



2001

*Annual Review*



**I · S · I**

The Investment Savings and Insurance Association of New Zealand Inc

## our aims

One of the key objectives of the ISI is to work to secure the future of New Zealanders. The Association does not just represent the interests of its member companies, but works to ensure that New Zealanders are provided with the best options to secure their own future through savings, investment and the protection they receive from insurance.

ISI's formal mission is to play a leading role in the development of the social, economic and regulatory framework in which our members operate with the objectives of:

- promoting a legislative, regulatory and tax environment in which member companies can operate successfully;
- promoting integrity in the industry;
- delivering a strong cohesive industry body; and
- enhancing the image and reputation of the industry.

**Standing (left to right)** David Whyte (American International), John Drabble (AMP Financial Services), Ian Hendry (Sovereign), Christine Scott (Royal&Sun Alliance) Tom Gallagher (WestpacTrust), Mike Newton (BT Funds Management)

**Seated (left to right)** Paul Fyfe (Armstrong Jones), Vance Arkinstall Chief Executive (ISI)

**Absent** Graham Duston (ANZ Funds Management), Ross McEwan (AXA New Zealand), Rodger Murphy (BNZ Investments and Insurance)



# key points

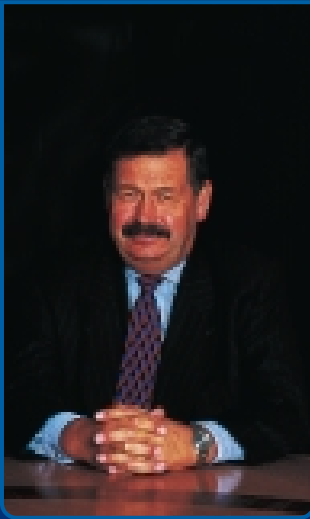
## ISI

- ISI is increasingly consulted on, and actively involved in reviews of legislation or policy that affect members.
- Encouragement for retirement savings is part of the mainstream political agenda for the first time in more than 15 years and ISI has helped shape the debate on the nature and extent of possible policy.
- ISI contributed to the Tax Review 2001 which has highlighted the over-investment in housing in New Zealand and significantly raised the level of public debate on the different tax treatment of competing forms of investment and the low level of personal saving.
- There has been excellent progress towards resolving taxation difficulties associated with unit trusts and group investment funds.

## Industry

- A tax incentive of six cents in the dollar was introduced in September 2000 for members of employer sponsored superannuation schemes who earn more than \$60,000 a year – the first time in nearly 20 years that such incentives have been used.
- Unlisted retail investment funds under management totalled \$17.34 billion as at 30 June 2001, up \$370 million (2.2%) on the previous year.
- Unit Trusts grew by \$1.4 billion, and small increases were recorded in Group Investment Funds (\$50 million) and Superannuation Funds (\$26 million), but these gains were partially offset by net outflows of \$260 million in Insurance Bonds
- The net funds inflow to unlisted retail managed funds, totalling \$1.217 billion for the year to 30 June 2001, was nearly 40 percent up on the \$ 874 million recorded for the previous year.

## from the *Chairman*



*New Zealand is unique in having a fully universal public pension, and is also the only country with a Taxed-Taxed-Exempt regime for private savings.*

One of the key objectives of the Investment Savings and Insurance Association continues to be reduction of the compliance difficulties and tax distortions that impede our members in their provision of long-term collective investments and risk protection.

ISI has significantly raised its profile with politicians in the past twelve months by regularly and proactively presenting the industry position, particularly in the areas of superannuation policy, tax treatment of savings and securities regulation. In addition it has developed a co-operative working relationship with officials in the areas that have most impact on the services provided by our members.

The financial services industry in New Zealand is increasingly being drawn into the global market-place, competing with off-shore companies as well as those based in this country. This has implications for the Government as it considers the appropriate tax treatment and regulation of the New Zealand-based providers.

