2007 Annual Review

The Investment Savings and Insurance Association of New Zealand Inc

Annual Review of The Investment Savings and Insurance Association of New Zealand Inc for the Year Ended 30 June 2007












The Investment Savings and Insurance Association of New Zealand Inc

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Deborah Keating *Executive Officer*

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Board of Directors

In order from top left:

Sean Carroll *Chairman*	Asteron Life
Simon Blair	Sovereign Ltd
Daniel Callaghan	Medical Assurance Society
Gail Costa	CIGNA Life Insurance NZ
Tony Hildyard	TOWER New Zealand
Milton Jennings	Fidelity Life Assurance Co Ltd
Marc Lieberman	ING New Zealand Ltd
Fiona Oliver	BT Funds Management Ltd
Glenn Patrick	BNZ Life Insurance Ltd
Jack Regan	AMP Financial Services
Nicholas Scarlett	AIA New Zealand
Ralph Stewart	AXA New Zealand
Grenville Gaskell	Public Trust (not pictured)

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.

key points

ISI supports:

The new tax regime, reducing the impact of tax on investment decisions.

The introducton of KiwiSaver and encouragement for personal savings.

Regulation to increase investors' confidence in financial advice.

- The new taxation regime which becomes effective on 1 October 2007, following passage of the Taxation (Annual Rates, Savings Investment and Miscellaneous Provisions) Bill in December 2006, will remove many of the distortions that have held back investment in collective investments.
- KiwiSaver Act 2006 and the enhancements following the Budget in 2007 will significantly encourage the growth of long-term savings.
- ISI committed extensive resources to the Ministry of Economic Development's Review of Financial Products and Providers and the review of the regulation of financial intermediaries.
- ISI also began consultation with Inland Revenue and Treasury on the review of the taxation of life insurance.
- Over the year ended 30 June 2007, total managed fund assets for the industry grew by 7.5% from $61 billion to $65 billion.
- In force annual premium income for life insurance business increased by 6.9% from $1.26 billion to $1.35 billion.
- In the year to 30 June 2007 ISI members paid policyholders $403.6 million in death benefits, $203.1 million in policy maturity payments and $177.8 million in other benefits such as income replacement.

from the Chairman

The past year has seen an increase in the intensity of activity for ISI and its membership and, in a market environment where so much change is occurring simultaneously, the ISI has continued to demonstrate the value of industry associations. One of the most important roles of an industry body is to ensure that its members' views are heard when policies that will affect the business environment are being discussed. During the past year ISI has been involved in consultation on almost every aspect of our business, with the emphasis being on taxation and savings.

As well as the KiwiSaver Act 2006 and the tax changes in the Taxation (Annual Rates, Savings Investment and Miscellaneous Provisions) Bill 2006, which will become effective on 1 October 2007, we had further major changes announced in the May 2007 Budget.

The tax policy changes are long overdue and follow a path ISI has been recommending for many years. Individuals investing through collective investments will no longer be disadvantaged by over-taxation in comparison with those who invest direct, or via residential property. The KiwiSaver Act 2006 and the enhancements announced in the May Budget this year provide a very welcome level of encouragement for long-term personal saving.

With policy changes on that scale an industry association provides a means of developing a collective view and making stronger representations to policymakers than would be possible for any one industry player.

No one in the industry is complaining, but the demands have been enormous. While ISI has been heavily involved in consultation on policy issues, member companies have also been investing vast amounts of time and expenditure to ensuring they have the systems in place to cope with the changes. ISI is very grateful to the representatives of member companies who also committed their time at an industry level to ensure that the regime changes are as workable as possible in practice.

ISI also committed a great deal of time and energy during the year to participation in discussions groups with officials as part of the Review of Financial Products and Providers. This was a major undertaking – to achieve consistency in approach by looking across the board at the regulation of products and providers. ISI made a submission on each of the nine consultation papers and we now look forward to seeing legislation introduced at the end of 2007 for the first phase of the reforms.

Working within an MMP environment has increased the need for consultation with interested parties as Government policy is being developed and the past year has demonstrated the value of an industry body having good working relationships with many officials and members of Parliament, from Government and other parties. As well as contributing to policy development in the areas mentioned above, ISI has made submissions and/or been consulted on behalf of the industry on issues ranging from Ministry of Justice proposals for anti money laundering legislation to the Human Rights Commission revision of its Insurance Guidelines.

