12 February 2008

Taxation of Life Insurance
C/- Deputy Commissioner, Policy
Policy Advice Division
Inland Revenue Department
P O Box 2198
Wellington

Life Insurance Taxation Review

The Investment Savings and Insurance Association of NZ Inc. ("ISI") appreciates the opportunity to comment on the Government discussion document *Taxation of the life insurance business: proposed new rules.*

We can advise that this submission carries the full consensus of ISI life insurance members.

When responding to the initial discussion paper in May 2007, BNZ Life indicated that it was unable to support the then ISI position. I am pleased to advise that BNZ have specifically advised that they now fully support the attached submission.

Further, in earlier responses to discussion papers some ISI members expressed to officials differences on points of detail. We understand that these members are also in full support of the attached ISI submission.

We have previously expressed concern over the relatively short time-frame for consultation for a project of this magnitude, but we recognise that it is a consequence of Government timing. The short timeframe has unfortunately limited the amount of detail able to be included in the discussion document and consequently led to some difficulty understanding the impact of the proposals contained therein. We make several comments in this submission that arise from this lack of detail.

The industry has greatly appreciated the efforts of officials to consult fully prior to the release of the discussion document in December 2007. We were able to meet with officials on several occasions and found them to be open and willing to discuss the impact of various proposals on the life insurance industry.

The industry does, however, reject the implication in the discussion document that life insurers have been making 'super profits' as a result of the current tax regime. That is demonstrably not the case. In particular, we refute the statements in Chapter 1, and specifically Section 1.9, that life companies 'rely on tax benefits to make a profit'. The profit margins/returns on equity enjoyed by shareholders of life insurers are no greater than those of other businesses. Fierce market competition and improving mortality have been major factors in steadily driving premiums down to the advantage of consumers. However, the introduction of a high taxation impost will force life insurers to consider re-pricing products and increasing premiums to recover some, if not all, the increased taxation.

The impact on premium prices is uncertain and will not be the same for all products and all participants in the life insurance industry. As noted in our submission on the second Officials' Paper, initial estimates suggest that increases in premium rates could be in the range of 20-30%. While some life insurers may choose to increase the premiums on their new product sales, others may also seek to encourage some existing policyholders to change the nature of their insurance policies to minimise the effect of the tax change.

Social policy issues associated with any life insurance taxation reform will be important for all New Zealanders, not just the Government and insurers.

Life insurance has two important roles in New Zealand:[1]

- To enable citizens and businesses to manage the financial implications of death. In this way, it promotes individual financial stability and facilitates commerce. For example:
    - protecting a family against the financial effects of the death of an income earner or a caregiver;
    - protecting businesses (generally small-to-medium size) against the financial effects of the death of a key person;
    - preserving the value of an estate;
    - protecting against the financial effects of a homeowner's death; and
- To provide a convenient vehicle for savings and investment. This assists individuals to save for their retirement and other needs, and benefits economic development in New Zealand.

Any increase in pricing is likely to result in a reduction in demand with far-reaching consequences for the whole community.

The industry accepts the general thrust of the proposals for risk business but the discussion document has raised other issues for traditional and unit-linked business that need more time to resolve. We are concerned that proceeding with hasty

[1] Chapter 1 of *Life Insurance* (NZLC PP53, Law Commission, Wellington, 2003).

legislation without a full understanding of the impact on legacy business will have unforeseen effects on long-term business and will create a real fiscal risk.

It was understood at the commencement of this process that any review of the taxation of life insurance must also include annuities. While the annuity market in NZ has dwindled and become very small, this is largely due to a combination of the over-taxation of annuities and limited policy initiatives to encourage personal saving and the accumulation of lump sum savings for draw down as older age occurs.

The development of KiwiSaver will, over time, bring about a major change in personal savings rates with resultant rise in the demand for financial vehicles that provide a structured draw down of capital and accumulated earnings. Failure to include annuities in this review can only be seen as a serious short-coming. The difficulty of the challenge is no reason to avoid this issue.

If annuities are not addressed as part of this review it is difficult to see in the foreseeable future an event sufficient to 'trigger' a review of annuity taxation. If the taxation of annuities is not reviewed the Government will have missed the opportunity to address one of the important components of long term retirement savings, the decumulation of capital, which needs to form part of an all-encompassing structure with KiwiSaver as an important cornerstone.

Summary of Major Points and Recommendations

- **Application of new rules** **Page 6**

  Key Point: The application date should be amended to be 12 months after the date of enactment and should be a fixed date, with the facility for companies to opt in earlier if they choose.

- **Taxation of participating business** **Page 7**

  Key Point: For participating business taxable income should be defined as Iwp – Ewp, with shareholders and policyholders paying tax on this amount at their defined rates of participation. There should be no taxation of transfers to shareholders through the gate.

- **Risk reserves smoothing** **Page 10**

  Key Point: We recommend clarification of both the calculation methodology for the Premium Smoothing Reserve (PSR) and its application. We do not support the proposal that Outstanding Claims Reserves for income type claims should be calculated on a present value (PV) basis.

- **Taxation of unit linked savings** **Page 12**

  Key Point: ISI recommends reversion to the original proposal in the “Officials’ paper No 2”, providing consistency for unit-linked business with other forms of saving with insurers entitled to gross up fees for the purpose of policyholder and shareholder taxation calculations.

- **Taxation of capital guaranteed investment contracts** **Page 14**

  Key Point: We recommend allowing companies to make a once-only election to treat capital guaranteed products as either savings products or traditional with-profits products for tax purposes. In addition, the taxation basis should allow for any transfers from/to shareholders from the Capital Guarantee Reserves as a deduction/profit for the shareholders and a profit/deduction to the policyholders.

- **Application of PIE tax rates to investment income** **Page 15**

  Key Point: We recommend a flat rate of 19.5% for unit-linked business or, at the very minimum, a composite 19.5 / 30% rate. We suggest that unit linked products be able to elect into the PIE rules in their own right, allocating gross income per unit, applying PIE tax rates, collecting and filing PIE tax.

- **Transitional tax losses** **Page 16**

  Key Point: ISI recommends that LOB losses carried forward by each life insurer entity at year end before the new rules come into effect be retained in full and be available for offset against future shareholders' taxable income or for group offset, provided shareholder continuity has been maintained.

  We also recommend that, in addition to the LOB losses, where the insurer is able to demonstrate the amount of PHB losses that is attributable to savings investment linked and participating with profits policies, they should be able to be carried forward.

