

1 August 2016

Authorised Financial Advisers in NZ — key findings

Summary of industry trends from AFA information returns
1 July 2013 to 30 June 2015

For the full interactive version of this report
please see our website.

Purpose of this report

There are believed to be more than 20,000 advisers in New Zealand, most of whom do not have to register individually as they are linked to a Qualifying Financial Entity (generally large organisations such as banks, fund managers and brokers). Of those who do have to register, more than 6000 do not have to be authorised by the FMA as they deal with simple products. Around 1800 are Authorised Financial Advisers (AFAs), who are authorised by the FMA to give advice on more complex products and services, and are expected to comply with higher competence and conduct standards.

AFAs are required to submit an annual AFA Information Return to the FMA. This report summarises the most relevant information from the first two years of returns, to June 2015, giving some initial data on trends in the industry for the first time.

We expect this report will not only help AFAs to better understand their own sector, but it will also ensure a better understanding of the sector by the public and market commentators.

The next returns are due by 30 September and will help give a fuller picture of how the industry is evolving.

Key findings

Profile of AFAs

- There were about 1800 AFAs licensed in New Zealand as at June 2015, but only 1540 of these were actively working with clients – a slight decrease on 2014.
- One-third of AFAs have more than 20 years' experience, and nearly two-thirds have more than 10 years' experience. However, the number of new people entering the industry has fallen.
- Around 34% of AFAs are either employed by, or linked to, a Qualified Financial Entity (QFE). These people are more likely to have less experience than AFAs not employed by a QFE. There are more than 50 organisations currently registered as QFEs, including banks, fund managers and brokers.
- More than 90% of active AFAs have not recorded any complaints about their services. The number who recorded one or more complaints fell during the year.

Clients

- Of the AFAs who are managing their clients' investments, those with fewer than 50 clients have increased, while those with more than 200 clients have dropped markedly.
- 82% of AFAs advised fewer than 50 new clients during the year, a slight increase during the year.
- Those with more than 150 new clients have fallen from 5% to 3%.
- The split between retail and wholesale clients is largely unchanged, except there has been a slight increase in wholesale clients for Discretionary Investment Management Services (DIMS).
- A higher proportion of clients have been getting a class service only for financial advice, and for DIMS. A lower proportion have been getting a class service for investment planning.
- There has been a substantial increase in the number of AFAs with between \$21 million and \$100 million in client assets. However, those with more than \$100 million in client assets have fallen.

How AFAs are paid

- Around 12% of AFAs receive more than half their revenue from one product provider — a slight decrease on the previous year.
- The main method of remuneration for AFAs is commission from product providers (43%), followed by bonuses (40%), and fixed fees or an hourly rate from clients (33%). The number receiving commission has declined during the year, as has the number receiving fixed fees or an hourly rate from clients.
- Many AFAs continue to accept ‘soft commissions’ such as business coaching, entertainment, international travel and vouchers from product providers.

KiwiSaver & insurance

- Two-thirds of AFAs provided advice to their clients about KiwiSaver during the year. However, more than half provided advice about joining or transferring to just one scheme during the year. Only 5% provided advice about more than five KiwiSaver schemes.
- While many AFAs provided advice to clients about transferring between KiwiSaver schemes, most were for a small number of clients (no more than 10).
- Many AFAs (41%) are providing advice to their clients about insurance. The number providing a high volume of financial advice about insurance product replacement appears to have declined during the year.

Extra services

- Around two-thirds of clients who were advised by an AFA to acquire or switch their mortgage to a particular provider actually did so during the year. Around 11% of AFAs had 25 or more clients follow this advice.
- A substantial proportion of AFAs continue to provide financial advice to their clients about acquiring ‘alternative’ products, including below-investment-grade bonds (27%), private equity (14%) and hedge funds (11%). This may be driven by a desire to chase higher returns in a low-rate market.
- A quarter of AFAs have recommended eligible clients withdraw their KiwiSaver savings once they retire — an increase on the previous year. This may reflect increasing numbers of clients who are eligible to make retirement withdrawals.

Compliance rate

There were 1828 AFAs licensed at 30 June 2015, of whom 50 have since deregistered. We received 1763 valid returns, which is a compliance rate of 99%. Filing is mandatory so we are following up with those who did not submit a return, and will consider enforcement action for ongoing non-compliance.