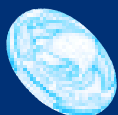




**2000**

*Annual Review*



**I · S · I**

The Investment Savings and Insurance Association of New Zealand Inc

# mission statement

To play a leading role in the development of the social, economic and regulatory framework in which our members operate with 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 (*AIA*), Phil Williams (*ANZ*), Ian Hendry (*Sovereign*), Myles Baron-Hay (*BT Financial Group*), John Drabble (*AMP Financial Services*), Rodger Murphy (*BNZ Investments and Insurance*)

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

**Absent** Ross McEwan (*AXA New Zealand*), Philip Markwick (*Global-e Investments*), Christine Scott (*Royal&Sun Alliance*)



# achievements

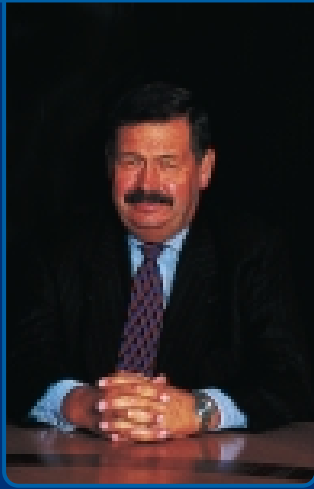
## ISI

- ISI discussion document "Towards an Ideal Taxation Regime" received a positive reception from politicians and officials.
- During the year Ministers and officials increasingly sought out ISI for input on taxation and policy issues, reflecting the growing credibility of the organisation.
- ISI took a leading industry role in lobbying the Finance and Expenditure Committee for changes to fund withdrawal tax provisions of the Taxation (FBT, SSCWT and Remedial Matters) Bill. Significant improvements were gained.
- House views were developed on a range of industry issues.
- The Health Funds Association and Trustee Corporations Association moved to the ISI offices as first steps towards establishment of an umbrella financial services confederation.

## Industry

- Unlisted retail funds under management total \$16.9 billion for the year to 30 June 2000, up \$1.8 billion (12%) over the previous year.
- New regular life insurance premiums increased 4.36% for the year to 30 June 2000.
- Claims settled by the industry to 30 June 2000 totalled \$330 million for death and disability and \$510 million for maturing contracts.
- Net funds inflow to unlisted retail managed funds totalled \$874 million for the year to 30 June 2000, down from \$1.83 billion in the previous year.

## *from the Chairman*



*Much has been achieved over the last twelve months, though many challenges still face our industry as we move into 2001.*

The lack of clear savings policies, and taxation barriers that distort savings, remain the major issues for members of the Investment Savings and Insurance Association.

We continue to seek both clarification and simplification of the taxation system to ensure that private savings attitudes are supported and that behaviours are not influenced by market distortions.

The industry in New Zealand embraces the globalisation of markets and products and is active in its efforts to encourage Government and its advisers to establish a neutral taxation playing field which allows all savings products to compete equally.

During the past 12 months ISI has made excellent progress building relationships with politicians from all parties and importantly with the officials who advise Government.

Political leaders have sought the industry's views on a range of issues. Officials, in particular those from Inland Revenue and Treasury, have consulted frequently, especially on taxation issues. It is clear that the ISI is now recognised as the leading authority on superannuation, savings and life insurance matters.

The dissolution of the Superannuation 2000 Taskforce was an expected outcome of the change of Government. Whilst there was some initial disappointment, we have been encouraged by the signals from the new Government that they are prepared to consider changes to existing policies to increase the levels of private savings that this country so desperately needs. It is very early days, but signs exist that the industry, through ISI, will have the opportunity to work with politicians to develop long-term savings policies. We are ready for that challenge.

Strong efforts have been directed at raising the profile of the ISI in order to communicate the objectives of the membership to a wider audience. The success of these efforts is evident from the regular contact by the media seeking industry views and comment on life insurance, savings and taxation matters.

Last year my predecessor referred to the development of closer relationships with other like-minded organisations to ensure that the financial services industry presents a consistent message to those audiences who have the power to influence the operating environment. The ISI secretariat now share accommodation

with the Health Funds Association and the Trustee Corporations Association. We share issues in common with these Associations and there are considerable overlaps in membership. In the future these relationships will provide opportunities to work together on common interests.

The insurance, savings and investment industry has been well served by its Board and has made a real commitment to developing a clear understanding of the industry position on issues important to the membership. It is this clear understanding that has enabled the industry to contribute with a degree of certainty in consultation with the politicians, officials and the media.

Finally all of the excellent work achieved over the last twelve months is largely due to the efforts of our staff, Vance, Deborah and Marilyn. They have all made a tremendous contribution and through their efforts have set the foundation for greater success in the years ahead.