In the past New Zealand has often been first in the world with innovative policies subsequently adopted by other countries (particularly in the area of social security). However, this has not been the case with public and private provision for retirement income. New Zealand is unique in having a fully universal public pension, and is also the only country with a Taxed-Taxed-Exempt regime for private savings.

While the ISI may be viewed by some as a self-interested industry body, it has for some years been advocating the removal of distortions in the tax system. We still believe a 'first principles' review of what might constitute an ideal taxation regime is the best starting point for policy development. However, we also recognise that such a perfect regime may be difficult to achieve straight away. In this regard, we accept the concept of incremental moves that gradually remove the current disincentives concerning collective investments.

In respect of the Tax Review 2001, we have such an opportunity for a 'first principles' review, in which we can consider a range of taxation alternatives. Already there has been a fairly emotional reaction to the issues raised for discussion by the Tax Review Committee.

The ISI may not necessarily agree with all of the options, but we do believe they should be discussed in a thorough, open and intellectually rigorous manner. We look forward to some robust recommendations when the Committee's final report is released, and the opportunity for further discussion in the coming year.

We are also encouraged by some recognition from the current Government that it is in the country's

interests to increase the level of national savings - and that alternatives may be required in order to 'kickstart' this savings habit. We have been pleased to share our thoughts on this issue with officials from Treasury and Inland Revenue as part of the consultation announced by the Minister in this year's Budget

The reason for an industry association, such as the ISI, is to ensure a body that can take a wider and longer-term view than may be possible from an individual company. This is not always a comfortable position to be in, as the association must tread a careful path between the competing views of members while attempting to balance both short and long-term priorities. Nevertheless, it is useful - both for association members and for officials/policymakers - to have a forum for discussion as well as an opportunity to put forward industry-representative views.

In the ISI we are fortunate to have a very high calibre Board who bring a range of skills to bear on policy development and who are committed to the continuing development of the industry. They are also ably supported by our staff, Vance, Deborah and Marilyn, whose dedication and expertise ensure the ISI is well placed to deal with the ongoing challenges of our industry.

**Paul Fyfe**  
*Chairman*

# the Year in Review

The past year saw major developments in the areas of retirement savings and tax treatment of managed funds and collective investments. ISI actively sought, and was given, a greater voice in the development of policy in these areas. As a result there is reason to believe that New Zealand is now moving in the direction of achieving a policy and legislative environment that supports private saving as well as providing sustainable publicly funded superannuation. The challenge for the coming year is to ensure this potential is translated into actual benefits for New Zealanders.

## Retirement savings

The year under review saw significant changes in the area of retirement savings. First, there was the introduction of a tax incentive for saving for members of employer sponsored superannuation schemes who earn more than \$60,000 a year. Secondly, the Government introduced a Bill to provide for the pre-funding of part of New Zealand Superannuation.

The tax incentive came into being in September 2000. Whilst supporting the 6 cent in the dollar tax break for higher income earners, ISI believes that the same tax advantage should be extended those earning less than \$60,000 a year. This position was put to the Minister of Finance, Dr Michael Cullen, and ISI was able to discuss the issue with officials, together with a range of alternatives they put forward. At the end of the year there was still no agreement on how far the tax incentive should be extended, but we remain hopeful that other taxpayers will gain the advantage. ISI plays a leading role in a group that includes the Retirement Commissioner, Business NZ, the CTU and ASFONZ, which is working with the Government

on ways to improve the provision of superannuation through employer-sponsored schemes. Currently only 17 percent of employers have workplace superannuation schemes in place. ISI strongly believes that work-based savings is the most effective means to increase private savings levels.

At the Select Committee hearings on the New Zealand Superannuation Bill ISI called for an integrated framework for both public and private retirement savings. New Zealand Superannuation represents a safety net, providing basic, no frills income in retirement. We are pleased that a key recommendation of our submission, that "NZ adopt the World Bank 3 pillar approach", is being increasingly recognised by the political parties.