- **Treatment of yearly renewable term** **Page 20**

  Key Point: ISI believes there are compelling reasons for extending full grandfathering to all term life policies.

- **Changes to pre-application date policies** **Page 23**

  Key Point: ISI recommends that the following alterations to policies should not be treated as fundamental, with total cover under the policy eligible for grandfathering:
    - Any decrease in cover
    - An increase in cover, being the greater of an annual CPI adjustment or 10% per annum of the sum insured, as provided in contract terms at the policy's inception

  We recommend that, for all other alterations to policies, the original amount of cover should remain eligible for grandfathering, but any additional cover (i.e. increases exceeding the greater of CPI or 10% per annum) should be subject to the proposed tax rules.

- **Reinsurance** **Page 24**

  Key Point: We recommend that reinsurance premiums be deductible to life insurers without reference to where the policies were offered or entered into. Any restricting of the deductibility for reinsurance premiums to "true" reinsurance should only apply to reinsurance policies entered into after the application date of the new rules.

- **Non-resident life insurers** **Page 25**

  Key Point: We recommend continuation of the current law, providing that a New Zealand branch of a non-resident life insurer is deemed to be a company resident in New Zealand for the purposes of applying the life insurance provisions.

- **Annuities** **Page 26**

  Key Point: ISI strongly supports inclusion of the taxation of annuities in the Review, recommends a low tax rate being applied to annuities in general and suggests two options for discussion.

Application of the New Rules

The discussion document proposes application of the new tax rules in the tax year following 1 April 2009.

The industry considers there is a sufficiently strong precedent, based on major problems arising from PIE tax changes and the serious remedial amendments that were necessary, for the application date to be amended to be 12 months after the date of enactment. In the interests of competitive neutrality we also suggest that the effective date should be a fixed date, with the facility for companies to opt in earlier if they choose.

Assuming enactment will be at the end of 2008, we propose that the effective date should be 31 December 2009. In the event that legislation is delayed, the effective date would need to be deferred.

Taxation of Participating Business

ISI considers the proposed taxation regime for participating business to be flawed in principle in a number of fundamental respects. These are discussed below.

Structure of Participating Business

The proposed taxation regime seems to be based on a number of incorrect perceptions regarding participating business. This is most evident in paragraph 7.19, which is reproduced below:

"*Effectively, the profits allocated to shareholders consist of investment returns and other profit sources. As participating premiums are excluded from taxation, the profits and investment returns should be taxed on allocation to shareholders.*"

This statement is incorrect in a number of respects:

- Under the proposed regime, investment returns have already been taxed to policyholders. It is incorrect to tax them again to shareholders, particularly as transfers will be paid out of funds that are net of the investment tax (i.e. shareholders will, through the gate, incur their share of tax already paid on the investment income received).

- There are no "other profit sources". When these policies were first sold premiums would have contained some profit element. However, with the passage of time, and recognising the very mature state of participating business (on average policies are typically over 25 years old), this is no longer true. If a participating fund were to gain no future investment income it would be unable to meet its existing liabilities. All future profit, therefore, comes from investment returns. It is pertinent to note that investment income is many times larger than premium income on these products.

- The statement assumes that transfers represent nothing other than profit, when they clearly contain a capital element as well as distribution of income that has been previously taxed.

The proposals also seem to be predicated on the understanding that policyholders and shareholders are completely separate parties with a profit stream being transferred from one to the other. This is not correct. Both have contributed capital and they share in the profits generated from the business.

This last point can be easily examined by considering that all large participating portfolios within New Zealand have been subject to a demutualisation process in the relatively recent past. These demutualisations specifically retained shareholder capital within the participating portfolios in return for which shareholders receive transfers. It would, however, have been equally valid to retain no shareholder capital within the participating funds and simply allow all experience on the portfolio to accrue to policyholders. In this instance shareholders would have retained their capital outside of the participating fund and simply been taxed on investment income less any expenses. They certainly would not have been taxed on the repayment of that capital or any previously taxed income retained within the business, as is proposed. Nor would they have been taxed twice on the investment income.

Taxation of Transfers

The proposed regime involves shareholders being taxed on transfers, with a deduction being given to policyholders for the same. This is incorrect treatment for a number of reasons:

Transfers are partly funded by capital.

- Transfers are partly funded by previously taxed income.
- The operation of these products requires that policyholders and shareholders share in the performance of the pool. Whilst one can refer to "policyholder tax", the reality is that that tax is levied on the pool and as such will necessarily be shared by both parties (in fact, this is generally a legal requirement of the funds, set down in company constitutions and/or demutualisation documents). Hence, even in the year it is earned, investment income is taxed in full prior to the distribution to shareholders. The gate ensures that shareholders pay their share of tax on investment income and hence, under the proposed basis, they will be taxed again.
- Providing policyholders with the deduction for the shareholder transfer lacks any rational foundation.

- Shareholders, whilst effectively paying tax twice, will only receive imputation credits to the extent of the tax on transfers (i.e. imputation credits will not be consistent with the incurrence of the cost of tax).
- Timing of the taxation of things like unrealised capital gains is incorrect.
- Shareholders are taxed on the transfers yet lack any offsetting expense deduction for the cost of managing the business and thus generating the transfer.

Further, the paper does not make it clear whether transfers are to be taxed as the "profits" (as they are termed) are accrued or distributed.

Deductibility of Expenses

The formulae as postulated provide tax relief for "expenses associated with generating investment income". This is not defined clearly.

This represents a material difference from the existing position where all expenses are fully deductible. It is submitted that the existing treatment should continue and there is no tax policy basis for restricting deduction of expenses. All expenses as a question of fact meet the general tax deductibility test and there is no basis for introducing a more penal regime for life insurance.

Existing Tax Balances

The proposals do not adequately deal with transition of existing tax balances. If the regime is to change as is proposed then it is important that existing tax balances are allocated fairly between policyholders and shareholders and that utilisation of any benefits is not compromised.

Furthermore, the transitional rules need to deal with different tax bases applying to existing investments as between the PHB and LOB with wash adjustments introduced as necessary.

Conclusion

The proposed regime is fundamentally flawed. It is inconsistent with the structure of the contracts, incorrectly limits deductibility of expenses and incorrectly taxes shareholders versus policyholders.