**Paul Fyfe**  
*Chairman*

# *the Year in Review*

This has been year of contrast involving change and consistency: change in the form of a new government and policy environment; consistency in ISI's efforts to represent the interests of members and influence policy on taxation and retirement savings.

The change of government in November 1999 demonstrated the merit of ISI's cross-party approach. Our first newsletter of 1999 / 2000 discussed meetings with Labour Deputy Leader (and now Finance Minister) Dr Michael Cullen; then Finance Minister Bill English; United Leader Peter Dunne and New Zealand First Leader Winston Peters. Throughout the year we kept in close contact with politicians from all the main parties, and with senior officials working in the areas of taxation, insurance and savings.

As a result, our efforts have been more effective in the months since the election of the Labour-Alliance Government in November 1999 than in any previous period.

The two key factors have been the emphasis we have placed on forming and maintaining a wide circle of relationships with the politicians, with the officials, with like-minded organisations and the quality of our research and understanding. ISI is increasingly recognised by both policy makers and media as a credible authority on investment savings, insurance and taxation matters to the point that ISI has been actively sought-out for input on taxation and policy issues.

## **Taxation issues**

In August 1999 we released the discussion paper 'Towards an Ideal Taxation Regime'. The report was prepared as the basis for discussions with officials and MPs on possible improvements to the taxation system. The report was well received and provided ISI with the opportunity to promote tax reform to a wide range of decision-makers.

Other taxation issues that involved ISI during the year included:

- Inland Revenue's (IRD's) review of the basis of taxation of Life Offices. The process is continuing, with the review likely to report late 2000.
- ISI began work to lobby Government to resolve some of the unit trust taxation issues that have plagued the industry for some time. Chief among these are negative dividends; continuity; FIF regime and Withholding Tax (WHT) credits; and the ability of retail unit trust to pass up expenses to the wholesale level.

- ISI's Taxation Committee also met with IRD to discuss the application of GST to management fees for unit trusts. IRD has deferred action on the issue until a review of GST on financial services. However, we are continuing to work with IRD to achieve greater certainty.
- Clarification was sought regarding the liability of payments to advisors for withholding tax under the Income Tax (Withholding Payments) regulations. IRD are in the process of issuing the July Tax Information Bulletin to clarify this practice.

## **Savings issues**

Savings issues and superannuation in particular continued to exercise ISI during the year, especially following the Election. One of the first actions of the new Labour-Alliance Government was to raise the top personal income tax rate to 39 cents in the dollar, coupled with the announcement that it would make changes to the treatment of employer contributions to superannuation schemes in respect of employees earning more than \$60,000 p.a. The Government's aims are to encourage an increase in genuine retirement savings by higher income earners, while preventing tax avoidance through 'washing' of funds through a superannuation scheme.

The Treasury and IRD officials' initial proposals for protection against abuse of the tax system would have done little to improve the attractions of employer superannuation, but would have loaded extra cost and complexity on employers. ISI vigorously opposed

these proposals, preferring a much simpler option of protecting against taxation avoidance by extending the provisions of the Superannuation Schemes Act and increasing the powers of the Government Actuary to enforce the superannuation legislation.

In the final event Government elected to implement the fund withdrawal tax approach as an anti-avoidance provision. As it was clear that Government could not be swayed from this policy decision, an ISI Taskforce was established to work with the officials and the Finance and Expenditure Committee. This approach proved successful and resulted in major changes to the legislation, retaining the fund withdrawal tax initiatives that Government insisted upon while producing a much more workable outcome for the benefit of employers, scheme trustees and the industry. The outcome provides a basis for genuine salary sacrifice arrangements to be implemented to assist high income earners to increase retirement savings.

Whilst the resultant legislation is complex, it does open the door to the realistic prospect that during 2001 the Government will introduce a tiered rate of SSCWT (Specified Superannuation Contribution Withholding Tax) that contains a small taxation encouragement to all employees to save through registered superannuation. When introduced this will be the first encouragement for superannuation savings in over 10 years.

Other retirement savings issues during the year included:

- At the Finance Minister's request we have prepared a paper setting out the current major disincentives to employer-sponsored superannuation.
- Also at the request of Dr Cullen, ISI prepared a paper identifying the issues that need to be considered in introducing a TET ("Taxed/Exempt/Taxed") regime for private superannuation. The ISI view is that a long-term policy is needed and ad hoc changes should be avoided, unless they represent a significant step in the right direction.
- We have met with the leaders and/or savings spokesperson of all the political parties and we will continue this process of consultation over the coming months. It is clear that political consensus is some way off but flexibility in the views of a number of parties is beginning to emerge.
- ISI has continued to work with the Office of the Retirement Commissioner on a range of issues, including funding of the Retirement Commissioner's Office.