The Minister of Finance has rejected compulsory superannuation, but has supported the need for integration of public and private provision of retirement benefits. ISI remains hopeful of further progress in this area. ISI is not committed either for or against compulsory superannuation but believes that, because it receives consistent support in public opinion surveys, it needs to be considered as part of the overall formula to solve the country's low savings rate.

## Taxation

Important progress was achieved in the taxation area in the year. ISI was again involved in a wide range of taxation issues: a major focus was the Tax Review 2001, otherwise known as the McLeod Tax Review. The first round of submissions to the Review in March 2001 sought to identify basic structural problems within the taxation system and to suggest improvements to the framework. ISI made a comprehensive submission outlining the features of an ideal taxation regime and the essential

elements of a savings-friendly environment. Among the key recommendations were:

- A first preference for a neutral tax environment where different savings vehicles could compete equally.
- In the likely event that this was not possible, use of taxation to remove discrimination against collective investments and to provide a 'kick start' to increase the quality and quantity of long-term private saving.
- A move away from progressive tax to a lower flat rate.
- Resolution of capital-revenue tax boundary issues.

In late June 2001 the McLeod Tax Review presented its initial findings in the form of an issues paper. The report highlighted the over-investment in housing in this country and the need to change the tax regime that encourages investment in this area at the expense of other forms of saving. Some of the Review's proposals were contentious, but they go to the heart of New Zealand's poor personal savings record. At the time we urged politicians not to be dismissive of the report simply because it contains issues that may be difficult to manage politically. We will continue to be actively involved in this debate, and take encouragement from the Finance Minister's undertaking that the Government's tax policy framework for the next two years will have as an aim making "the tax rules between different types of entities more consistent, and to look at whether the tax system creates disincentives to long-term savings."

Other taxation issues during the year were not so high-profile, but had a major impact on the business of our members. These included ISI working closely with IRD to help resolve outstanding unit trust taxation issues, including unit-holder continuity and the



facility to transfer deductible expenses from retail to wholesale unit trusts. The April 2001 Tax Bill addressed a number of these issues. We also made good progress towards agreeing with IRD on an appropriate treatment for GST on management fees of unit trusts.

ISI has enjoyed good access to, and support of, officials on taxation issues, and looks forward to continuing consultation on issues such as the Actuarial Review of Life Office Taxation expected shortly.

## Securities issues

A Review of the Securities Regulations 1983 began mid-2000 with the release of a joint Ministry of Economic Development / Securities Commission document. ISI has been extensively consulted on the first part of the Review, which is concerned with technical issues. Stage two of the Review will cover policy issues and ISI expects to also be fully involved in this. ISI's Legislation Committee also contributed to a Securities Commission document on a proposed binding rulings regime for securities law.

As the June year ended we were involved in preparing submissions on two Ministry of Economic Development discussion papers:

- a review of the functions of the Securities Commission and the Take-overs Panel; and
- the Business Law Reform Bill 2001

and also a Securities Commission consultation paper on their policy in respect of the approval of trustees and statutory supervisors.

## Other legislation and policy

Apart from the issues discussed above, the Association made comments in a large number of other legislation and policy areas. We are increasingly working closely with government at both the officials and political levels on issues that impact on members.

Consultation included:

- The Electronic Transactions Bill
- Review of the Life Insurance Act (1908) and review of the Life Insurance Act Schedules
- The Financial Transactions Reporting Act
- The Ministry of Consumer Affairs' consultation document on "Over indebtedness, Insurance and E-Credit", which is part of a major review of consumer credit law.
- The Take-overs Code
- Class exemptions to the Take-overs Code
- The Coroners' Act 1988
- The Ministerial Panel on Business Compliance Costs
- Tax status of credit unions

The Insurance and Savings Ombudsman Scheme Board is conducting a review of its terms of reference. At the end of the year there were four areas in the draft revised terms of reference on which the ISI and the ISO were working to achieve agreement. We expect that the development of new Terms of Reference will be to the benefit of the ISO Scheme, consumers and participants.