ISI proposes that taxable income for participating business should be defined as Iwp – Ewp, with shareholders and policyholders paying tax on this amount at their defined rates of participation. There should be no taxation of transfers to shareholders through the gate. This is simple to apply, consistent with the profit sharing approach envisaged by the policies, and provides for the materially correct level of taxation on both parties. It is also primarily what occurs under the existing regime.

Bundled Business

The proposals note a number of instances where premiums or claims are required to be split between risk and savings elements for "bundled and not readily identifiable savings products (such as non-profit endowment insurance or non-profit whole of life)." Reserves are also required to be split for these products. Actuarial certification is required in various places.

In the view of ISI, this seems overly cumbersome. First, there is very little of this business in force. Secondly, whilst it can be argued that these products contain some element of savings, the reality is that the policyholders have no beneficial interest in the performance of the investment pools that support the liabilities. It is the shareholders who gain or lose with good or bad investment performance. The benefit or need for undertaking the separation is not clear.

It seems simpler to tax all profits on such business to shareholders, similar to the proposals for pure risk business. Reserves would be established as per the PSR proposals.

Risk Reserves Smoothing

The calculation methodology for the Premium Smoothing Reserve (PSR) and its application are both unclear.

The discussion document proposes that reserves for tax purposes will consist of either a Premium Smoothing Reserve (PSR) or an Unearned Premium Reserve (UPR). This is set out in the description of "Reserve" in the Glossary and confirmed in paragraph 6.3. In addition, an outstanding claims reserve will also be held for claims.

The descriptions of PSR and UPR in the Glossary suggest that the PSR will be used *'when premium rates are conceptually guaranteed or in a period when level premiums are payable'*, and that the UPR will be used for risk products *'where premiums are stepped yearly or where premium rates are not conceptually guaranteed'*. In applying this conceptual framework, risk products where level premiums are payable in a period but the premium rates are not conceptually guaranteed would fall into both defined categories.

This confusion carries across into section 6 of the discussion document. The third dot point in paragraph 6.13 includes three-yearly, five-yearly and ten-yearly level premium renewable contracts within the 'Annual stepped premiums' category. The same calculation methodology of paragraph 6.14 that applies to one-year contracts is also proposed to apply to the three-yearly, five-yearly and ten-yearly level premium renewable contracts. This is inappropriate because it does not reflect the need to correctly reserve over the three, five or ten year period. Under financial reporting requirements, the company would be required to make an allowance within reserves for the fact that the premium is held constant over a period of years during which the insurance risk is increasing.

It is technically incorrect to use the guaranteed / non-guaranteed nature of the premiums as a factor in determining whether a PSR or UPR should be used. The key determining issue that requires a PSR approach is where there is rising risk with level premiums, not the guaranteed nature of those premiums. The correct approach is to apply the PSR in all cases where level premiums are payable, regardless of whether the premium rates are guaranteed. If for some reason this revised approach is not adopted, then the application of the reserving methodologies needs to be resolved.

The Premium Smoothing Reserve (PSR) methodology described in Chapter 6 envisages that a further MoS-type projection calculation will be applied for tax purposes to certain policies. The projection period for these further MoS-type calculations is limited to the guarantee period or level premium period, whichever applies, and does not involve acquisition costs. It is quite unclear how the profit margin ('M' in paragraph 6.12) should be calculated, as the profit margin comments in the paper with respect to the PSR are inconsistent. The written description of the profit element in the table on page 26 of the paper seems to suggest alternative approaches to this calculation and is far too vague to achieve any reasonable level of consistency of application by different companies. It is also unclear as to how the impact of changes in assumptions over the years should be handled and whether the calculations should be on a policy-by-policy basis or grouped basis.

In terms of composite products, such as term cover with a trauma rider benefit, it is unclear whether elements such as trauma or disability benefits should also have a PSR as per paragraph 6.12. This needs to be clarified.

In paragraph 6.7 it is proposed that Outstanding Claims Reserves for income type claims should be calculated on a present value (PV) basis. ISI disagrees with this approach. It represents a material departure from the current tax position adopted by life insurers for business (such as disability income insurance) taxed on a non life basis, and is inconsistent with general tax principles which require that income and expenditure are calculated on a historic cost basis.

It is relevant to note that calculation of outstanding claims reserves on a PV basis was rejected by the Full Federal Court, Sydney in FC of T v Mercantile Mutual Insurance (Workers Compensation) Ltd & Anor 99 ATC 4404, the ATO's test case on the taxation of general insurance. That case also confirmed that prudential margins are tax deductible.

Paragraph 6.7 makes reference to risk margins. If the requirement for Outstanding Claims Reserves to be recognised on a present value basis is somehow linked to there being risk margins, it is noted that life insurers do not necessarily have the same risk margins as may exist for other types of insurance.

Taxation of Unit Linked Savings

The discussion document issued in December 2007 contained a change in approach to the taxation of policyholder savings that may have financially significant impacts on policyholders and/or shareholders, is inconsistent with the taxation of other forms of saving and does not have regard for the ultimate purpose of saving via unit linked policies.

The policyholder expense deduction proposed in "Officials' paper No. 2" included policy acquisition costs and other expenses as well as investment management expenses (see example on pages 19 & 20). This mirrored the fees and management charges taxed as income in the shareholder calculation. The proposed new rules restrict expenses to those relating to the generation of investment income.

ISI believes that the original proposal in the "Officials' paper No. 2" for expense deductions in determining policyholder income was the correct approach.

Impact of original proposals

Suppose the current contractual fee (excluding any risk charges) for a unit linked savings contract was $100. Currently this fee is non deductible for the policyholder and non assessable to the shareholder. The proposal to separate the taxation of shareholders and policyholders contained in "Officials' paper No. 2" could be achieved in a neutral manner by grossing up the fee for tax at the default rate of 30%. This would mean both the shareholder and policyholder would be unaffected by the proposal whilst still achieving the policy intention of taxing life insurers on their fee income. Most unit linked savings policy documents would have a clause allowing changes to the contract to be made when there is a change in tax regime. Alternatively the taxation legislation could include a clause allowing the gross up for policies issued before the effective date of the legislation.

