



**Social Policy &
Parliamentary Unit**
Working for the eradication of poverty in New Zealand

Consultation: Fair Outcomes for Consumers and Markets
Financial Markets Authority (FMA)
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The Salvation Army Te Ope Whakaora New Zealand, Fiji, Tonga, and Samoa Territory
01 March 2024

Summary

The Salvation Army (TSA) supports the FMA's proposed approach to embedding a regulatory approach that focusses on fair outcomes for consumers and markets. As a Social Service which provides financial mentoring our primary focus is on the wellbeing of vulnerable consumers. Whilst we support the fairer outcomes approach, we acknowledge that such theoretical approach needs to be able to translate to practical and tangible outcomes for vulnerable consumers. Therefore, we have used Payment Protection Insurance for motor vehicles as an example to how we view these proposed outcomes and approach and the potential of such approach to mitigate the harms created such detrimental products

Background

1. The mission of The Salvation Army is to care for people, transform lives and reform society through God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for one hundred and forty years. It provides a wide range of practical social, community and faith-based services around the country.
2. The Salvation Army combined services support around 150,000 people annually. In the year to June 2023, these services included providing around 83,000 food parcels to 36,000 families and individuals, providing around 5,000 people with short-or long-term housing, some 2,900 families and individuals supported with social work or counselling, over 6,500 people supported to deal with alcohol, drug or gambling addictions, court and prison chaplains helped 5,000 people.
3. Our primary interest in engaging with the FMA is due to our work in the building financial capacity area. The Salvation Army provides financial mentoring across the country we have 41 staff at 29 locations. In the year ending June 2023, our financial mentors supported 3076 individuals through 7852 one on-one sessions. In addition, 5433 dependents of the people we saw benefitted indirectly. It is primarily through the work of our financial mentors we see the lack of regulation to safeguard vulnerable consumers.
4. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army in Partnership with Andrew Mitchell who is a Financial Mentor Team Lead for Royal Oak Community Ministries. The SPPU works towards the eradication of poverty by encouraging policies and practices that strengthen the social framework of New Zealand. This

submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's New Zealand Fiji, Tonga, and Samoa Territory.

Responses to the Consultation Questions

1. *Is the way we have described our outcomes-focused approach to regulation clear, and do you understand how a focus on outcomes will be reflected in our work? Please explain.*

As both a church and a social service provider, we support the outcomes-focused approach. We believe this method ensures that the intended outcomes drive the approach of the FMA, akin to a bottom-up strategy which we perceive as the most effective way to make long lasting benefits for communities.

We resonate with the following quote from Samantha Barrass -

“Fair outcomes should be at the heart of everything we do – for the FMA as well as the industry. It will likely require new ways of thinking and different approaches. This is a journey we need to go on together.”

We place particular emphasis on the final sentence, highlighting the necessity for this journey to be undertaken in partnership with communities.

2. *What are your views on the proposed fair outcomes for consumers and markets? To what extent do you think the proposed fair outcomes will bring benefits for consumers, providers and markets?*

TSA's primary focus is on the wellbeing of vulnerable consumers. We have seen a myriad of challenges our whanau have faced as consumers because the fair outcomes (1-5, 6 and 7 not applicable to many we support) are currently non-existent in certain products and services.

For the purposes of this consultation, we would like to focus on Payment Protection Insurance (PPI) sold by car dealers as a practical example of how the proposed fairer outcomes can make a difference to those we support. PPI is an add-on insurance sold by the car dealers on behalf of insurers or lenders at the same time finance options are used to purchase the car. Car bought on finance primarily impact poorer New Zealanders¹. This premium paid by the borrower is split roughly equally between the insurer and the car dealer. Over the life of the loan the finance company receives interest on the upfront premium.

3. *What are your views on Outcome 1: Consumers have access to appropriate products and services that meet their needs?*

Overall, we support ensuring access to financial products for all consumers particularly regarding financial products that are necessities to function in society like bank accounts. TSA provides reintegration services for people leaving prison and we have highlighted the

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https://www.salvationarmy.org.nz/sites/default/files/files/%5Bfile_field%3Atype%5D/sppu_addoninsurance_may2022_v4.pdf

challenges in regard to access to bank accounts as a challenge for ensuring successful reintegration².

