Crystal ball (part 1)

Tony Vidler | Strictly Business | 05 November 2013

Recently, I spent time reflecting carefully on how regulatory reform has worked thus far in New Zealand and where things might head next – which involved dusting off my own crystal ball and shaking up the variables.

Studying a crystal-ball to reveal the future is a tricky business, and any decent crystal ball has a disclaimer:

> "Warning: The Future consists of Variables released Randomly by The Universe. Not all Variables have been included. Visions may not logically flow on from previous actual events experienced in The Universe. Use Crystal Ball Visions at own risk. Visions of The Future may change from Peering to Peering."

The results of my crystal ball gazing?

1. Actually... The reformists got the financial services reform structure pretty right, so far.

2. Regulation, or prescribed market activity, will not fundamentally achieve the primary objectives we were all hoping for. Not ever.

3. There are even more profound changes to come.

THE JOURNEY SO FAR

Industry stakeholders get a combined score of 7 out of 10 for the work done so far. There has been significant reform that is reasonably well embedded, so far, and it has required the co-operation of consumers, advisers, financial institutions, regulators, and political parties from both ends of the spectrum. It has been a delicate balance of:

- Building, guiding, leading and shaping structural reform;
- Dedicating enormous amounts of attention and resources to cleaning up and remedying legacy issues; and,
- Creating, monitoring and enforcing cultural and behavioral change within the industry at large.

That is a massive mandate to achieve in a period of only about four to five years.

New Zealand has not suffered the adviser, institutional and consumer dislocation experienced in the UK. Nor have we created the incredibly prescriptive, expensive and litigious compliance process Australia has developed. Nor do we have the level of navel-gazing, back-biting and fierce industry infighting that seems to be occurring in the USA with heavily polarised ideologies in conflict.

In typical Kiwi fashion, the main players here have come up with a system that is (so far) "firm but fair". It is relatively light-handed by international comparison and provides great autonomy and personal responsibility, while leaving it to the market to apply its own Number 8 wire thinking on how the objectives should be best be achieved.

Big ticks all round. Well done us!

HERE AND NOW

Despite the excellent framework and the progress made thus far, there are issues yet to be resolved and all stakeholders have serious concerns of their own.

The point of unification in financial services reform is generating greater consumer confidence and participation in the use of financial services and financial products. In plain English - everyone around the table wants New Zealanders to have better lives, with more security, personal autonomy and responsibility, and prosperity.

Rules, regulation, prescribed learning curriculums - these cannot dictate or create higher levels prosperity. We are already witnessing that.

Market growth in financial product use barely keeps up with the inflation rate, I daresay and, if we were to strip KiwiSaver out of the product mix, we would have seen a net decline in consumer participation in the use of financial products in the last five years, I believe.

There is general acceptance in the industry now that regulation is only one element of the solution. The two main strategies continually called for to achieve higher consumer participation are more active public awareness campaigns explaining how much better industry is today and more financial literacy. These are widely perceived to be the two most viable strategies to use next in the pursuit of the goal.

Throwing millions of dollars and thousands of hours at either will make no noticeable difference in the degree to which consumers use financial services or financial products. We can provide the basic financial literacy lessons in a single tweet (140 characters):

> "Learn more to earn more. Spend less than you earn. Save every payday. Only borrow for appreciating assets. Know your borrowing costs."

Consumers largely know this and yet the knowledge does not change their behavior. Broadcasting this message in ever more clever ways will not change the behavior of more than 4,000,000 people inside one or two generations.

A change in behaviour will require more than a government department or two with a few million for marketing. It will require a united effort from all industry stakeholders working collaboratively. Each primary stakeholder group has something to contribute to creating apirational behavior and self-sufficiency for the majority of the population - but it requires co-operation and co-ordination.

And that requires an apolitical approach, vision and leadership which logically must come from the area with the lowest vested interest - the regulator.

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