Impact of the new proposals

Suppose the contractual fee was still $100. Suppose 25% of the fee was considered to relate to the generation of investment income (see below for issues relating to the apportionment). To maintain after tax fee income of $100 it would be necessary to increase the fee to $100 / (1 – 30%) = $142.86. The paper is silent as to the method of apportionment but suppose that 25% of the revised fee was still deductible in the hands of policyholder, the post tax fee to the policyholder would be $142.86 *75% + $142.86 * 25% * (1- 30%) = $132.15. This would be a 32% increase. As stated above, the issue from a tax policy perspective with the new proposals is the inconsistency with the taxation of other forms of saving and not having regard for the ultimate purpose of saving via unit linked policies

Arbitrariness of apportionment

The fees charged for unit linked savings plans are required to cover acquisition costs, maintenance expenses and investment expenses. The fees can be charged in a number of ways (% of fund, % of premium, $ amount, exit penalty) at different times over the life of a savings plan. The fee structure will have been determined using an overall assessment of the profitability of the contract and it is not possible to allocate the fees by expense type. In particular, there is no direct linkage between the expenses incurred by the shareholder (which may drive the apportionment) and the actual fee charged to the customer over a particular period.

For example, one company may charge an initial fee of $1,000 and an annual fund fee of 1% whilst another with an identical cost base may charge no initial fee but a 2% annual fund fee. Both fee structures may have been intended to be economically equivalent under existing tax rules (e.g. the second structure may also have an exit penalty).

Suppose annual investment expenses of 1% are incurred. With the first company we have no increase in taxation whilst the second company would have a 0.3% additional cost. If the first company deducted the $1,000 fee prior to the new regime then it would be advantaged.

Inconsistency with unit trusts, KiwiSaver and other savings

As stated above, the issue from a tax policy perspective with the new proposals is the inconsistency with the taxation of other forms of saving and not having regard for the ultimate purpose of saving via unit linked policies.

Investors invest in unit linked policies to derive an investment return like direct investors, the taxable income from which will now be taxed directly as proxy for these investors through the policyholder income calculation. The various functions performed by the insurer for which it charges fees are ultimately related to facilitating this. On this basis, all such fees should be tax deductible in determining the policyholder income. In support of this, we refer to analysis in the Inland Revenue Department Interpretation Statement 0044 "Financial Planning Fees – Income Tax Deductibility".

Management fees and other costs incurred by unit trusts are generally deductible for income tax purposes on the basis of the nexus to deriving taxable income. This is analogous to unit linked saving policies.

As part of the Portfolio Investment Entity ("PIE") tax reform, the tax legislation specifically provides a tax deduction for fees for ongoing management and administration services charged to investors (sections HL 20(4) and HL 24(5)). Section DV 1 allows a superannuation fund a tax deduction for expenditure incurred in developing, marketing, selling, promoting and advertising the fund. As PIEs and other superannuation funds are analogous forms of saving to a unit linked savings policy, the expense deductibility basis should be the same.

Proposed Remedies

ISI recommends reversion to the original proposal in the "Officials' paper No 2", providing consistency with other forms of saving with insurers entitled to gross up fees for the purpose of policyholder and shareholder taxation calculations.

Taxation of Capital Guaranteed Investment Contracts

The discussion paper issued in December 2007 did not specifically discuss capital guaranteed investment products and ISI believes some guidance is needed in the treatment of these products.

Capital guaranteed investment products (also commonly known as investment account products) are essentially savings contracts which have a capital guarantee element (i.e. it is guaranteed that the account balance cannot fall). They are a relatively minor life insurance product with only a small amount of fund inflows.

The approach to managing these products differs across the industry. The two main methods of management are:

- Similarly to a savings contract, with the shareholder profit derived via a fee charged to the policyholder;
- Similarly to a traditional with-profit contract, with the shareholder profit derived via a prescribed share of the amount credited to the policyholder.

In addition, however, a reserve will be held to support the capital guaranteed element of the product. For the products managed as savings contracts, this will typically be called a crediting rate reserve or bonus smoothing reserve. For the products managed similarly to a traditional with-profit contract this reserve is effectively the shareholder retained profits and the policyholder retained profits. A transfer from these reserves ("Capital Guarantee Reserves") to policyholder accounts may be required to support the capital guarantee within the product.

Given the relatively small nature of this business, and the differing treatment across the industry, ISI recommends the following:

- Allowing companies to choose whether, for taxation purposes, to treat these products as either savings products or traditional with-profits products. Companies should not be able to switch between methods, i.e. a once-only election of method;
- In addition, the taxation basis should allow for any transfers from/to shareholders from the Capital Guarantee Reserves as a deduction/profit for the shareholders and a profit/deduction to the policyholders.

The industry has not discussed how to define "Capital Guarantee" reserves or how to ensure that the transfer to/from shareholders is at a reasonable level – however one possible method could be to require actuarial certification.

For clarity, given that we are suggesting similar bases of taxation, all submissions from ISI relating to savings products and traditional with-profits products would then also apply to the capital guaranteed investment products.

Application of PIE Tax Rates to Investment Income

ISI Members observe that participating policies and unit linked funds are mature products with very few new policies or investments sold in recent years. This means that, while life insurers are keen to be able to apply PIE tax rates to policyholder investment income, any potential benefit to policyholders must be balanced against the cost to shareholders of developing and implementing required systems. The cost is a major concern given the many millions of dollars the industry has incurred in recent months in supporting the Government's KiwiSaver and PIE initiatives.

Application of one flat rate to all policyholder investment income is attractive in terms of ease of implementation. Recognising our fiduciary responsibility to all clients, we submit our support for a flat rate of 19.5% or, at the very minimum, a composite 19.5 / 30% rate. We do not agree with the comments (8.11 & 8.12) dismissing both a flat 19.5% rate as well as the alternative composite. We believe there are valid arguments to support a flat 19.5% rate as appropriate, the greatest argument being that a 19.5% rate does not over-tax any one investor - a surely more positive outcome than overtaxing lower income policyholders.

Given the long term nature of participating policies (in particular), the conservative nature of underlying investments and the relatively expensive early-year premiums, it is difficult to imagine new investors flooding to take advantage of any perceived tax advantage of such policies should the Government meet our request to apply the lower individual PIE tax rate of 19.5%. The discussion document refers to the 'top PIE tax rate', but let us not forget 30% is also the corporate tax rate, thus no true alignment with the PIE rules is being offered to investors by applying the 30% rate.

If a flat 19.5% rate is not acceptable to the Government it is essential that any mechanism allowing the investment income earned by unit linked products to be taxed at PIE tax rates (8.10) be practical to operate. We suggest that, given most life insurers operate retail fund style registries for unit linked products, these products be able to elect into the PIE rules in their own right (perhaps expanding the portfolio investment linked life fund definition and eligibility criteria), allocating gross income per unit, applying PIE tax rates, collecting and filing PIE tax. The policyholder income formula (YPH) would then also need to be amended to exclude investment income and expenses allocated to PIE unit linked products electing into the PIE rules.