ISI itself has initiated a review of the Association's practice standards – starting with the standards for measurement of investment returns and management expense ratios (MER). Input has been sought from members as well as from other interested bodies such as the Securities Commission and the Institute of Chartered Accountants, and the review is proceeding well.

## Membership and subscriptions

In a year when we delivered very real benefits to members we were also able to both increase membership and reduce the cost of subscriptions. ISI started the year in a very healthy financial position as a result of membership growth in 2000 and reduction of our overheads, mainly through cost sharing with two organisations with which we share many interests - the Health Funds

Association and the Trustee Corporations Association. As a result the Board was able to recommend a 10 percent discount to 2001 subscriptions, without compromising the Association's ability to fully participate in a very busy year of policy reviews and legislative change. ISI welcomed Club Life Ltd as a member in May 2001 and Challenger International (NZ) Ltd in June 2001, bringing membership to 27 with 16 associate members.

## Looking ahead

We have been encouraged by developments over the past year, particularly by the fact that increasing the level of private savings is now on the mainstream political agenda - and by the way our views are actively sought in policy development. We have also enjoyed a higher media profile during the year.

There is every reason to believe the positive environment will continue in 2002 and the key issues will continue to be debated. The challenge will be converting this debate into actual legal and policy changes that will simplify and clarify the tax regime and provide real support for people to save for their retirement.

In the longer term, globalisation of markets will put increasing pressure on New Zealand's light-handed regulation of financial services. Externally driven change will also come from New Zealand's need to conform to standards set by international agencies, such as the International Organisation of Securities Commissions (IOSCO).

We are closely watching the development of regulatory changes overseas, notably those of our close trading partner - Australia.

We are looking forward to another active year representing members' interests.

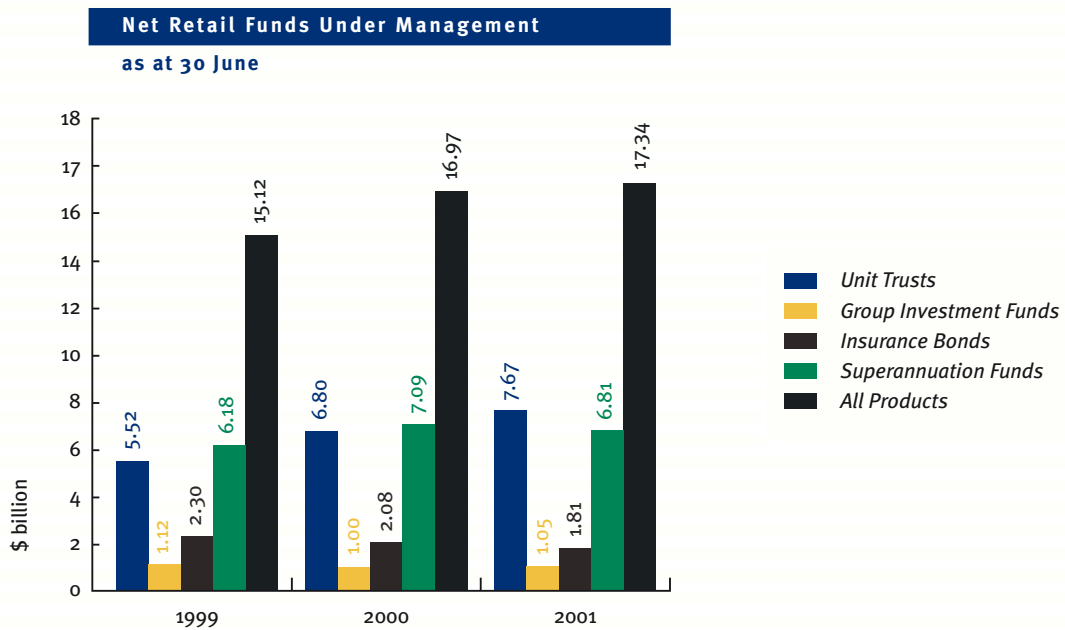
**Vance Arkinstall**  
*Chief Executive*

# Industry overview

## Funds Under Management

Unlisted retail investment funds under management by New Zealand fund managers totalled \$17.34 billion as at 30 June 2001. There was a further \$1.67 billion in Australian unit trusts sold in New Zealand, \$2.33 billion in listed managed investment and \$ 7.10 billion in non-investment linked life insurance.