## Y2K

The fact that January 2000 passed with no reported problems is a credit to industry and a result of the huge investment in time and resources in the lead-up to the millennium. ISI represented the sector on the Y2K Readiness Commission.

## The year ahead

Most of the issues above continue to be priorities and ISI will continue to strongly represent the sector's interests in the various reviews of taxation and retirement savings that impact on members. In addition, we will be pro-active in working with officials to improve the savings/investment environment in New Zealand.

Other priority areas are improving services to members and increasing membership, and promoting robust self regulation that will enhance the integrity of the industry and strengthen its reputation with decision-makers. We will also work with the financial media to encourage an increase in quality reporting of progress within the managed funds and life insurance industry.

### Vance Arkinstall

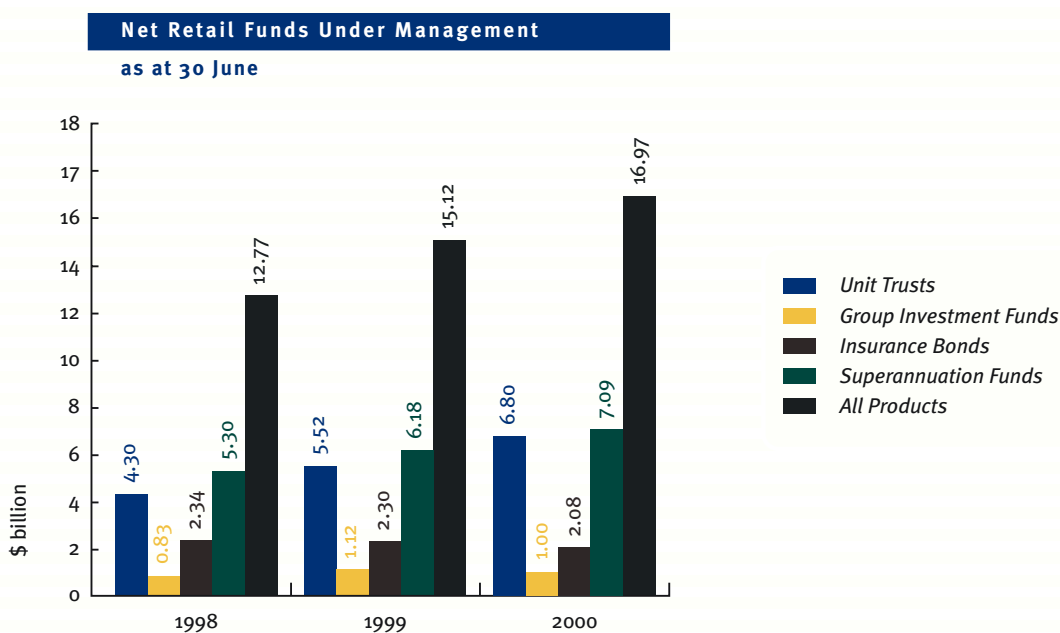
*Chief Executive*

## Funds Under Management

Unlisted retail investment funds under management by New Zealand fund managers as at 30 June 2000 amounted to \$16.97 billion. There was another \$1.81 billion in Australian unit trusts sold in New Zealand, \$2.27 billion in listed managed investments and \$7.66 billion in non-investment linked life insurance.

The net inflow of \$874 million for the year to 30 June 2000 was down on the \$1.83 billion recorded for the previous June year. Unit Trusts brought in \$927 million but this was offset by outflows in both Group Investment Funds (GIFs) and Insurance Bonds.

Unit trusts had the greatest net funds inflow, with superannuation trusts the next most popular category. Funds under management in insurance bonds continued their gradual decline and Group Investment Funds reversed the trend that emerged last year with a net outflow of funds.