Transitional Tax Losses

Paragraph 9.4 notes that " *To be fair to different life insurers, realised tax losses existing before the date of effect of the new rules should be available to be carried forward, since life insurers who are in corporate groups would have been able to benefit from life insurance losses by way of group offset*."

We concur with the statement made that realised shareholder tax losses ('LOB') should be able to be carried forward and be available for offset against future shareholder or group's taxable income.

However, paragraph 9.5 then proceeds to limit the carry forward of tax losses because it may give rise to double the benefit. As an example, the tax losses may have been previously used for group loss offsets. It is proposed *"the maximum aggregate tax loss that can be carried forward should be the lesser of the LOB loss and the PHB loss existing at year end before the new rules come into effect."*

This would indicate that if the PHB loss to carry forward is zero, but the life insurer has LOB loss to carry forward when the new rules come into effect, then the total LOB loss will be forfeited. Similarly, PHB loss will be forfeited if there is no LOB loss to carry forward at year end before the new rules come into effect.

In the event that any life insurer has both LOB and PHB losses, then only the smaller of the losses from the two bases is able to be carried forward, but then under paragraph 9.6 these losses are expected to be allocated between shareholders and policyholder income. *"The Government invites submissions on ways to allocate the transitional losses."*

The document does not mention whether the tax losses should be considered at a group level, consolidated group level or at individual life insurer entity level when calculating the lesser of losses between the two bases.

In our view the proposed tax treatment of transitional tax losses is harsh, inequitable and detrimental to life insurers for the following reasons:

- If the LOB loss is being carried forward, then these losses would not have been used in a group loss offset. Policyholder tax losses have always been quarantined to policyholder income in the past.
- Some companies may not have had any group taxable income to offset in the past.
- The losses largely arise from actual deductible expenses incurred by the shareholder (funding costs, commission payments, etc). The life insurer should be allowed to benefit from them in the future.
- Given the market, it is also possible that new LOB losses will arise from investments.
- Many life insurers would have recognised some or all of the LOB losses as an asset. If the losses are forfeited, this would negatively impact the value of their business.

- In the past when tax regimes have been changed for other industries, the norm has been to allow tax losses to be carried forward. Why should life insurers be treated differently?
- In the case of PHB losses, savings unit-linked and traditional products policyholders will be adversely affected if all of the policyholder tax losses are forfeited.

ISI believes that the proposal is not correctly founded from a policy perspective. The proposed "lesser of" test involves a tacit assumption that there is a causal linkage between the two bases. For example, it may assume that, in the long run, life office base income and policyholder base income are equal and that differences in annual results reflect timing differences. This is incorrect. The life office base taxable income may include matters that do not impact the policyholder base. This includes, for example: non-life business, investments supporting risk business, profits from joint ventures and other income generally. The fact that the LOB income fluctuates or is out of sync with PHB income may be due to these factors, and a "lesser of" test is not appropriate.

Moreover, from a policy perspective there are strong arguments that LOB losses should transition into the new regime as of right. The LOB is designed to calculate income analogous to that of an ordinary company. In designing the present regime, the Consultative Committee expressly noted this in its report[2]:

> *"The tax base would be full income of the life office (not just investment income as at present). The aim is to replicate the type of tax regime which applies to the income of other entities such as general insurance companies.*

And at page 24:

> *"Under our proposed taxation regime for life insurance, the concerns expressed in the Consultative Document and in submissions can both be met. Where a life office does meet the requirements of section 191 of the Act it would be able to group income and losses with the life office tax base. <u>This is because the life office tax base is comparable with the ordinary corporate tax base.</u>" (emphasis added)*

The proposed new regime does not alter this, and it demonstrably follows that LOB losses should carry forward into the new regime in full.

ISI proposes that LOB losses carried forward by each life insurer entity at year end before the new rules come into effect be retained in full and be available for offset against future shareholders' taxable income or for group offset, provided shareholder continuity has been maintained.

Policyholder base tax loss

ISI considers that at least some of the PHB losses should be carried forward and available for offset against policyholder income in the new regime. PHB losses arise

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[2] Consultative Committee on Superannuation, Life Insurance and Related Areas, *Tax Treatment of Life Insurance and Related Areas – Report of the Consultative Committee*, August 1989, page 21;

from expenses and investments attributable to savings investment linked and participating with profits policies. Policyholders should be able to benefit from these losses in the future.

One key difference between life office base and policyholder base calculations is that the latter includes unrealised gains because of the actuarial reserves effectively including the market value of investments supporting investment linked business. Going forward, the new calculations of investment income for shareholders and policyholders will more closely mirror the life office base approach. The life office base includes gains on equities and real property on a realised basis, and income from financial arrangements potentially on a basis other than mark-to-market. In other words, the timing of taxable income proposed new regime will differ from the current policyholder base.

ISI believes that this has an impact on the analysis for losses to be brought into the new regime, but has not been addressed in the Discussion Document. There are essentially four permutations for a life insurer's tax profile in terms of profit (+) or loss (-). The impact of the "lesser of" rule is shown in the table below and as this demonstrates, leaves either shareholders or policyholders potentially subject to double tax.

Option	LOB	PHB	IRD's proposed transition adjustment or losses	Comment
1	+	+	Nil	Policyholder base includes unrealised gains, and life insurer has suffered tax either in cash or via imputation credits utilised. To the extent these unrealised gains are subsequently taxed under the new regime, shareholders or policyholders will be double taxed.
2	+	-	Nil	Life insurers have diversified portfolios. It is likely that the policyholder base loss is the aggregate of a number of profits and losses on investments. The absence of transition adjustments could result in double tax depending on the timing of the income arising.
3	-	+	Nil	Policyholder base includes unrealised gains, and life insurer has suffered tax either in cash or via imputation credits utilised. To the extent these unrealised gains are subsequently taxed under the new regime, shareholders or policyholders will be double taxed.
4	-	-	Lesser of LOB or PHB losses	If the amount of LOB loss > PHB loss, the cause is likely to be unrealised gains at policyholder base level. Hence to the extent these unrealised gains are subsequently taxed under the new regime, shareholders or policyholders will be double taxed.

