



FINANCIAL SERVICES FEDERATION

23 June 2025

Committee Secretariat
Finance and Expenditure Committee
WELLINGTON

By email: fe@parliament.govt.nz

Financial Markets Conduct Amendment Bill

The Financial Services Federation (FSF) is grateful for the opportunity to make this submission to the Committee on behalf of our members.

By way of background, the FSF is the industry body representing specialist lenders operating in New Zealand. We have nearly 100 members (a list of which is attached as Appendix A) which include motor vehicle finance providers, specialist housing lenders, Non-Bank Deposit Takers (NBDTs), the larger finance companies operating in New Zealand, fleet leasing providers, commercial asset leasing and finance providers, credit-related insurers and Affiliate members which include internationally recognised legal and consulting partners.

Our members provide their products and services to more than 1.7 million New Zealand consumers and businesses. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society and the economy is attached as Appendix B.

Introductory comments:

Overall, the FSF is supportive of the Financial Markets Conduct Amendment Bill (the Bill) as part of the package of financial services reforms that seek to streamline and ensure the effectiveness of financial services regulation.

The FSF has long been critical of the complexity and duplication or overlap of much of New Zealand's financial services legislation, particularly as it applies to consumer credit providers and Non-Bank Deposit Takers (NBDTs). The cost to financial services providers to meet their compliance obligations for these often-competing regimes and licensing requirements has been enormous in terms of time and resources. This has been at the cost of innovation and choice for consumers and businesses and has provided no return on investment for the entities concerned.

It has often been unnecessary when other ways to ensure consumer protection (or whatever the objective has been) might have been more desirable. For example, more powers being provided to the regulator to deal with non-compliance rather than further regulation.

Therefore, the FSF is particularly supportive of the objectives of the reform to simplify and streamline regulation of financial services, remove undue compliance costs for financial markets participants and improve outcomes for consumers.

We will now turn our attention to submitting our views on the proposed changes in the Amendment Bill.

Conduct reforms progressed by this Bill

Fair conduct programme minimum requirements:

Among the FSF's membership are some entities who are financial institutions under the definition of the Conduct of Financial Institutions (CoFI) regime. These are Non-Bank Deposit Takers (NBDTs) and credit-related insurers. By their nature, these are very small entities particularly when compared to a large bank or insurer, so the FSF welcomes any moves to simplify and minimise the compliance requirements under CoFI.

The fact that the Bill seeks to simplify and clarify minimum requirements for fair conduct programmes to allow for more flexibility and to reduce unnecessary prescription and compliance costs is particularly welcomed by the FSF's affected members.

The four reforms to the requirements of the fair conduct programme: to clarify the requirement to communicate with consumers to expressly include communicating about the price of services or products; adding a requirement to resolve consumer complaints in a timely and effective manner; reducing the level of prescription in the requirements relating to training, supervising and monitoring employees; and removing requirements relating to existing legal obligations and regularly review the effectiveness of fair conduct programmes, are all entirely sensible changes in the FSF's opinion.

The CoFI regime has required the FSF's affected members to expend a great deal of time and money on ensuring their compliance with all its requirements, none of which creates any return on investment. This expenditure of valuable resources limits the ability of small entities to innovate to provide better products and services to their customers and thereby limits competitive options in the marketplace. Therefore anything which simplifies the compliance obligations around fair conduct programmes is welcomed by the FSF.

Single licence and consolidation:

Again, this is a reform that is very welcome to members of the FSF. The proliferation of licensing regimes by the addition of layer upon layer of different regulatory requirements has long been something the FSF has argued against. The fact that a financial institution could be required to hold each of the following licences for what is essentially the same activity is regulatory overreach at best and completely nonsensical at worst:

- acting as a manager of a registered scheme (other than a restricted scheme)
- acting as an independent trustee of a restricted scheme

- acting as a provider of a financial advice service
- acting as a provider of a discretionary investment management service
- acting as a derivatives issuer in respect of a regulated offer of derivatives that is made by the derivatives issuer
- acting as a financial institution (from 31 March 2025, introduced by the CoFI Act).

