

ASSURITY

# DEMYSTIFYING FAIR CONDUCT

The Conduct of Financial Institutions (CoFI) Legislation

# CONDUCT OF FINANCIAL INSTITUTIONS.

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## What is the CoFI Legislation?

In 2018, the FMA and RBNZ began undertaking joint reviews into the conduct and culture of banks and insurers in New Zealand. Those reviews found banks and insurers did not have systems and processes in place to **ensure consumers were treated fairly**.

Commonly known as **CoFI**, The Financial Markets (Conduct of Institutions) Amendment Act 2022 is the government's response to the findings, designed to protect consumers by putting them at the forefront of institutions' decisions and actions.

The new regulations ensure financial institutions comply with **the fair conduct principle** when providing **relevant services** to consumers. Fair conduct is the central principle of the legislation, supporting consumers to get the financial products and services they need throughout their life, when they need it, and have trust and confidence it will do what it should.

All financial institutions offering relevant services will be required to develop and maintain a **Fair Conduct Programme (FCP)** in accordance with the CoFI Act. Applicants will need to have established an FCP and provide this to the FMA when applying for a **financial institution license**.

## Who does this affect?

The Act in its entirety applies to the below financial institutions and their intermediaries.

- Registered Banks
- Licensed Insurers
- Licensed non-bank deposit takers





# WHAT THIS MEANS FOR FINANCIAL INSTITUTIONS AND INTERMEDIARIES.

## Fair Conduct Programmes (FCPs)

In accordance with The Act, individual Financial Institutions must establish, implement, and maintain an effective **Fair Conduct Programme** in order to obtain a **financial institutions license**. FCPs must be in writing and include effective policies, processes, systems, and controls that are designed to ensure compliance with the **fair conduct principle**;

- clearly defined roles, responsibilities, and accountability arrangements for managing compliance risks
- initial and regular ongoing training for employees on relevant services/ products and communication of the FCP
- methods for assessing effectiveness, and identifying deficiencies
- maintenance of records assessing and documenting organisational performance and compliance with the FCP and board observance of requirements.

Fair Conduct Programmes must also consider and establish **incentives** that reward **intermediaries** such as brokers or financial advisors while at the same time recognising the **best interests of consumers**.

## The Fair Conduct Principle

Treating consumers fairly is the overarching principle of CoFI and the requirement to do so includes;

- paying due regard to their interests
- acting ethically, transparently and in good faith
- assisting consumers to make informed decisions
- ensuring the services and products that the financial institution provides are likely to meet the requirements and objectives of likely consumers
- not subjecting consumers to unfair pressure or tactics or undue influence.



# COFI LEGISLATION IMPLEMENTATION TIMELINE.

From the start of the new CoFI regime, any registered bank, licensed insurer, or licensed non-bank deposit taker will need to hold a financial institution license in respect of their general conduct toward consumers to continue operating.

Key dates below have been published by the FMA:

June 2022

The Financial Markets (Conduct of Institutions) Amendment Act 2022 ratified into law

Early 2023

FMA to publish draft intermediated distribution guidance for consultation  
MBIE expected to confirm the **date that the new regime will come into force** and **fees that will be charged for license applications**

25<sup>th</sup> July 2023

Financial Institution **license applications open** for submission

Early 2025

**New regime comes into force.**  
All financial institutions covered by The Act will be required to have a documented FCP and financial institution license to continue operating

# NAVIGATING THE AMBIGUITY OF REGULATION CHANGE.

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**In order to front foot CoFI and comply by 2025, financial services organisations must determine how to quantify good customer outcomes for their business.**

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Developing a comprehensive FCP will require measures across the complete customer journey, demonstrating fair conduct. Yet, quantifying customer outcomes is inherently difficult, and ambiguous, particularly where a diverse mix of products and services are offered to customers with individual circumstances changing over time. Organisations must also resolve the issue of appropriately incentivising sales teams and their intermediaries without disadvantaging customers.

Navigating this regulatory change requires you to consider the following four aspects.

## **CUSTOMER CENTRICITY**

By going directly to the people who really matter, customers, and working across teams, including frontline staff and intermediaries, we can build a real definition of good customer outcomes specific to each organisation.

## **END-TO-END EXPERIENCE**

It is important to ensure customers and end-users have a delightful experience throughout their interaction with your organisation. It's having a holistic view of the customer's journey.