The added complication of the impact of the Fair Dividend Rate rules, potential application of the Australasian equities exemption, and differing treatment of financial instruments under the financial arrangement rules mean there is considerable complexity in any fix.

In addition to the LOB losses, where the insurer is able to demonstrate the amount of PHB losses that is attributable to savings investment linked and participating with profits policies, they should be able to be carried forward.

As we suggest retaining the tax losses of LOB in full and some of the PHB losses, the allocation of losses between the two bases is not relevant.

Treatment of Yearly Renewable Term

Chapter Nine of the discussion document deals with, amongst other things, transitional arrangements. Officials have recognised that the level of premium for a number of risk products cannot be contractually varied. These products include level term, single premium, guaranteed premium and group life policies with a guaranteed premium period (together referred to as "fixed premium policies"). In recognition that the insurer could be forced into a position whereby the products become unprofitable as a consequence of the introduction of the proposed regime, officials have recommended that the existing tax treatment of the fixed premium policies in force at the time that the new regime applies should be "grandfathered" for the duration of the guaranteed period. ISI strongly supports this position.

One very significant type of policy has been omitted from "full" grandfathering. Officials have taken the view that rate for age policies should only be grandfathered for a period of five years from the application of the rules. They have selected this period on the basis that they believe that it will give insurers sufficient opportunity to re-price policies before the new regime applies.

Rate for age policies comprise the majority of term life policies. Across the entire industry, we estimate that more than 600,000 New Zealanders hold these policies. Policies are taken out for a number of reasons; in recent years, banks have often encouraged borrowers to take out policies of this type in order to provide security over the funds lent for the purchase of a home. Such policies provide a level of security that cannot be matched (at least at the outset) by self insurance through a savings scheme.

Officials appear to regard rate for age contracts in a similar vein to fire and general policies. That is, that the insurer is able to fully review the terms and conditions of the policy on an annual basis and adjust them to the circumstances that the insurer finds itself in. On the contrary, rate for age policies are taken out on the expectation that they will be a long term commitment. The vast majority of such policies are taken out to cover a long term financial obligation (for example a mortgage) or as a component of a long term savings plan and are usually modelled for prospective policyholders over significant periods exceeding five years.

The ability of the insurer and the insured to change the terms of rate for age policies reflects the expectation that those policies will have a significant degree of longevity. Only in certain strictly limited circumstances may the insurer increase the premium payable. With the exception of age, the attributes of the insured cannot be reassessed and increases to premiums cannot be made for increases in "riskiness". On the other hand, policyholders are restricted in their ability to increase their coverage to events specifically defined in the policy. The nature of those events again reveals the expectation that the policy will be of significant duration – significant events such as the birth of children or the acquisition of a home, or referencing the sum insured to some price index to ensure that it will not be significantly eroded over time.

Rate for age policies are demonstrably not intended to be "annually renewable" in the sense that fire and general policies are. Although most rate for age policies allow for increases in premium due to changes in the tax regime, the ability of insurers to protect their profitability in those circumstances should not outweigh the fact that actually increasing premiums in such circumstances is contra to the nature of the relationship between the insurer and the policyholder and their respective expectations.

"Full" grandfathering should be extended to all term life policies. There are a number of commercial and policy reasons why this should be the case:

- Rate for age policies are priced using mortality tables based on the age of the policyholder. Consequently, each year that the policy is maintained, the premium increases. In the case of a fixed premium policy, the premiums for which are determined according to the same mortality tables, the yearly premium is added together and then averaged over the expected duration of the policy to derive the annual premium. Consequently, over the period that cover is held, the value of the total premium paid will be, all other things being equal, approximately the same whether the premium is fixed or rate for age. The proposal to extend full grandfathering to fixed policies and not to rate for age ones introduces an element of economic inequality and with it prejudices rate for age policy holders relative to those who took out fixed term policies.

- Should the insurers pass through the expected additional tax cost, premiums could conceivably increase by 20% - 30% (see the ISI submission of 3 May 2007) at the end of the transitional period – this is in addition to the standard increase due to age. Existing policyholders will not have foreseen an increase of that magnitude and it is unlikely that such an increase will have been factored into their expectations if they took out their rate for age policy before the enactment of the change of tax regime. Particularly where the policy is linked to a mortgage, policyholders may have no choice but to bear the extra cost. In the alternate, where they are not required to maintain a particular level of cover, policyholders may decide to discontinue the cover or significantly reduce it which may have significant consequences in the event of the death of the policyholder. Nothing short of full grandfathering will protect these policyholders. In the context of such a significant increase, it is unrealistic for officials to contend that five years will be ample time to get policyholders used to the idea that premiums will increase.

- It is likely that insurers will come under pressure from policyholders to convert rate for age policies into fixed ones before the new regime comes into force. This is obviously highly inefficient given that both types of policy achieve exactly the same outcome and are priced almost identically. If a significant number of policyholders follow this course of action, insurers will bear significant costs in terms of advising policyholders and re-documenting policies.

- It is human nature that, prior to application of the regime as it stands, individuals will be drawn to fixed premium policies because they will be cheaper than rate for age policies over the life time of the policy as they will be subject to full grandfathering. While they may be cheaper, they are not more affordable at inception (and for a number of years thereafter) because of the averaging of the premium. Consequently, there is a significant risk that failure to treat both fixed premium and rate for age policies on a consistent basis will lead to under insurance.

- There is a history of transitional provisions allowing total grandfathering of existing contractual relationships where there has been a change in tax regime. Examples of these in recent times are the grandfathering of financial arrangements when the legislation creating Division 2 of the financial arrangement rules was given Royal assent on 20 May 1999 and the effective full grandfathering of sale and lease back arrangements involving intangible property entered into prior to 29 March 2004.

- We understand from discussions with some officials that there is no philosophical objection to applying the proposed regime only to new business rather than having a specified period of grandfathering.

ISI believes that these are compelling reasons for extending full grandfathering to all term life policies.

Changes to Pre-Application Date Policies

We are pleased to see transitional rules for existing policies incorporated in the discussion document. However, we are unable to provide unqualified support for the transition proposals given the lack of clarity and indeed conflicting messages in paragraphs 9.26 and 9.27 (regarding alterations to policies that would or would not be defined as fundamental and breach or not breach the ability to apply grandfathering).

We have commented earlier on the necessary increase in premiums as a consequence of the proposed tax changes. We believe it is essential that the transitional rules are defined and implemented to align with commercial practice and to ensure that clients are not disadvantaged.