The overlapping compliance requirements of each licence including separate reports to the same regulator (the Financial Markets Authority – the FMA) on the same activity just does not make sense. Many of these licensed entities, such as NBDTs and credit-related insurers, are also required to be licensed or registered by the Reserve Bank of New Zealand (the RBNZ) for their prudential and liquidity standards which again includes another reporting regime.

The more this reporting can be standardised across each of the market services an entity provides and across each of the regulators to which they report the better for the achievement of the aims of streamlining regulation of financial services, removing undue compliance costs for financial markets participants and improving outcomes for consumers.

Hopefully, the move to a single market services licence will minimise much of this overlap, particularly with respect to reporting requirements.

New powers for change in control approval and on-site inspection:

The FSF notes that the Bill introduces change in control approval provisions that require firms holding a licence under the FMCA to obtain regulatory approval from the FMA before certain changes in firms take effect. The Bill also introduces on-site inspection powers for the FMA to, without notice, enter and remain at a place of business for compliance monitoring purposes. The FSF has no fundamental objection to either of these provisions.

Part 1 Amendments to Financial Markets Conduct Act 2013

The FSF will now provide comment on clauses in the Bill of particular relevance to our members. Where we have not provided comment on a particular clause, it can be taken that the FSF agrees with the content of the clause as written in the Bill.

- The FSF supports the change in *Clause 4* of the Bill which amends section 6 of the Act to replace the definition of “financial advice product” with a definition of “FMC product” to reflect the fact that the definition is used in some contexts other than in relation to financial advice.
- The FSF supports the change in *Clause 17* of the Bill which amends section 399 of the Act to provide for the need for only one market services licence to be held by a business but with the requirement that the licence must specify which market service(s) to which it relates.
- The FSF notes the changes outlined in *Clause 18* of the Bill which will insert *new subpart 3A of Part 6* into the act which will require market services licence holders to obtain the FMA’s approval for certain changes.

Whilst the FSF has no issue with these requirements, it should be noted that these are not requirements to which the majority of our members who are Non-Deposit-Taking Lending Institutions (NDLIs) are currently subject.

Apart from the introduction in the Credit Contracts and Consumer Finance Act 2003 (the CCCFA) amendments of December 2021, of the requirement that all consumer credit providers must be certified by the Commerce Commission that their directors and senior managers are fit and proper persons to hold their office, NDLIs have not previously been required to seek approval from any regulator for any of the activities that this new subpart now introduces.

Given the fact that NDLIs have previously had the autonomy to run their businesses as they see fit (within the boundaries of their legal and regulatory compliance obligations), the FSF would be concerned if the FMA was to take an overly officious or intrusive approach to providing their approval in these circumstances. This is particularly so as NDLIs are not deposit-takers or securities issuers making deposit or investment offerings to the general public. These changes are significantly more onerous for NDLIs than the current certification requirements under the CCCFA.

The FSF also notes new section 421J(b) relating to the need for the FMA to consult the RBNZ when considering a request for approval if the licensee or authorised body is a regulated entity (within the meaning of section 5 of the Reserve Bank of New Zealand Act 2021). This is essentially expecting that the licensee or authorised body must obtain the approval of both the FMA and the RBNZ for the same activity.

The FSF would be concerned if the approval was given by one regulator but withheld by the other or if the approval was unnecessarily delayed by the fact that both regulators are required to give their approval. In our view there needs to be an expectation on both regulatory bodies that they will consider such applications and provide their decisions with respect to them in a timely manner so that the entity can go about their business without undue delay.

The FSF is however pleased that section 421K(2) requires the FMA to give notice of its decision to the licensee or authorised body and any other person who made the request within 20 working days after receiving all the information it requires to make its decisions. However, the fact that section 421I allows the FMA to arrange for a suitably qualified person to prepare a report on a proposed change could delay such a decision as well as impose further expense on the applicant. This is therefore a power that should be used sparingly to avoid delay and unnecessary expense in the FSF's view.

