Annual Review 1998 - Chairman's Report

This Annual Review marks the first full year of operation for the Investment Savings and Insurance Association. There is no doubt the past 12 months have been extremely challenging for the industry with domestic and international events creating volatility in both the economic and political spheres.

Members of the Board have shown a commitment to the Association above and beyond expectations and often while the needs of their own organisations have made significant calls on their time.

Some have gone through demutualisations and subsequent successful stock exchange listings. The industry has also witnessed a number of rationalisations as members have sought greater economies of scale within what is an increasingly competitive environment.

Savings and taxation issues remain as major issues for the Association.

We wholeheartedly support both clarification and simplification of the tax system to ensure overall savings attitudes and behaviours are not influenced by distortionary market signals. Unfortunately, it would be fair to say that recent government initiatives have not exactly been helpful in minimising these effects.

While the proposed tax credit system is better than the current tax treatment of life insurance and superannuation, it is also complex, costly and lacking in universal application. And the removal of the ability of superannuation funds to take the tax-free gains from index funds seems ill-conceived and penalises savers who use managed funds as their preferred investment vehicle.

Amid growing concern that the Coalition Government had not focused any attention on retirement income policy, the Board decided to take the initiative and launched the *'ISI Report on Retirement Savings: A Wake- Up Call'.* This received a very positive response and has made a significant contribution to the savings debate.

Some positive gains have been achieved this year with the Association continuing to build strong relations with Parliament and key decision-makers. The Association has also significantly raised its public profile and put in place a series of initiatives to communicate its objectives to a much wider audience.

There can be little doubt that the decision to merge the Life Office Association and the Investment Funds Association has paid handsome dividends in terms of the focus and profile the integrated Association has been able to build among its key audiences. The contribution of our outgoing chief executive, Roger Gill, to this process has been substantial and on behalf of all members 1 wish to express to him our sincere appreciation of his efforts and our very best wishes for his future endeavours.

Our challenge for the future will be to continue to effectively represent the financial services sector and maintain the strong profile we have developed, whilst remaining able to adapt to the rapidly changing shape of our industry and its environment.

Ross McEwan
Chairman

Key Features of the Year

- First full year of operation for the ISI
- Securities Commission reviews the law and practices of life insurers
- Compulsory Retirement Savings Scheme comprehensively rejected in a nation-wide referendum
- New disclosure requirements come into force
- ISI Report on Retirement Savings: A Wake-Up Call is launched
- ISI Web site is established
- NZ retail funds under management totalled $14.06 billion for the year to 30 June 1998, up $1.05 billion over the previous year
- Net inflows to retail managed funds totalled $561 million. Insurance bonds continued to trend downwards with a net outflow of funds totalling $204 million
- In force superannuation increased by 5.5 per cent for the year to 30 June 1998
- Single premium business increased by 19 per cent for superannuation and 59 per cent for life insurance

ISI's Wake-Up Call

One of the Association's most successful public activities of the year was the launch of the 'ISI Report on Retirement Savings: A Wake- Up Call'.

Commissioning the research and launching the Report constituted one of the Association's largest public exercises and generated considerable interest from politicians and the media alike.

The overall objective of the ISI Report was to raise awareness amongst the public and politicians of the need for sound, stable policies if New Zealand is to cope with the economic effects of a growing elderly population.

It presented a framework within which effective savings polices should be developed and clearly illustrated the consequences which would flow from any inaction on the Government's part.

The ISI Report also called for more research to be done in areas where a lack of information is inhibiting the development of stable retirement income policies. Such research would include the role of housing as a vehicle for retirement saving, factors which influence the quality of investment and saving decisions, universal entitlement to a public pension versus targeted assistance and research into society's welfare preferences.

Activities that the Association has undertaken to keep the retirement issue alive include:

- Launching the ISI Report to one of the most well-attended Chamber of Commerce lunches in Wellington;

- Briefing the leaders and key spokespeople in all the major political parties about issues contained in the ISI Report, before the launch;
- Developing an on-going media programme to ensure issues are kept in front of the public;
- Putting together generic presentations to be made available to community and interest groups interested in briefing their own members.

ISI Quarterly Statistics Sheet

Insurance Business

Years Ending 30 June	1996 ($000's)	1997 ($000's)	1998 ($000's)	% Change This Year
New Business				
Annual Premium Income	161,912	141,935	142,341	0.29
Single Premiums	347,688	205.890	327,016	58.83
Discontinuance's of Annual Premium Income				
Lapses	38,281	11,538	9,057	-21.83
Surrenders	112,209	100,264	114,990	14.96
Annual Premium Income In-Force	1,072,050	1,079,670	1,081,488	0.17