The various regulatory and market dynamics are, in broad terms, positive for the growth prospects of our industry. Importantly, our growth will be a direct consequence of greater access to, confidence in and take-up of the products and services we offer to New Zealanders. Collectively, we have been concerned at the relatively low levels of savings, of provision for retirement, and of insurance coverage in this country. Through a combination of targeted programs (such as KiwiSaver), regulatory and taxation support (for example the PIE regime) and regulation that will promote consumer confidence (which, if applied correctly, will be achieved through the regulation of financial intermediaries), much progress can be made. But there is still much to be done to promote the products and services that this industry delivers, which I believe are heavily undervalued. We need to take positive steps to help people understand the value that can be and is delivered, and at the same time explode some of the myths that surround us.

In the meantime, our work programme to respond to industry change will not abate in the coming year. As well as the wide range of issues flowing from the Review of Financial Products and Providers and the regulation of financial intermediaries, one of the key issues for ISI is the review of life insurance taxation that is currently under way with Inland Revenue and Treasury.

Representing a highly competitive industry with diverse views is not always easy but the results achieved in the past year attest to the value of maintaining a robust industry association and the contribution of my fellow Board members in that endeavour is acknowledged and appreciated.

Sean Carroll
Chairman

the Year in Review

The past year has been one of unprecedented change for the industry. The speed with which these changes have occurred has surprised on occasions, and stretched resources, but they have been welcomed as necessary to grow the industry.

The majority of these changes will provide outcomes that are positive for consumers, for personal savings, for the economy and also for the industry.

Taxation

After a tortuous path, legislation for the new taxation regime was finally passed in December 2006 and comes into effect from 1 October 2007. The 2007 Budget announcements lowering the maximum PIE tax rate to 30 cents (from 1 April 2008) and introducing taxation credits on both individual and employer contributions to KiwiSaver caught the industry by surprise, but a very welcome surprise. The fact that further systems changes were suddenly required to already stretched systems development resources, faded into the background as product providers greeted the first concrete initiatives to encourage personal savings since the 1980s.

The Government announcement to review the taxation on life insurance, however, did not come as a surprise as it has been well signalled for nearly 5 years. Increased taxation, which seems an almost certain outcome, will be a test for the industry and for the country which is already suffering from an underinsurance problem. The industry will be working hard to achieve transitional relief and to ensure that revenue gathering efforts of a new regime do not place life insurance cover outside the reach of New Zealanders.

KiwiSaver

The 2007 Budget introduction of tax credits and phased-in employer contributions will transform KiwiSaver and ensure its success. Within 3 years it is anticipated that a high level of personal savings will be taking place through KiwiSaver products.

The challenge for the industry is to keep the investors informed of their personal savings progress and encourage the media to provide product reporting and analysis that will assist individuals as they progress along a wealth creation path using collective investment products.

Among its many attractive features, KiwiSaver does have a major shortcoming. It does not encourage savers to include life insurance cover, which should be a central part of any long term retirement planning. Life insurance covers the risk that a partner or spouse dies early and before the planned savings fund has been accumulated, leaving the surviving partner or spouse with a serious shortfall. The industry calls on Government to remedy this KiwiSaver design fault.

Regulation

Looking forward, the industry awaits the release of draft legislation for the introduction of Phase I of the Review of Financial Products and Providers and the regulation of financial advisers. Phase I will include registration of products and providers and advisers, regulation of non-bank deposit takers and disputes resolution.

Announcements in respect of Phase II covering regulation of products and providers and collective investments are anticipated mid 2008 with legislation likely early 2009.

The basic model being promoted by the Ministry of Economic Development of co-regulation strikes the right balance. The industry will monitor progress closely to ensure the expected objectives are maintained and will keep a close eye on the detail as it is released to ensure that the new regulation is not excessively compliant driven.

The industry is encouraged by Government statements that these regulatory reforms will enable NZ to comply with international obligations and satisfy mutual recognition requirements with Australia. The industry recognises that the achievement of these objectives will be in the best interests of consumers.

Strategic Planning

The impact of taxation reform, the introduction of KiwiSaver, the Review of Financial Products and Providers and regulation of advisers, have collectively fully utilised available resources and resulted in ISI spending its efforts reacting to policy and taxation-driven events.