Source: Morningstar Research

<b>Insurance Business</b>				
Years ending 30 June	1998 (\$000's)	1999 (\$000's)	2000 (\$000's)	% Change This Year
<b><i>New Business</i></b>				
Annual Premium Income	142,341	162,491	169,572	4.36
Single Premiums	327,016	366,923	245,454	-33.10
<b><i>Discontinuances of Annual Premium Income</i></b>				
Lapses	9,057	6,744	5,498	-18.48
Surrenders	114,990	143,641	138,155	-3.82
All Other Discontinuances	*	12,232	15,029	22.87
<b><i>Annual Premium Income In-Force</i></b>	1,081,488	1,081,726	1,092,824	1.03
<b>Superannuation Business</b>				
Years ending 30 June	1998 (\$000's)	1999 (\$000's)	2000 (\$000's)	% Change This Year
<b><i>New Business</i></b>				
Annual Regular Contributions	119,132	117,880	118,583	0.60
Single Contributions	487,148	926,069	733,260	-20.82
<b><i>Discontinuances of Annual Regular Contributions</i></b>				
Lapses	8,214	6,575	3,889	-40.85
Surrenders	26,254	32,451	42,556	31.14
Other Discontinuances	*	9,402	10,806	14.93
Superannuation Scheme Cancellations	11,152	23,777	39,902	67.82
<b><i>Annual Regular Contributions In-Force</i></b>	629,629	658,649	673,826	2.30
<b>Cash Flow for Insurance and Superannuation Business</b>				
Years ending 30 June	1998 (\$000's)	1999 (\$000's)	2000 (\$000's)	% Change This Year
Premium Income	2,412,011	2,810,798	2,533,097	-9.88
Investment Income	2,267,836	1,939,736	1,484,795	-23.45
<b><i>Sub Total</i></b>	4,679,847	4,750,534	4,017,892	-15.42
Taxes	154,635	242,760	136,522	-43.76
Commissions	205,458	228,406	231,154	1.20
All Other Management Expenses	433,288	398,807	400,218	0.35
Payments to Policy Holders	2,416,018	2,473,587	2,621,988	6.00
<b><i>Sub Total</i></b>	3,209,399	3,343,560	3,389,882	1.39
<b><i>Incomings Less Outgoings</i></b>	1,470,448	1,406,974	628,010	-55.36

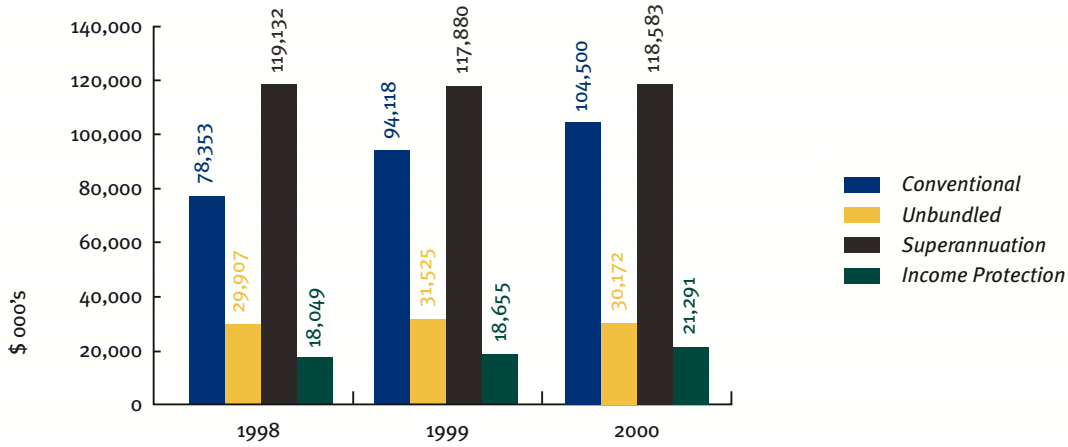
\* not previously reported

Source: ISI Quarterly Statistics



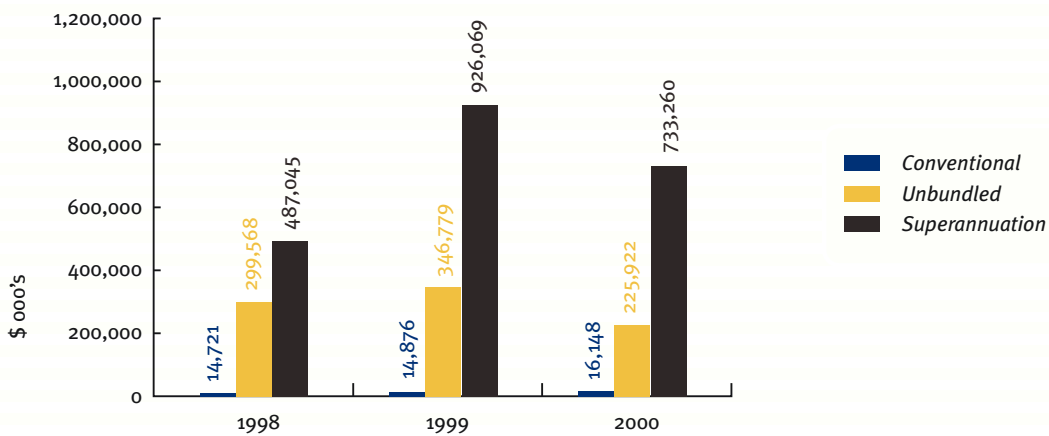
### Regular Annual Premium, New Business by Policy Type