Superannuation Business

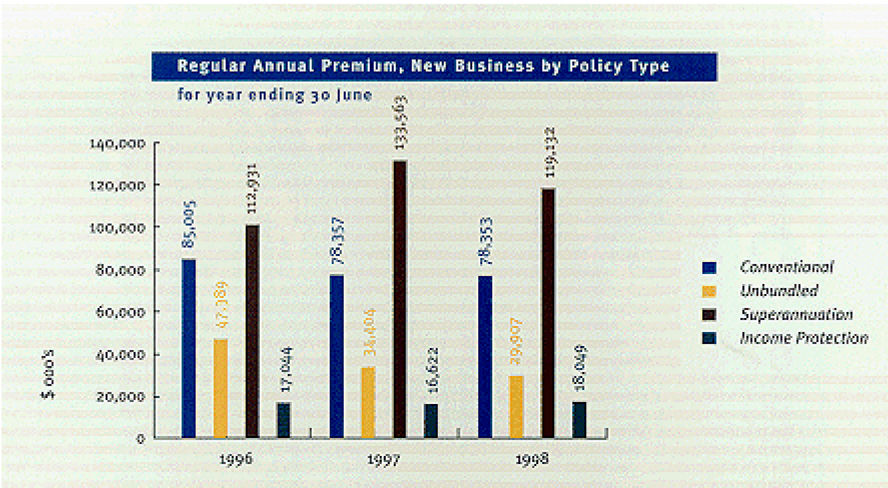
Years Ending 30 June	1996 ($000's)	1997 ($000's)	1998 ($000's)	% Change This Year
New Business				
Annual Premium Income	112,931	133,563	119,132	-10.80
Single Premiums	216,986	407,732	487,148	19.48
Discontinuance's of Annual Premium Income				
Lapses	6,734	8,585	8,214	-4.32
Surrenders	20,982	22,985	26,254	14.22
Superannuation Scheme Cancellations	12,166	7,833	11,152	42.37
Annual Regular Contributions In-Force	524,699	596,731	629,629	5.51

Cash Flow for Insurance and Superannuation Business

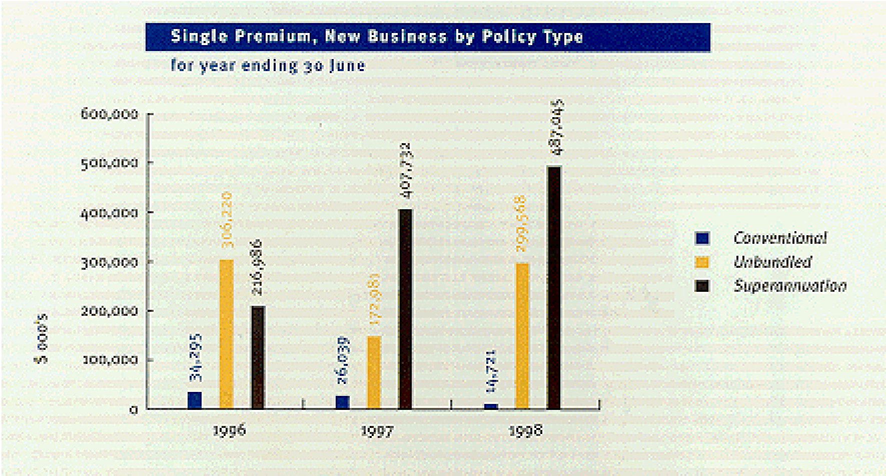
Years Ending 30 June	1996 ($000's)	1997 ($000's)	1998 ($000's)	% Change This Year
Premium Income	2,369,038	2,334,613	2,412,011	3.32
Investment Income	1,312,193	2,725,747	2,267,836	-16.80
Sub Total	3,681,231	5,060,360	4,679,847	-7.52
Taxes	175,745	276,120	154,635	-44.00
Commissions	224,817	216,746	205,458	-5.21
All Other Management Expenses	418,916	444,807	433,288	-2.59
Payments to Policy Holders	2,087,078	2,279,342	2,416,018	6.00
Sub Total	2,906,556	3,217,015	3,209,399	-0.24
Incomings Less Outgoing	774,675	1,843,345	1,470,448	-20.23

Quarterly Statistics Graphs

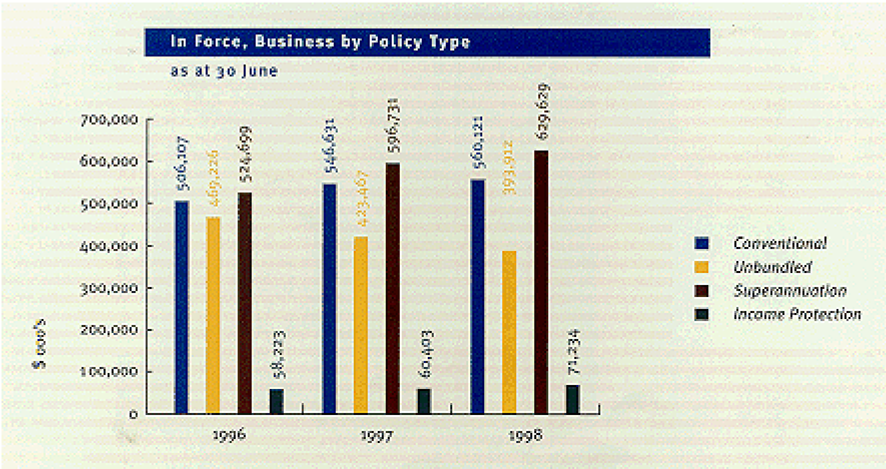
Reguluar Annunal Premium, New Business by Policy Type



Single Premium, New Business by Policy Type



In force, Business by Policy Type



Funds Under Management

Retail investment funds under management for New Zealand fund managers totalled $14.06 billion for the year ended 30 June 1998, with a further $1.37 billion attributed to New Zealand-based investment in Australian Unit Trusts.

The net inflow of $561 million for the year to 3 0 June 1998 was down on the $684 million recorded for the previous June year. Unit Trusts brought in another $652 million but this was balanced by outflows in both Group Investment Funds (GIFS) and Insurance Bonds.

Retail Superannuation Funds saw another $159 million coming in over the year but Insurance Bonds lost $204 million, with their share of retail managed funds dropping from 19 per cent to 16.7 per cent in the year to 30 June 1998.