

Annual Review 1999 - Chairman's Report

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THE ROLE OF INDUSTRY ASSOCIATIONS IS DEVELOPING WITH CHANGES IN THE SHAPE OF THE **NEW ZEALAND MARKET-PLACE, AND IN THE WAY COMPANIES - AND THEIR CUSTOMERS - DO BUSINESS**

Members of the Investment Savings and Insurance Association (ISI) provide a range of financial services to the public, including risk cover such as life insurance or income protection, superannuation, managed funds, as well as mortgages and cash management trusts.

The ISI represents the majority of fund managers and life insurers in New Zealand, and seeks to encourage sustainable government savings policies and a taxation playing field that doesn't discourage the public from saving.

The industry is evolving to meet the needs of its customers at the end of the twentieth century, and into the next, but is hampered in its efforts by the disincentives created by the current legislative framework. Companies can and do design products to address the various protection and savings needs of the population but their uptake will always be limited by the non-neutral environment in which they are issued.

The products with which ISI members seek to meet customers' savings and investment needs may be taxed under any of five different taxation regimes. Coupled with that, investors may be penalised by the effects of capital gains tax which they would not have to pay if they had invested directly and/or by having their investment earnings taxed at the top tax rate, rather than their own lower marginal rate.

The ISI has gone to great lengths to explain to policymakers the impacts that tax and superannuation policies have upon New Zealanders' savings decisions. Although that impact has been acknowledged, no remedy is yet in sight. The ISI and other industry bodies spent considerable time and effort working with Inland Revenue and other officials in the Tax on Life Insurance and Superannuation (TOLIS) working group to decide on the most appropriate regime for taxation on savings in life insurance and superannuation products. While we would have preferred a reduction to the current proxy rate of taxation, rather than the Tax Credit System that was presented to Parliament, it was disappointing that the legislation did not pass, and no changes have been made.

The ISI is always ready to work with Government and Opposition parties to achieve a neutral environment for savings and investment in New Zealand. We believe that certainty about the level of public pension provision in the future would go a long way towards persuading people to accept responsibility for their own income in

retirement. The Retirement Commissioner has educated the public on the need to save. It is now up to whichever parties form the next Government to pull it all together into a generally accepted policy within which New Zealanders can feel confident about making long-term plans.

The ISI Board is deliberately taking a much more pro-active stance than previous industry organisations have done, since we believe that the issue can be resolved to the benefit of New Zealanders.

We are forming increasingly closer relationships with other like-minded industry organisations, to ensure that the financial services industry presents a consistent message to those audiences who have the power to influence its operating environment.

We remain committed to achieving a fairer environment for New Zealanders who wish to save and invest. In this way, we will advance the mission of the ISI, which is:

To play a significant role in the development of the social, economic and regulatory framework in which our members operate, with the objectives of:

- *achieving growth in the industry;*
- *promoting integrity in the industry; and*
- *developing a strong, cohesive industry body.*

On behalf of the members of the ISI, I would like to thank Vance Arkinstall, chief executive, and his staff, for promoting the vision of the ISI, and carrying out the work needed to persuade people of the need for urgent change.

Ross McEwan
Chairman