The life insurance industry, by the very nature of its business, takes a long-term view of client relationships fostered through policies designed to meet the needs of the client as these change through life. Policies may be sold with riders that allow clients to add cover in the future to meet the needs of a young family. Policies may be sold with the flexibility to allow clients to reduce cover as family commitments diminish or age-related premiums rise. Many policies allow clients to opt for CPI increases to ensure cover keeps up with the cost of living. In terms of product design it is normal for the amount of life cover to be linked to earlier payments of other benefits, for instance life cover may be automatically reduced if any earlier benefit for Trauma cover has been triggered under the same policy. Flexibility is a necessary design feature, often more valuable for the client than the life insurer, especially where a client's health situation deteriorates throughout the policy life and that client is not able to obtain alternative insurance at a similar cost.

ISI submits that the following alterations to policies should not be treated as fundamental, with total cover under the policy eligible for grandfathering:

- Any decrease in cover
- An increase in cover, being the greater of an annual CPI adjustment or 10% per annum of the sum insured, as provided in contract terms at the policy's inception

ISI submits that, for all other alterations to policies, the original amount of cover should remain eligible for grandfathering, but any additional cover (i.e. increases exceeding the greater of CPI or 10% per annum) should be subject to the proposed tax rules.

We note that it is essential that this matter be resolved as soon as possible. If particular wording needs to be incorporated in policies to ensure grandfathering is not breached inadvertently, it is vital that the industry is made aware of such requirements. We believe that later clarification of IRD views through the Tax Information Bulletin mechanism is not appropriate in this instance, given that the proposed transition period is likely to commence within a short time of enactment and given that life insurers are currently selling policies to which the transitional rules will apply.

Reinsurance

The discussion document states that, under the proposed rules, generally "true" reinsurance premiums will be deductible and reinsurance claims will be taxable to life insurers where the relevant reinsurance policies are offered or entered into in New Zealand.

Reinsurance premiums are a cost incurred by a life insurer in carrying on its business of insurance and are deductible on that basis.

The reference to policies "offered or entered into in New Zealand" relates to the current rules where non-resident life insurers and life reinsurers are taxable in New Zealand on life insurance policies offered or entered into in New Zealand under sections EY 47 and OE 4(1)(na). In practice, under the current rules, it can be difficult to determine whether particular policies are offered or entered into in New Zealand. Further, it can be difficult for a life insurer to know the position adopted by a life reinsurer in this regard.

It is understood that in Australia reinsurance premiums are deductible to insurers with no liability to account for tax on the premiums. This is understood to be the position in a number of other countries also.

The discussion document proposes restricting the deductibility for reinsurance premiums to only "true" reinsurance.

It is not clear from the document whether the transitional rules outlined in chapter 9 are intended to apply to this measure also. Factors outlined in paragraphs 9.10 and 9.11 also apply to this proposal to specifically limit deductions for certain reinsurance premiums.

Recommendation
It is recommended that reinsurance premiums be deductible to life insurers without reference to where the policies were offered or entered into.

Further, it is recommended that any restricting of the deductibility for reinsurance premiums to "true" reinsurance should only apply to reinsurance policies entered into after the application date of the new rules.

Non-Resident Life Insurers

We submit that the current law, providing that a New Zealand branch of a non-resident life insurer is deemed to be a company resident in New Zealand for the purposes of applying the life insurance provisions, should continue.

We note the Reserve Bank has recently initiated discussions with some ISI Members who are structured as branches in New Zealand. We believe the Reserve Bank's particular interest is in understanding the protection afforded to the rights of New Zealand policyholders within the wider offshore group as well as understanding the degree of oversight by any overseas regulatory body. We are not aware of any perceived problems with the deemed company provisions. ISI Members believe that the same tax law should apply to all life insurers operating in New Zealand, regardless of any particular life insurer's legal ownership structure.

The discussion document is very light on analysis of the implications of removal of the election of a branch operation to be a deemed company for tax purposes. Given the time frames available in the preparation of this submission, ISI has been unable to undertake the detailed consideration on all impacts that this would mean for branch operations in New Zealand.

Given that the detailed work has not been undertaken and there appears no compelling reason to remove the deemed status of branches that have made the appropriate elections, ISI recommends that those branches continue to be treated as a deemed company. We would welcome further discussion in this area if the Government or officials have particular concerns regarding the deemed company status.

As noted above, a number of other reviews are being undertaken of the status and regulation associated with branch operations. Any change in the taxation of branches should be considered in light of those reviews. The change from a branch (deemed company) to removal of the deemed company status has potentially wide ranging impacts. Given that this is the first time we have formally seen this, additional time would need to be taken to consider the full impacts.

Annuities

Paragraph 1.19 of the discussion document states: *"The discussion document does not deal with annuities, which relatively few companies offer today. The government has a clear preference for bringing annuities into the new life rules, but that would raise a number of questions that are outside the scope of this discussion document. Annuities may be dealt with in future considerations."*

ISI considers it unacceptable that this segment of the life insurance market is not included in this review of the taxation of life insurance, the first in nearly 20 years. A contributing reason for the decline in this market has been the tax burden placed on annuities which has resulted in a large portion of annuitants being overtaxed for many years.

ISI is of the view that annuities should play a significant role in providing retirement options to individuals as they reach retirement age. Some action in this regard is necessary to support the Government's KiwiSaver initiative and a strong annuities market would ensure that the benefits gained from the KiwiSaver regime are maximised. International evidence supports this.

The impression given by officials was that changes to the taxation of annuities would be introduced with life insurance tax changes. With this in mind, we discuss below how the taxation of annuities business can be designed.

Background
We provide the following current information (as at January 2008) on the annuities market in New Zealand. The data relates to annuities provided by members of ISI:

- The age profile of current annuitants is as follows:

Age Band	Policy Count
Up to 65	194
66 – 69	155
70 – 74	408
75 – 79	861
80 – 84	1008
85 – 89	441
90 +	196
Other (Joint Lives)	14
TOTAL	**3277**

- The total value of assets currently supporting these annuities is approximately $200 million.

The Government has indicated very strongly that it supports concessions for retirement-related savings, as evidenced by the incentives provided for KiwiSaver. Giving retirees access to a strong competitive annuities market would be a natural flow-on from KiwiSaver. Unfortunately the current regime over-taxes annuitants, with all annuity earnings taxed at the company tax rate when it is clear from the table below that the significant majority of potential annuitants (88%) are in a tax bracket at or below 19.5%.