The net inflow of \$1.217 billion for the year to 30 June 2001 was nearly 40 percent up on the \$ 874 million recorded for the previous year. Unit Trusts grew by \$1.4 billion, and small increases were recorded in Group Investment Funds (\$50 million) and Superannuation Funds (\$26 million), but these gains were partially offset by net outflows of \$260 million in Insurance Bonds



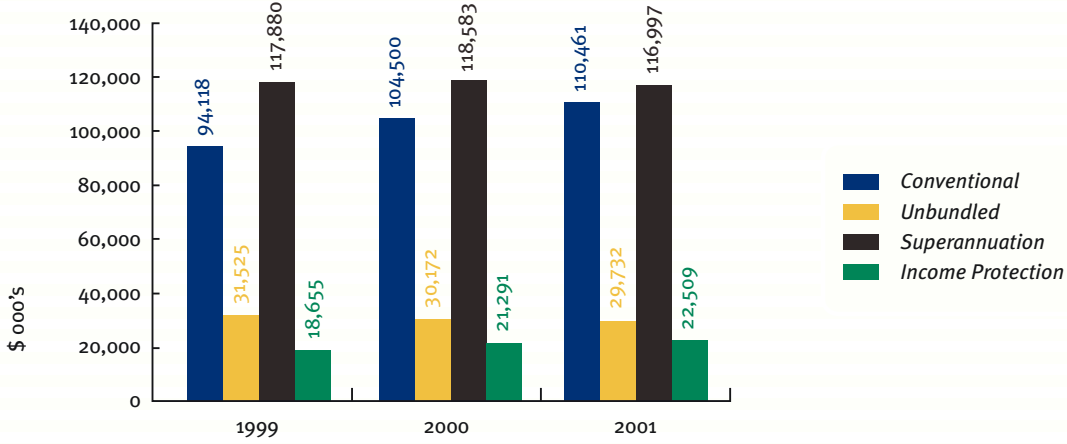
Source: Morningstar Research

<b>Insurance Business</b>				
Years ending 30 June	1999 (\$000's)	2000 (\$000's)	2001 (\$000's)	% Change This Year
<b><i>New Business</i></b>				
Annual Premium Income	162,491	169,572	174,987	3.19
Single Premiums	366,923	245,454	174,995	-28.71
<b><i>Discontinuances of Annual Premium Income</i></b>				
Lapses	6,744	5,498	6,976	26.88
Surrenders	143,641	138,155	146,141	5.78
All Other Discontinuances	12,232	15,029	9,546	-36.48
<b><i>Annual Premium Income In-Force</i></b>	1,081,726	1,092,824	1,092,981	0.01
<b>Superannuation Business</b>				
Years ending 30 June	1999 (\$000's)	2000 (\$000's)	2001 (\$000's)	% Change This Year
<b><i>New Business</i></b>				
Annual Regular Contributions	117,880	118,583	116,997	-1.33
Single Contributions	926,069	733,260	618,915	-15.59
<b><i>Discontinuances of Annual Regular Contributions</i></b>				
Lapses	6,575	3,889	4,579	17.74
Surrenders	32,451	42,556	46,368	8.96
Other Discontinuances	9,402	10,806	10,649	-1.45
Superannuation Scheme Cancellations	23,777	39,902	9,296	-76.70
<b><i>Annual Regular Contributions In-Force</i></b>	658,649	673,826	690,986	2.55
<b>Cash Flow for Insurance and Superannuation Business</b>				
Years ending 30 June	1999 (\$000's)	2000 (\$000's)	2001 (\$000's)	% Change This Year
Premium Income	2,810,798	2,533,097	2,598,603	2.59
Investment Income	1,939,736	1,484,795	212,279	-85.70
<b><i>Sub Total</i></b>	4,750,534	4,017,892	2,810,882	-130.04
Taxes	242,760	136,522	44,771	-67.21
Commissions	228,406	231,154	258,519	11.84
All Other Management Expenses	398,807	400,218	417,754	4.38
Payments to Policy Holders	2,473,587	2,621,988	2,356,668	-10.12
<b><i>Sub Total</i></b>	3,343,560	3,389,882	3,077,712	-9.21
<b><i>Incomings Less Outgoings</i></b>	1,406,974	628,010	-266,830	-142.49