The Board has recognised the strategic need for ISI to become more pro-active and assume a stronger role in driving education, policy activities and information for consumers, officials and media. As a result, priority has been given to the development of a detailed communications plan which will be launched in the 4th quarter of 2007.

Overall, ISI is in good heart. The landscape for the industry is in transition in the most positive way, not seen in past decades. We enjoy and value our excellent relationships with policymakers and officials. The future looks bright

Vance Arkinstall
Chief Executive

Industry overview

Funds Under Management

Unlisted retail investment funds under management by New Zealand fund managers as at 30 June 2007 amounted to $18.23 billion, up from $17.87 billion at 30 June 2006*. The total was made up of:

Total FUM ($ millions)

and Change from previous year

Unit trusts	7,676.3	+0.8%
Superannuation trusts	6,374.4	+4.7%
Group investment funds	2,943.2	+0.1%
Insurance bonds	1,236.2	+0.9%

** Source: Morningstar Research Retail Managed Investments Market Share Report*

Despite the overall increase in funds under management, and a positive fund inflow in the March quarter, the Morningstar Research Retail Managed Investments Market Share Report indicated a $345.9 million net outflow of funds during the year to 30 June 2007. As noted last year, this net outflow does not necessarily indicate people deserting the funds management market, but continues a trend away from stand-alone retail schemes into master trusts and wrap accounts which are not included in the Morningstar report.

It is for that reason that we have again included comparisons from the Reserve Bank series which includes wholesale funds and other life insurance funds. The "other funds" category includes funds managed on behalf of charities and non-profit organisations.

Statistics provided by the Reserve Bank show total managed fund assets grew by 7.5% from $60.74 billion at 30 June 2006 to $65.3 billion at 30 June 2007.

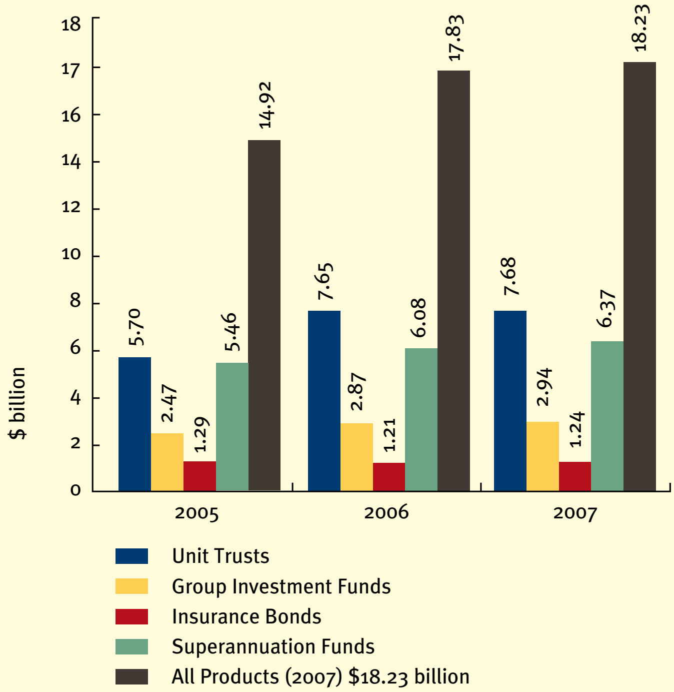
Managed Fund Assets ($ millions)

and Change from previous year

Unit trusts and GIFs	19,564	+6.1%
Life Insurance		
Unitised	1,618	-7.6%
Non-unitised	6,958	-1.0%
Superannuation		
Employee	13,516	+6.3%
Other	6,802	+2.6%
Other Funds	16,842	+18.8%

