as the cause of the problem. Webersinke highlights the difference between short and long-run, and the question of loss minimisation.

“The current product design of DII works well when assessing a case of acute sickness or injury. It doesn't work well for prolonged periods of disability or chronic conditions. More importantly, there is no financial incentive to minimise the loss of income.”

He goes on to specifically call out how product design affects long-run claims:

“Key contributors to the DII misery are:

- *The generosity of the products stifling self-motivation for an early return to work.*
- *A claims handling approach that shows scars following increased media scrutiny and is based on misunderstood customer-centricity.*

- *The eternal hope that a worsening trend will ultimately plateau and rate increases will restore profitability.”*

Webersinke makes a good case for the approach to each of these periods being quite different. At present only one insurer in New Zealand offers such a product, and it is rarely sold: Asteron Life's Workability.

Another aspect of Gen Re's paper which should get more attention is that they have called out a possible conduct issue: Are we being honest with clients when projecting only age-related increases when we know that these premiums are insufficient? Not explaining this to clients, when we reasonably know this to be the case, is a major failing.

I want to focus on the point about the generosity of the product from Gen Re. It stifles a desire to return to work, especially when the total income replacement offered is close to or exceeds the income that the claimant could command in the workforce. It can appear right from the start of the claim if the client selected an agreed value product and subsequently experienced a drop in income before the claim event. Additionally, whatever the starting level of income in a claim, for most people the income that they could command if they returned to work declines the longer they are on claim; after several years off work their experience is dated and they may not be familiar with new systems. So, the income they would be offered can easily be lower than the claim payments.

Then there is the question of loss minimisation. The products have very limited tools to require clients to work as much as they can, or to keep their skills up to date. Most have no means to require the client to accept even very similar work which is not actually their own occupation.

Whatever the solutions, we can expect insurers to be asked to address them – whether that is by their Australian parent companies, their reinsurers, or our own regulators worried about ongoing solvency. ⁴

Russell Hutchinson is director of Chatswood Consulting and Quality Product Research, which operates Quotemonster.



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Top 10



As usual it has been a busy month on *Good Returns*. Here is a list of the top 10 most read stories over recent weeks.

1 Housing market boom won't last long: Westpac

Westpac economists say the recent boom in the housing market won't last much longer due to upward pressure on mortgage rates and a lack of funds in the banking system.

2 Inland Revenue outlines GST plan

Inland Revenue wants to introduce special rules for determining the GST treatment of fund manager and investment manager services.

3 National questions limits on adviser incentives

National MPs have questioned the need for a bill that brings in new conduct requirements for insurers, banks and non-bank deposit takers.

4 Trade Me sells LifeDirect to adviser

Trade Me has sold its LifeDirect business back to one of its original adviser owners.

5 Kiwibank-BNZ takeover talk grows

Kiwibank is lining up a multibillion dollar takeover of big four bank BNZ, according to reports.

6 NZ equity returns for the next decade?

Jamie Young looks at the above normal returns

achieved in 2019, how the market has been tracking since 2005 and what that could mean for 2020 and beyond.

7 A number of buyers interested in AMP

AMP says plans to sell its New Zealand wealth management business are well under way and that it is in discussions with an unspecified "number" of parties.

8 The cost of running a one-person FAP revealed

It's been estimated it might cost \$10,000 to become licensed as a small adviser business, and then \$10,000 a year to operate – but there's a warning that's the wrong way to look at it.

9 Investors get chance to fund home loans through Squirrel; Harmoney exits

Squirrel has opened up its mortgage lending book to peer-to-peer funders, providing access to retail investors as Harmoney pulls out of the P2P market.

10 Wealthpoint questions efficiency of authorised bodies

With time running out until new regulatory reforms are introduced in late June 2020, Wealthpoint has followed with interest the industry discussions taking place about various FAP structures that may exist post June. ^A

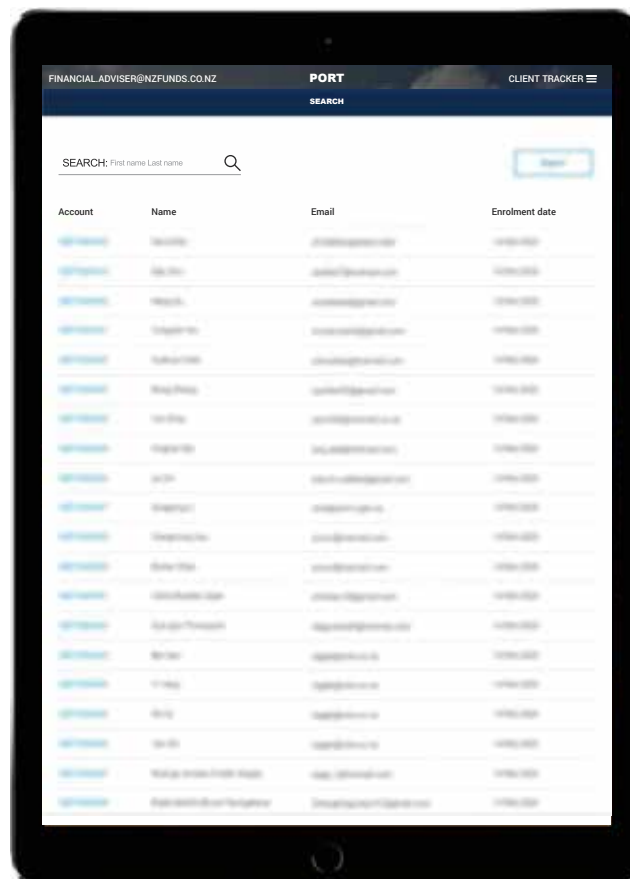


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