## **DATA & METRICS**

We need to identify the right set of informative measures that can provide an indication of how the organisation is delivering fairly for the customers.

## **CONTINUOUS MONITORING**

This is not an activity that is performed once and completed. It's the start of a journey, and you need to have mechanisms and dashboards created to ensure continuous monitoring of the identified measurements to ensure the customers are constantly being treated fairly.





# TAKE IT IN YOUR STRIDE.

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**New regulations can create uncertainty and put value at risk, but they also create an opportunity that unlocks new growth levers for your business.**

Assurity Consulting's Design and Innovation Team can support your organisation to develop and operationalise new compliance requirements to rapidly to prepare for 2025.

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We start first with our customer centric approach to define what fair conduct means for your organisation, and most importantly, your customers.

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CoFI compliance strengthens your organisation with a competitive boost, putting your customer at the centre. Our consultants help you capitalise on that opportunity, and develop FCPs that both comply with the new regulations and create new value by developing innovative, customer-focused services that drive commercial growth.



# ASSURITY CONSULTING SUPPORTING YOUR BUSINESS THROUGH OUR 5-STEP INITIATIVE:



- 1** Define what 'fair conduct' means for your organisation and customers
- 2** Identify key actions for change across your teams and intermediaries
- 3** Develop and roll-out critical training for your teams and intermediaries
- 4** Measure KPIs for success with your customers, either direct or indirect
- 5** Operationalise your FCP across your teams and intermediaries for continued success



# DEMYSTIFY COFI AND TAKE CONTROL TODAY.

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**Get your business ready for CoFI with Assurity's Design & Innovation team. We'll help you demystify fair conduct for your organisation and customers to create a comprehensive FCP with an engagement over 8-10 weeks to fit your schedule.**

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Our Design & Innovation consultants work across your teams, including frontline staff and intermediaries, building a definition of good customer outcomes specific to your organisation. We also go directly to the people who really matter: Your customers.

Through in-depth empathy research and on-going analysis and insights, Assurity delves deep into customer needs, helping you understand the behaviours which contribute to positive and negative outcomes.

By reviewing current products, services, and incentives the team can rapidly prototype and test potential new models with your customers and teams. Measurable outputs are identified, so your executives and Board have the right information to measure performance against legislative requirements.

This is an intensive process requiring a high level of commitment from participants, delving deep into business issues in the quest for problem identification and resolution.

Key outcomes go beyond meeting legislative obligations, extending to creating improved experiences for customers and enhancing the competitive edge.



8-10 week engagement to  
fit your schedule



In-depth empathy research,  
on-going analysis and insights



Rapid prototyping and testing  
with your customers



Measurable outputs



# CASE STUDY.

## DELIVERING GOOD CUSTOMER OUTCOMES FOR ANZ

### CHALLENGE

The Delivering Good Customer Outcomes workstream was initiated as part of the bank's response to the FMA and Reserve Bank following their review into the conduct and culture of financial institutions.

### APPROACH

We adopted a **Human-Centred Design** (HCD) approach to focus efforts on **defining and measuring good customer outcomes**. We conducted research to better understand the actions that lead to good (or poor) customer outcomes and how we might measure those outcomes, and the underlying mechanisms for achieving them. **We adopted a principles-based approach to delivering good customer outcomes, designed to aid sound decision-making by management and the board.**

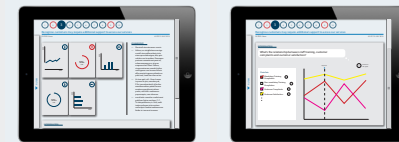
### IMPACT

- Good Customer Outcomes were defined and buy-in from bank-wide stakeholders.
- Definition supported by ten principles and a measurement framework designed to track the outcomes.
- Developed two interdependent models for assessing the progress in delivering good customer outcomes:
  - A **dashboard of key indicators** based on data accessed from core systems across the bank.
  - A **maturity model for assessing the capacity to deliver against each principle** based on current or planned activities and initiatives.



### DESIGN CHALLENGE

How might we define and measure good customer outcomes bank wide?



Dashboard Prototype



Maturity Model Prototype

**ASSURITY**

# LET'S TALK

Build a comprehensive understanding of the new CoFI regime, and learn how our Design and Innovation consultants can help you define good customer outcomes specific to your organisation.



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