However, we also highlight the consumer protection element of this outcome which we think is essential particularly in relation to PPI and such financial products. Consumers should be protected from financial products that provide no value for money. The probability of having a successful claim with PPI is about 1-2% - financial products such as these are a rip-off that disproportionately targets poorer consumers.

4. *What are your views on Outcome 2: Consumers receive useful information that aids good decisions?*

For many individuals we support the lack of understanding of what they have signed up for or the commitments required of them when accessing financial products results in them falling into debt. We have seen this in many areas such as accessing buy-now pay later schemes or uninvited direct sales.

Regarding PPI many of our clients are focused on buying a car. They generally don't look closely at the details of the loan contract, and often purchase PPI inadvertently. For many vulnerable consumers, lenders need to ensure consumers are aware of the risks and full costs of certain financial products. This currently does not happen.

5. *What are your views on Outcome 3: Consumers receive fair value for money?*

We agree that consumers should receive fair value for money. We highlighted previously that PPI is a very poor value product with only 1-2% having a successful claim. A report by the Commerce Commission³ showed that across 3 years consumers paid \$91m in retail premiums for PPI but only received \$7m in claims. These consumers ultimately are paying for a product that they will not be able benefit from be of the restrictive nature of claims.

6. *What are your views on Outcome 4: Consumers can trust providers to act in their interests?*

TSA supports vulnerable consumers and unfortunately those we support have low levels of trust for many providers because they are not concerned with the interest of consumers. Our clients receive very little value from purchasing PPI. The product serves the interests of the insurers, car dealers and finance companies, not the interests of our clients. We support outcome four overall, but we believe there is significant work that needs to be done to ensure that trust is developed with the most vulnerable consumers.

7. *What are your views on Outcome 5: Consumers receive quality ongoing care?*

We support this as we believe all consumers need to receive ongoing quality and care. We have many instances that we have seen where this is not the case. Many of our financial

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https://www.salvationarmy.org.nz/sites/default/files/uploads/2023/10Oct/sppu_catch22_reintegration_nov2023_final.pdf

³ https://comcom.govt.nz/__data/assets/pdf_file/0037/269947/Motor-vehicle-financing-and-add-ons-review-10-November-2021.pdf

mentors are often struggling in their advocacy for our whanau with lenders who are not lenient or consider the complexity some consumers are facing.

In the case of PPI, the full PPI premium is paid at the beginning of the loan contract. There is no further contact regarding the product from either the insurer, the car dealer or the finance company.

We do also want to highlight what outcome five looks like when it is implemented successfully – Mercury has a Here to Help Team which supports their customers who are struggling to pay their bill – the bottom line is the lights will stay on as long as customers are able to let Mercury know they are struggling and work alongside them. This is ultimately a part of their consumer care policy – all providers should have a consumer care policy.

9. *What are your views on Outcome 7: Markets enable sustainable innovation and growth?*

The competitive aspect of the PPI market involves insurers competing against each other by offering higher commissions to the car dealers. Our clients do not seek out PPI as it is an add-on product, so there is not a competitive market in any sense.

14. *Do you have any comments in relation to how a move towards a more outcomes-focused approach to regulation should influence how we seek to address and hold individuals and entities accountable for misconduct?*

We believe an outcomes-focused regulation should be very effective in curtailing providers whose practice and products negatively impact consumers such as the sale of PPI. An outcomes focussed approach sets a benchmark for provider performance but also the level of consumer care required.

16. *If you are a consumer or consumer group, do you understand the fair outcomes and are they relevant to your interactions with the financial sector?*

The fair outcomes are very relevant to the interactions of those we support and with the financial sector. Although this approach in theory is high level, we believe the implementation of this approach will in turn translate to tangible changes in the financial sector that will benefit those we support.

17. *Do you need any further guidance or support from the FMA in relation to outcomes focused regulation or the fair outcomes?*

We would like to further discuss with the FMA about how the application of outcomes-focused regulation to the PPI market will lead to reduced sales of this harmful product and in turn safeguard many vulnerable consumers which we support.