- As previously stated, the FSF supports the proposed changes to the minimum requirements of the Fair Conduct Programme as outlined in *clause 19* of the Bill which amends section 446J of the Act.
- The FSF supports the amendment in *clause 21* of the Bill to amend section 446P(2) of the Act to ensure the definition is more consistent with concepts in the Insurance (Prudential

Supervision) Act 2010. The FSF believes that consistent definitions across all relevant pieces of legislation, improves clarity resulting in more effective legislation.

Part 2 Amendments to Financial Markets Authority Act 2011

- The FSF notes that *clause 56* inserts new sections 28A to 28D into the Financial Markets Authority Act 2011 (the Act) to give the FMA an on-site inspection power similar to the power that the RBNZ has under subpart 2 of Part 4 of the Deposit Takers Act 2023.

Whilst the FSF has no objection to the FMA being granted this power in order to be able to enforce their regulatory responsibilities, we would expect that it be used sparingly and only when absolutely necessary – i.e. when all other alternative means have been exhausted or are deemed to be inadequate or inappropriate. There does not seem to be any requirement in these new sections that the FMA apply the power on that basis and the FSF considers that consideration should be given to ensuring that the use of the power is limited to such circumstances.

Thank you again for the opportunity for the FSF to make this submission on behalf of our members. Please do not hesitate to contact me if you wish to discuss this further.



Lyn McMorran
EXECUTIVE DIRECTOR

Appendix A



FSF Membership List as at January 2025

Non-Bank Deposit Takers, Specialist Housing/Property Lenders, Credit-related Insurance Providers	Vehicle Lenders Finance Companies/ Leasing Providers	Finance Companies/ Diversified Lenders	Finance Companies/ Diversified Lenders contd/ Insurance Premium Funders	Insurance Premium Funders contd/ Social Impact Lenders / Affiliate Members	Affiliate Members contd.
<u>Non-Bank Deposit Takers</u> Finance Direct Limited ➤ Lending Crowd General Finance (BB) Gold Band Finance (B+) ➤ Loan Co Mutual Credit Finance (B) <u>Credit Unions/Building Societies</u> First Credit Union (BB) Nelson Building Society (BB+) Police and Families Credit Union (BB+) <u>Specialist Housing/Property Lenders</u> Basecorp Finance Limited First Mortgage Managers Ltd. Liberty Financial Limited Pepper NZ Limited Resimac NZ Limited <u>Credit-related Insurance Providers</u> Protecta Insurance Provident Insurance Corporation Ltd	Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alpha Financial Services Community Financial Services Go Car Finance Ltd Honda Financial Services Kubota New Zealand Ltd Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Scania Finance NZ Limited Toyota Finance NZ ➤ Mazda Finance Yamaha Motor Finance <u>Leasing Providers</u> Custom Fleet Euro Rate Leasing Limited Fleet Partners NZ Ltd ORIX New Zealand SG Fleet	<u>Finance Companies & Diversified Lenders</u> AfterPay Avanti Finance ➤ Branded Financial Basalt Group Blackbird Finance Caterpillar Financial Services NZ Ltd Centracorp Finance 2000 DebtManagers Finance Now ➤ The Warehouse Financial Services ➤ SBS Insurance Future Finance Geneva Finance Harmony Humm Group Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Lifestyle Money NZ Ltd	Limelight Group Mainland Finance Limited Metro Finance Nectar NZ Limited NZ Finance Ltd Personal Loan Corporation Pioneer Finance Prospa NZ Ltd Speirs Finance Group (L &F) ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance UDC Finance Limited Yes Finance Limited Zip Co NZ Finance Limited <u>Insurance Premium Funders</u> Arteva Funding NZ Ltd Elantis Premium Funding NZ Ltd Financial Synergy Limited	Hunter Premium Funding IQumulate Premium Funding Rothbury Instalment Services <u>Social Impact Lenders</u> Money Sweetspot Ltd <u>Affiliate Members</u> Alfa Financial Software American Express AML Solutions Limited Buddle Findlay Chapman Tripp Credisense Ltd Deloitte EY FinTech NZ Finzsoft Happy Prime Limited IDCARE Ltd KPMG Loansmart Ltd Match me Money Ltd	Motor Trade Association Odessa Technology Inc. One Partner Limited PWC Sense Partners Simpson Western Summer Lawyers <u>Symphonix</u> <u>Credit Reporting, Debt Collection Agencies.</u> Centrix Credit Corp ➤ Baycorp ➤ Collection House Debtworks (NZ) Limited Equifax Gravity Credit Management Limited Illion Quadrant Group (NZ) Ltd Recoveries Corp NZ Ltd Total 99 members