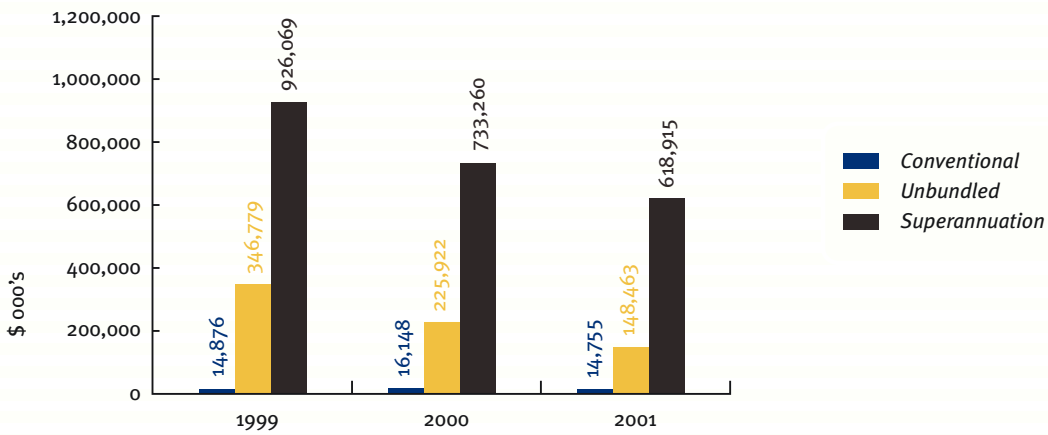
Source: ISI Quarterly Statistics



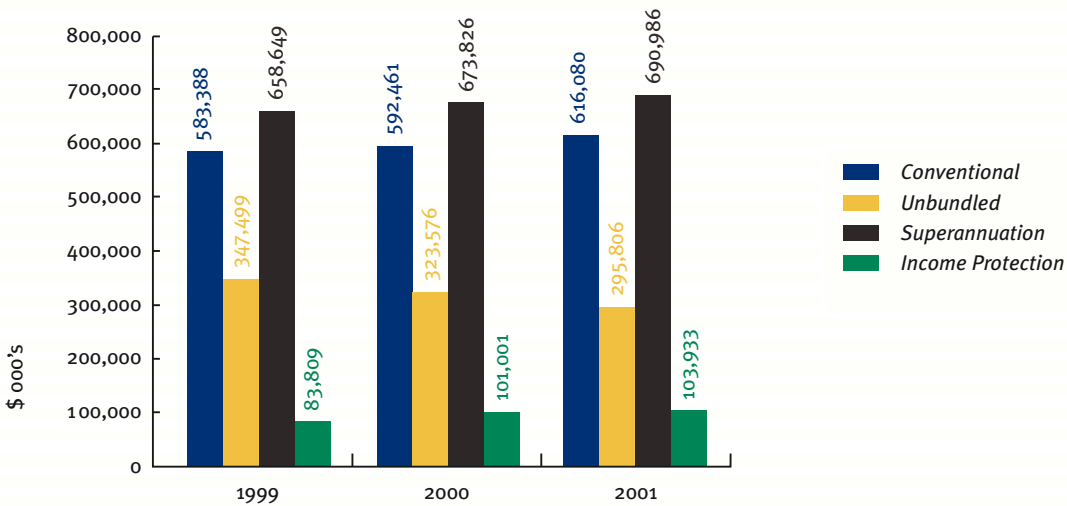
**Regular Annual Premium, New Business by Policy Type**  
for year ending 30 June



**Single Premium, New Business by Policy Type**  
for year ending 30 June



**In Force, Business by Policy Type**  
as at 30 June



## Board of Directors



**Paul Fyfe, *Chairman***

Managing Director, Armstrong Jones (NZ) Ltd. Past member of Superannuation 2000 Taskforce and International Association of Financial Planners Taskforce.