Source: Reserve Bank Table C15 Managed Fund Assets, by Product Category

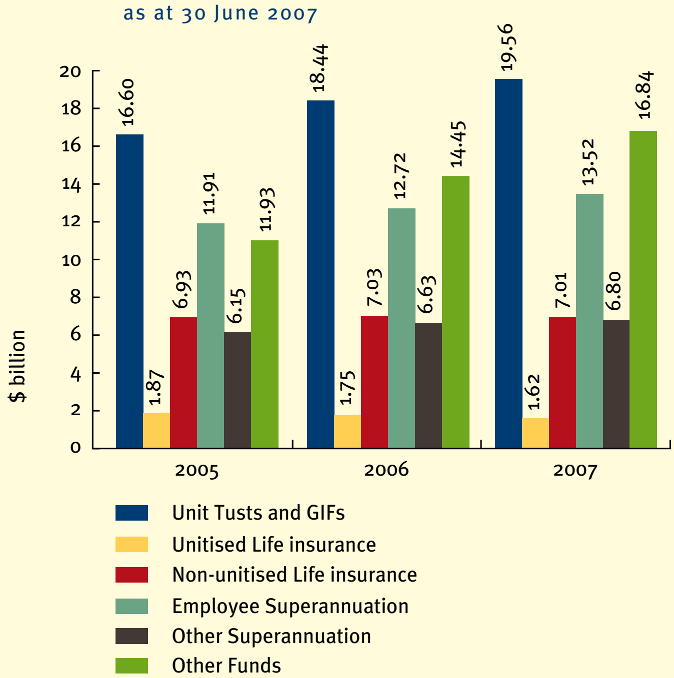
Net Retail Funds Under Management



Source: Morningstar Research Retail Managed Investments Market Share Report

Managed Fund Assets by Product Category

as at 30 June 2007



Source: Reserve Bank Table C15 Managed Fund Assets, by Product Category

Traditional & Risk Business – Product Summary

Year ending 30 June 2007

Product	Annual Premiums $000							Annual Premium Contracts		Single Premium Contracts	
					Discontinuances			Benefit count		New contracts	
	Inforce @ start	Contractual increases plus ad-justments	New Business	Transfers	Claims & expiries	Lapses, surrenders & cancel-ations	Inforce @ end	New	Inforce @ end	Premiums $000	Benefit count
Traditional	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Whole Life & Endowment	157,900	1,743	1,932	7	7,903	6,059	147,621	1,102	419,190	215	0
2006	*167,025*	*1,180*	*2,399*	*1,110*	*7,982*	*5,825*	*157,900*	*1,209*	*448,883*	*162*	*0*
Unbundled	72,261	-271	412	0	2,196	2,263	67,944	539	48,239	0	0
2006	*73,294*	*3,804*	*345*	*0*	*2,635*	*2,546*	*72,261*	*388*	*57,364*	*0*	*0*
Risk											
Term	552,776	40,853	77,673	156	2,110	30,988	608,960	184,691	1,149,045	24,042	35,515
2006	*501,350*	*36,560*	*73,034*	*-957*	*1,718*	*55,502*	*552,776*	*167,007*	*1,200,942*	*14,100*	*24,459*
Guaranteed Acceptance	25,993	2,591	2,958	0	529	2,328	28,682	10,211	103,544	0	0
2006	*23,526*	*539*	*3,016*	*1,621*	*456*	*2,251*	*25,993*	*11,170*	*108,423*	*0*	*0*
Trauma	110,408	10,639	24,685	169	384	15,911	129,607	71,752	362,141	0	0
2006	*92,520*	*7,930*	*23,349*	*-49*	*256*	*13,087*	*110,408*	*64,924*	*311,720*	*0*	*0*
Replacement Income	171,854	13,735	26,474	-1,098	445	25,358	185,155	63,477	318,634	0	0
2006	*158,450*	*13,619*	*24,637*	*-926*	*194*	*23,741*	*171,854*	*55,640*	*310,054*	*0*	*0*
Lump Sum Disablement	23,639	5,698	4,668	32	131	3,837	30,069	30,223	163,979	0	0
2006	*20,063*	*2,353*	*4,422*	*520*	*73*	*3,635*	*23,639*	*21,969*	*114,767*	*0*	*0*
Accidental Death	18,395	-3,150	1,249	1	439	1,637	14,416	9,133	181,353	0	0
2006	*20,183*	*-1,013*	*2,708*	*-527*	*609*	*2,349*	*18,395*	*18,775*	*225,821*	*0*	*0*
Credit Insurance	50,536	80	17,590	0	60	14,874	53,273	101,990	333,002	16,548	24,055
2006	*46,175*	*315*	*17,669*	*0*	*50*	*13,575*	*50,536*	*91,290*	*324,041*	*11,101*	*19,594*
Group											
Death & Disablement	59,109	3,819	6,217	0	12	7,669	61,463	5	123	0	0
2006	*51,463*	*3,933*	*8,204*	*1,384*	*5*	*5,874*	*59,109*	*18*	*161*	*0*	*0*
Replacement Income	18,885	1,790	1,912	0	0	1,312	21,274	1	3	0	0
2006	*15,662*	*2,081*	*1,238*	*0*	*0*	*95*	*18,885*	*0*	*2*	*0*	*0*
Trauma	1,738	224	133	0	0	-174	2,270	3	13	0	0
2006	*1,510*	*68*	*12*	*0*	*0*	*-146*	*1,738*	*0*	*16*	*0*	*0*