FINANCIAL SERVICES FEDERATION (FSF)

THE NON-BANK FINANCE INDUSTRY SECTOR - 2024



49%

NON-BANK

BANK

of personal consumer loans are financed by the non-bank sector represented by FSF members.

Setting industry standards for responsible lending, promoting compliance and consumer awareness.

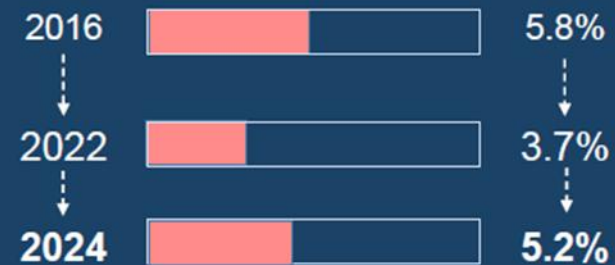
Only **6** dispute resolution complaints upheld or partially upheld from 1 April 2023 to 31 March 2024

Percent of Loan Requests Approved

48%



Percent of Loan Book in Arrears



KEY FACTS: THE NON-BANK FINANCE INDUSTRY SECTOR

FSF Members (as at 31 Mar 2024)

Number of Members	97
Number of Employees	3,353
Applications Processed	1,102,266
Loan Requests Approved	527,382
Percent of Loan Book in Arrears	5.2%
Loan Disputes Upheld	6

Bank Sector (as at 31 Mar 2024)

Value of Mortgage Loans	\$352B
Value of Consumer Loans	\$7.7B
Value of Business Loans	\$125B

Non-Bank Sector Share (as at 31 Mar 2024)

% of Total Mortgage Loans	0.3%
% of Total Consumer Loans	48.5%
% of Total Business Loans	8.7%

Insurance Credit Related (as at 31 Mar 2024)

Number of Employees	250
Number of Policies	300,209
Gross Claims (annual)	\$22.1M

Consumer Loans (as at 31 Mar 2024)

Total Value of Loans	\$8.2B
Number of Customers	1,537,502
Number of Loans	1,735,718
Average Loan Size	\$4,746

Total Value of Loans:

Mortgage	\$979M
Vehicle Loan	\$4,036M
Unsecured	\$2,129M
Other Security	\$361M
Lease Finance	\$733M

Average Value of Loan:

Mortgage	\$134,675
Vehicle Loan	\$13,337
Unsecured	\$1,588
Other Security	\$4,245

Business Loans (as at 31 Mar 2024)

Total Value of Loans	\$11.9B
Number of Customers	131,161
Number of Loans	202,921
Average Loan Size	\$58,894

Total Value of Loans:

Mortgage	\$4,092M
Vehicle Loan	\$2,989M
Unsecured	\$262M
Other Security	\$2,846M
Lease Finance	\$1,763M

Average Value of Loan:

Mortgage	\$766,527
Vehicle Loan	\$37,362
Unsecured	\$48,107
Other Security	\$54,724
Lease Finance	\$29,308