for year ending 30 June



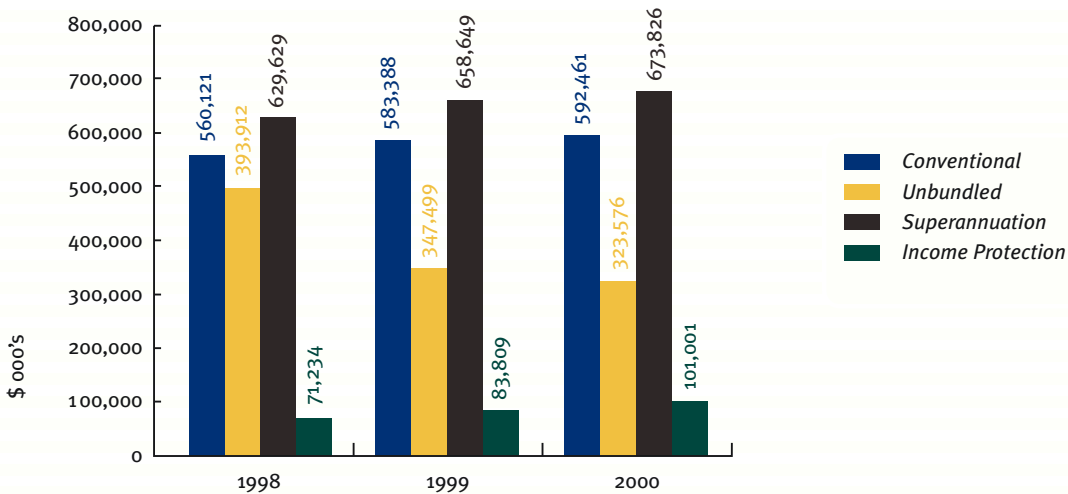
### Single Premium, New Business by Policy Type

for year ending 30 June



### In Force, Business by Policy Type

as at 30 June



## Board of Directors



**Paul Fyfe**

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



**David May**

*Managing Director, Colonial New Zealand. Deputy Chairman ISI. International experience within the Colonial Group since 1968.*



**Myles Baron-Hay**

*Chief Executive, BT Financial Group (NZ) Ltd. Previously Deputy Chairman of the Investment Funds Association of NZ and Member of International Association of Financial Planners Taskforce; director of various BT subsidiary companies.*



**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.*



**Ian Hendry**

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



**Philip Markwick**

*Chief Operating Officer, Global-e Investments. Industry representation on Insurance & Savings Ombudsman Scheme Board.*



**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.*



**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.*



**Phil Williams**

*Head of ANZ's Asset Management Business in New Zealand. 15 years experience in investment business. Trustee of a charitable trust.*



**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 2000

American International Assurance  
AMP Financial Services  
ANZ Funds Management  
Armstrong Jones NZ Ltd  
AXA New Zealand  
Bank of New Zealand  
BT Financial Group  
CIGNA Life Insurance NZ Ltd  
Colonial  
Equitable Life Insurance Co Ltd  
Farmers' Mutual Group  
Fidelity Life Assurance Co Ltd  
Gerling Global Reinsurance  
General & Cologne Life Reinsurance  
Global-e Investments Ltd  
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 Office  
Royal SunAlliance Life Ltd  
Sovereign Ltd  
Swiss Re Life & Health Australia Ltd  
WestpacTrust Financial Services NZ Ltd

## Associate Members

Aon Consulting NZ Limited  
Bell Gully Buddle Weir  
Buddle Findlay  
Burrowes & Co  
Chapman Tripp Sheffield Young  
Deloitte Touche Tohmatsu  
Ernst & Young  
Kensington Swan  
KPMG  
Melville Jessup Weaver  
Morningstar Research  
Phillips Fox  
PricewaterhouseCoopers  
Russell McVeagh McKenzie Bartleet & Co  
State Street NZ Ltd  
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

### **Street Address**

Level 12  
Commercial Union House  
142 Featherston Street  
Wellington  
New Zealand

### **Postal Address**

PO Box 1514  
Wellington 6015  
New Zealand

Telephone 64 4 473 8730

Facsimile 64 4 471 1881

E-mail [isi@isi.org.nz](mailto:isi@isi.org.nz)

Web [www.isi.org.nz](http://www.isi.org.nz)