Benefits Paid

Year ending 30 June 2007

Product		Amount paid $000 Death	Maturity	Other Benefits
Traditional				
Whole Life & Endowment		84,326	192,377	8,021
	2006	*77,008*	*196,858*	*12,948*
Unbundled		5,126	10,795	5,021
	2006	*7,113*	*12,028*	*6,507*
Annuities		0	40	21,725
	2006	*0*	*0*	*26,580*
Risk				
Term Deposit Bonds		235,191	-26	905
	2006	*220,469*	*-468*	*657*
Guaranteed Acceptance		4,335	0	0
	2006	*3,886*	*0*	*0*
Trauma		12,886	0	37,375
	2006	*13,865*	*0*	*34,207*
Replacement Income		15,693	0	45,229
	2006	*14,867*	*0*	*44,391*
Lump Sum Disablement		729	0	7,943
	2006	*6,100*	*0*	*5,239*
Accidental Death		1,008	0	151
	2006	*3,100*	*365*	*206*
Medical		6,161	0	35,117
	2006	*5,456*	*0*	*28,892*
Credit Insurance		4,900	0	7,082
	2006	*2,889*	*0*	*3,950*
Group				
Death & Disablement		28,647	0	3,939
	2006	*30,368*	*0*	*755*
Replacement Income		4,224	0	4,906
	2006	*3,790*	*0*	*2,773*
Trauma		420	0	433
	2006	*174*	*0*	*560*
Totals		403,646	203,186	177,847

Note: 'Maturity' includes return of premiums on cash back policies.
'Other Benefits' includes benefits being paid periodically but excludes surrenders.

Acknowledgements

The ISI relies heavily on the willingness of member companies to participate in consultation on industry issues. The past year has been particularly busy and we would like to acknowledge the contribution the following people have made by their participation in committees and working groups in key areas:

Industry Regulation/Legislation

Carolyn Harding	*AIA*
Michael Hewes	*AIA*
Jonathan Falloon	*AMP Financial Services*
Therese Singleton	*AMP Financial Services*
Louise Peters	*AMP Financial Services*
Greg Bird	*AMP Financial Services*
David Harrop	*Asteron*
Richard Latta	*Asteron*
Mark Ennis	*AXA New Zealand*
Elizabeth Rinckes	*AXA New Zealand*
Michelle Lawson	*AXA New Zealand*
Fleur Nicholas	*AXA New Zealand*
Mark Todd	*Bell Gully Buddle Weir*
Rod Plimmer	*BNZ*
Michael Burrowes	*Burrowes and Co.*
Sarah Johnstone	*BT Funds Management (NZ) Ltd*
Tim Williams	*Chapman Tripp Sheffield Young*
Gregg Dell	*ING NZ*
Carolyn Mapuna	*CIGNA*
Grant Mackay	*CIGNA*
John Smith	*Fidelity Life*
Wayne Becker	*ING NZ Ltd*
Mary Potter	*ING NZ Ltd*
Nigel Jackson	*ING NZ Ltd*
Richard Dean	*ING NZ Ltd*
Merv Chan	*Mercer*
Alasdair McBeth	*Phillips Fox*
David Drillien	*Sovereign*
Patrick Middleton	*Spicers*
Peter Conroy	*Tower*
Steve Boomert	*Tower*
Suzanne de Vere	*Tower*
Robert Gatward	*Tower*
Margaret Cantwell	*Westpac*

Accounting/Actuarial

Maarten Romijn	*AMP Financial Services*
Dean Norton	*AMP Financial Services*
Scott Hamilton	*ASB Group*
Eric Judd	*ING NZ Ltd*
Jeremy Nicoll	*ING NZ Ltd*
Bill Wilkinson	*KPMG*
Lisa Crooke	*PricewaterhouseCoopers*
Ian Perera	*Sovereign Ltd*
Daryl Hayes	*Tower*
Herwig Raubal	*Tower*