**John Drabble**

General Manager, AMP Financial Services New Zealand. Chairman or director of several subsidiary companies. International experience in financial services industry in the UK and Australia.



**Graham Duston**

General Manager, Marketing for ANZ Funds Management. Joined the ISI Board in February 2001.



**Tom Gallagher**

WestpacTrust Chief Executive. Previously Westpac's Queensland CEO. He has held senior management positions in New Zealand, Japan, Fiji, UK and Australia. Fellow of the Chartered Institute of Banking (UK).



**Ian Hendry**

Group Managing Director, Sovereign Ltd. Co-founder of Sovereign Company in 1989.



**Ross McEwan**

Chief Executive, AXA New Zealand. Past Chairman ISI; graduate of Stanford University Executive Programme and Bachelor of Arts.



**Rodger Murphy**

General Manager, BNZ Investments and Insurance. Background in corporate accounting and risk management areas with offshore experience.



**Mike Newton**

Chief Operating Officer and Director of BT Funds Management (NZ) Ltd. 18 years experience in the funds management business within Australia, UK and New Zealand.



**Christine Scott**

Managing Director, Royal & Sun Alliance. Previously Vice President of the Canadian Institute of Chartered Life Underwriters and Chartered Financial Consultants and a company director in Canada.



**David Whyte**

Vice President & General Manager American International Assurance New Zealand. Industry representative Insurance and Savings Ombudsman Board.

# Directory

## Member Offices as at 30 June 2001

American International Assurance  
AMP Financial Services  
ANZ Funds Management  
Armstrong Jones NZ Ltd  
AXA New Zealand  
Bank of New Zealand  
BT Funds Management Ltd  
Challenger International (NZ) Ltd  
CIGNA Life Insurance NZ Ltd  
Club Life  
Equitable Life Insurance Co Ltd  
Farmers' Mutual Group  
Fidelity Life Assurance Co Ltd  
General & Cologne Life Reinsurance Australasia Ltd  
Gerling Global Reinsurance  
Hannover Life Re of Australasia Ltd  
Medical Assurance Society NZ Ltd  
Munich Reinsurance Co of Australasia Ltd  
National Bank of New Zealand Ltd  
Pacific Life Ltd  
Public Trust  
RGA Reinsurance Co. of Australia Ltd  
Royal SunAlliance Life & Disability Ltd  
Save and Invest Ltd  
Sovereign Ltd  
Swiss Re Life & Health Australia Ltd  
WestpacTrust Financial Services Ltd

## Associate Members

AON Consulting NZ Ltd  
Bell Gully Buddle Weir  
Buddle Findlay  
Burrowes & Co  
Chapman Tripp Sheffield Young  
Davies Financial & Actuarial Ltd  
Deloitte Touche Tohmatsu  
Ernst & Young  
KPMG  
KPMG Legal  
Melville Jessup Weaver  
Morningstar Research Ltd  
Phillips Fox  
PricewaterhouseCoopers  
Russell McVeagh  
Tacit Group Ltd



**Vance Arkinstall**

Chief Executive, Investment Savings and Insurance Association of NZ. Previously Managing Director, Norwich Union Life Insurance NZ Ltd and General Manager Westpac Financial Services.



**Deborah Keating**

Executive Officer, Investment Savings and Insurance Association of NZ

## The Investment Savings and Insurance Association of New Zealand Inc

### Chief Executive

Vance Arkinstall

### Executive Officer

Deborah Keating

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