Tax Rate Distribution for over 65s (numbers in each tax band):

Tax Rate	Number of people	% of over 65s
0%	4,480	0.9%
19.5%	428,840	87.1%
33%	36,440	7.4%
39%	22,470	4.6%
TOTAL	**492,230**	**100.0%**

Source: Inland Revenue

This strongly supports a low tax rate being applied to annuities in general and suggests that the current gross over-taxing of annuities is unjustifiable and needs to be addressed promptly.

Internationally it has been recognised there is a clear link between taxation and a strong annuities market.

Participation rates in annuities could be increased through tax policy. Having regard to this, ISI would support incentivising annuity funds through lower tax rates. An example would be a KiwiSaver deferred annuity fund that is taxed on income at only say 15%, but must purchase an annuity. The benefit of this is that it would:

- Help reduce unit costs
- Help to hedge against natural selection inherent in annuity market (poor health individuals less likely to take an annuity)

Key Principles in Taxing Annuities

In designing a tax regime to support a strong annuities market, ISI considers there are three key guiding principles:

1. Life insurance shareholders should be taxed on profits from the annuity business

2. Policyholders in the lower tax bracket should not be over taxed

3. The solution should not be too complex

Further relevant background information in a life insurance context is that typically:

- annuities are fixed contracts where the investment risk is borne by the shareholders;
- the annuitant receives a regular fixed amount for the duration of his or her (or both) life;
- reserves are set aside to fund future annuity payments and to provide a security margin for the benefits of annuitants;
- any experience gains or losses provide a profit or loss to the shareholder.

Having regard to the above principles, ISI suggests two alternative options for taxing annuities.

Option A – Low Tax Rate Annuity Pool
A separate allocated pool of assets that support annuities would be established, analogous with Australia. Annuities would be locked in.

The Annuitant / Policyholder pool of assets would be taxed on an I – E basis where:

I is income to the Annuitant comprising:

- income earned on annuity fund assets (taxed under the PIE rules where appropriate); and
- transfers to the annuity fund from the life insurance shareholders (eg, increases in reserves).

E is deductible expenses to the Annuitant comprising:

- expenses incurred within the annuity fund; and
- other transfers from the annuity fund to the life insurance shareholder (eg, reserve movements)

Premiums (or the capital cost of annuities) would be received directly into the annuity fund and not be taxable.

Life insurance shareholder income would include transfers from the annuity fund for:

- Establishment costs;
- Commission recovery;
- Servicing fees;
- Reserve decreases.

Deductible life insurance shareholder expenses would include transfers to the annuity fund for reserve increases. The Annuitant / Policyholder pool would be taxed at the lowest individual tax rate (currently 19.5%). This can be justified on the basis that the tax rate must be reasonable to encourage participation rates in annuities to increase. As shown earlier, the large majority of retirees fall within the 19.5% tax bracket.

ISI members do not favour the concept of separate asset pools for annuitants according to their individual tax rate. This is because it would add unnecessary complexity at the time the annuitant moves into a new tax bracket. Either:

- the individual would get penalised when moving to the lower tax rate bracket if no transfers between funds were provided, or
- the guarantees offered at time of purchase could be diminished in value when re-pricing occurs.

ISI's preference is for annuity pool income to be taxed at the lowest individual tax rate with no recapture for individuals on higher tax rates when annuities are paid. If this is not sustainable longer term from a tax policy perspective, some consideration could be given to life insurance companies deducting tax from the non-capital portion of annuity payments, for example, at a rate being the difference between the lowest individual tax rate and the life insurance company tax rate. The non-capital portion could be determined using a table of factors published by the Government Actuary as to the portion of payment attributable to capital over the life of an annuity or a factor set and notified at date of purchase by the life insurance company.

A robust definition for annuities will be necessary. For example, ISI anticipates that allocated annuities and variable annuities would not be included.

Option B – Shareholder Tax Credit for Tax Rate Alignment

Annuity business would all be taxed as shareholder income. Shareholder income would include:

- premium / consideration received for annuity;
- income from assets (taxed under the PIE rules where appropriate);
- transfers from reserves.

Deductible shareholder expenses would include transfers to reserves. This would effectively meet the requirements of principle 1 above. To satisfy principle 2, there would need to be some form of rebate or increase in annuity payments to compensate those annuitants on lower tax rates. Any solution to this should be practical and easy to implement.

It would be necessary to determine a portion of each annuity payment that relates to taxable income. A pragmatic solution to this is to base any calculations on the expected lifespan of the annuitant.

The annuity payment in respect of individuals in lower tax brackets would then be increased by

$$A' = A \times [\ 1 + IP \times \{(1-t')/(1-t)-1\}]$$

Where A is the contracted annuity payment (determined using the company tax rate)
IP is proportion of annuity payment that is deemed to be income distribution
t' is the individuals marginal tax rate
t is the company tax rate.

The increase in annuity payment is provided to annuitants as a proxy for the tax refund they could otherwise be entitled to receive from IRD for tax on account in excess and as such would become a tax credit to the shareholder.

The two discretionary items within these calculations are the reserves and the IP. Both of these could be determined from tables of factors published by the Government Actuary or by a method and assumptions published by the Government Actuary.

A difficulty may arise in determining the correct marginal tax rate for individual annuitants. For a practical solution, the marginal tax rate from their most recently filed tax year would be a reasonable proxy for this.
[An alternative is to provide annuitants with the IP and tax information each year and let them seek refunds directly from IRD where they are on lower tax rates. This would have tax return filing implications.]

Recommendation
ISI strongly recommends that the changes to the taxation of life insurance contain some measures to remove the current tax distortion for annuities and to encourage participation in annuities. This is a necessary extension to the KiwiSaver initiative of the Government.

ISI's preference would be a low tax rate annuity pool as outlined in Option A above. ISI is of the view that no further taxation is necessary. However, if the government is concerned with a small number of individuals who may be advantaged by the low tax rate, we are happy to work with officials to agree a way to limit the potential gains rather than accept the continuation of the over-taxation that currently occurs.

Conclusion

As noted earlier, we have appreciated the opportunity to discuss the basis of life insurance taxation with officials in the course of the review. Our submission has identified a number of areas where more detail or clarification of proposals in the discussion document is required and we would welcome the opportunity for further consultation on these points.

Yours sincerely,

Vance Arkinstall
CHIEF EXECUTIVE