Human Rights

Murray Amies	*AIA*
Nadine Tereora	*AIA*
Andre Hermans	*AMP Financial Services*
Anne Lord	*AMP Financial Services*
Sean Carroll	*Asteron*
Anthony Vriens	*Asteron*
Fleur Nicholas	*AXA New Zealand*
Viv Mutimer	*Medical Assurance*
Stephen Potter	*Sovereign Ltd*
Grant Hill	*Tower New Zealand*

Superannuation/KiwiSaver

Greg Camm	*AMP Financial Services*
Roger Perry	*AMP Financial Services*
Jonathan Falloon	*AMP Financial Services*
Ian Miller	*AMP Financial Services*
Deborah Groufsky	*AXA New Zealand*
David Franks	*AXA New Zealand*
Allan Hogg	*AXA New Zealand*
Ralph Stewart	*AXA New Zealand*
Peter Lee	*Fidelity Life*
Marc Lieberman	*ING NZ Ltd*
David Boyle	*ING NZ Ltd*
Nigel Jackson	*ING NZ Ltd*
Peter Winsley	*ING NZ Ltd*
Rodney Strong	*Jacques Martin (NZ) Ltd*
Grant Weston	*Mercers*
Pauline McCann	*Sovereign Ltd*
Tony Hildyard	*Tower New Zealand*
Robert Gatward	*Tower New Zealand*

Taxation

Nicholas Scarlett	*AIA*
Brent Wright	*AIA*
Michael Hewes	*AIA*
Adele Smith	*ANZ/National Bank*
Richard Cox	*ASB Bank*
Jonathan Lee	*AMP Financial Services*
Simon Pennington	*AMP Financial Services*
Karen Scheirlinck	*AMP Financial Services*
Ben Weston	*AMP Financial Services*
Lee Mauger	*AMP Financial Services*
Greg Grant	*AMP Capital*
Drew Herriott	*AXA New Zealand*
Tim Steel	*Bank of New Zealand*
Lisa Lam	*Bravura Solutions*
Donald Wong	*Deloitte Touche Tohmatsu*
Matthew Hanley	*Ernst & Young*
Milton Jennings	*Fidelity Life*
Naomi Ballantyne	*ING Life*
Irene Singh	*ING NZ*
Peter Winsley	*ING NZ*
Maurice McLaren	*Investment Link*
Bob Costa	*Jacques Martin NZ Ltd*
Tony Lines	*Kensington Swan*
Paul Dunne	*KPMG*
Peter Birmingham	*Medical Assurance*
Paul Mersi	*PricewaterhouseCoopers*
Michael Heffernan	*Promina*
Damien Smith	*Public Trust*
Robyn Mills	*Sovereign Ltd*
Sandra Baird	*Tower*
Susan Taylor	*Tower*
Dave Moloney	*Trustees Executors*
Dave Jennings	*Trustees Executors*
David Clement	*Westpac*

Directory

ISI Members as at 30 June 2007

American International Assurance
AMP Financial Services
Asteron Life Ltd
AXA New Zealand
BNZ Life Insurance Ltd
BT Funds Management Ltd
CIGNA Life Insurance NZ Ltd
Equitable Group
Fidelity Life Assurance Co Ltd
Gen Re LifeHealth
Hannover Life Re of Australasia Ltd
ING New Zealand Ltd
Medical Assurance Society NZ Ltd
Munich Reinsurance Co of Australasia Ltd
Public Trust
RGA Reinsurance Co of Australia Ltd
Save and Invest Ltd
Sovereign Ltd
Swiss Re Life & Health Australia Ltd
TOWER New Zealand

Associate Members as at 30 June 2007

Bell Gully Buddle Weir
Bravura Solutions
Burrowes & Co
Chapman Tripp Sheffield Young
Davies Financial & Actuarial Ltd
Deloitte Touche Tohmatsu
Ernst & Young
InvestmentLink (New Zealand) Ltd
Kensington Swan
KPMG
Melville Jessup Weaver
Mercer Human Resource Consulting Ltd
Morningstar Research Ltd
Phillips Fox
PricewaterhouseCoopers
Russell Investment Management
Russell McVeagh
Simpson Grierson

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