2013 ANNUAL REVIEW OF **THE FINANCIAL SERVICES COUNCIL**

Building and Protecting New Zealanders' Wealth

OUR AIMS

The Financial Services Council is an industry-good organisation and public good advocate for the savings and life insurance sector with 21 member companies and 18 associate members managing more than $80 billion in savings and providing financial services to almost 2 million New Zealand investors and policyholders.

Our work programme focuses on developing and promoting evidence-based policies and practices, supported by sound research, financial modelling, analysis and respectful relationships, to influence positive change that will:

- increase and protect Kiwis' net wealth throughout their increasingly long lifetime
- provide them with a comfortable retirement by making KiwSaver more affordable for every New Zealand employee
- protect Kiwis and their families for personal risk

We want to continually earn our position as the authoritative, influential and recognised industry body that should be consulted by politicians and their advisors before policy change is contemplated in the areas of funds management, KiwiSaver, insurance relating to people and financial advice policy.

The focus is on three major platforms:

1. KiwiSaver

to promote safe and sound options to enable a cross party policy consensus on retirement income, based on NZ Super and KiwiSaver, to make it fairer, more affordable, accessible and harder working to give ordinary Kiwis a comfortable retirement and the ability to fund a second pension so they have an income double NZ Super.

2. Personal risk insurance

to help Kiwis understand that they have inadequate insurance, and they and their families are at risk should the main income-earner fall seriously ill and be unable to work for a sustained period.

3. Financial literacy

to support co-operative and collaborative practical financial literacy projects, research, education and information programmes in association with the FMA, CFLRI, Government and kindred organisations to get Kiwis sorted so they can make informed financial decisions.

The Board:

Dame Jenny Shipley
Independent Chair

Milton Jennings
Fidelity Life

Therese Singleton
AMP Financial Services

David Carter
Asteron Life (Deputy Chair)

Kate Armstrong
Westpac

John Body
ANZ

Martin Lewington
Mercer

Symon Brewis-Weston
Sovereign


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Highlights for 2012-13

- Independent consumer research provides keen understanding of why New Zealanders are under-insured and recommends changes to make the personal risk insurance sector more resilient, relevant and consumer aligned
- Future of Super Conference re-energises the debate on retirement incomes with the support of compelling consumer, tax and financial modelling evidence for ways of making KiwiSaver fairer, more accessible and affordable
- We've moved the debate from simply having an adequate NZ Super-based retirement income to workable options that plug the savings gaps to provide New Zealanders with a comfortable retirement and security
- Bringing a wider perspective to the retirement incomes debate by sharing learnings from OECD contribution-based pensions expert, Stéphanie Payet, and FSC Australia CEO, John Brogden, on the Australian super savings scheme
- Extensive polling provides evidence and keen understanding of needs, wants and appetite for change from middle New Zealand to guide our package of options and discussions
- Quality of the research, tax and financial modelling and analysis, as well as learnings from the OECD and Australia, wins praise from Ministers, politicians, advisors and officials and raises FSC's reputation as a credible organisation and sector leader
- Working with top advisors and specialists including:

  Fair Taxation for Retirement Savings

  Robin Oliver, Principal, Olivershaw, former IRD Deputy Secretary Policy
  Paul Mersi, ex PWC and IRD, Member of Savings Working Group

  Effective Tax Rate and Tax Reform Analysis is based on modelling work done for FSC by EY with input from

  Peter Goss, Director, Transaction Advisory Services, previously in Treasury tax policy
  Aaron Quintal, Director, Tax, previously in Treasury tax policy
  Blair Tomblin, Senior Consultant, Tax, formerly with IRD Policy Advice Division

  Retirement Income Policy Modelling

  Adolf Stroombergen, Infometrics

  Peer Reviewers

  Prof John Piggott, University of NSW, an expert on the taxation of superannuation and a member of the Henry Review
  John Savage, former NZIER Researcher for the review of financial and tax modelling

- Co-operative and collaborative working relationships with kindred organisations to present a more cohesive view of key issues affecting New Zealanders' wealth
- MoUs with Insurance Council of New Zealand (ICNZ), Institute of Financial Advisers (IFA) and the Health Funds Association (HFA).

CHAIRMAN'S REPORT
The Rt. Hon. Dame Jenny Shipley

The Financial Services Council (FSC) brings together leading financial and insurance institutions in New Zealand under a common public good goal of promoting strategies to increase and protect the wealth of New Zealanders.

The FSC has 21 members and 18 associate members who are entrusted to manage more than $80 billion in savings from 2 million New Zealanders – and they employ over 40,000 people.

We are well placed to lead and influence evidence-based options for addressing the big financial issues New Zealanders face today, especially the serious shortfall in retirement savings and the very low take-up of personal risk insurance that leaves so many families vulnerable if the unexpected occurs.

The FSC Board and membership made the strategic decision when we were established in 2011 that as an advocacy group we would deliver independently researched, peer reviewed, practical solutions to those burning platforms that would work for politicians, the industry and most importantly ordinary New Zealanders.

In the year under review we have made excellent progress, establishing the organisation as an informed, credible and straight talking commentator and strategic thinker.

We foster wide networks and input. We work closely with officials and regulators, and have continued to nurture strong collegial relationships with kindred organisations who also put New Zealanders' best interests first such as the Commission for Financial Literacy and Retirement Income, Workplace Savings, the Financial Services Federation, Bankers Association, Insurance Council of NZ, Health Funds Association and the Trustee Corporations Association.

Hear the People

Our agenda has been set by listening keenly to what our regular polling is consistently telling us: that New Zealanders need and want help to save sufficient funds through their working lives to support a comfortable and dignified retirement. And for that to happen politicians have to act and bring in a new cross party accord on retirement income. It is the big conversation of our time and constituents expect their MPs to hear their voices.

We do not believe we have all the answers, but as a respected advocacy group we do want to contribute productively to a national debate to help bring about a political consensus for a new retirement policy agreement to update the 20 year old one negotiated back in 1993. That would provide Kiwis with support, stability and security so that they will be able to reach a comfortable retirement.

With the 2014 election looming, there is an opportunity to have the informed discussions that will enable policymakers to make the decisions to lay the foundations for a sustainable agreement to build a stronger, fairer, more affordable, accessible and harder working KiwiSaver.

It is a safe and sound issue for politicians, regardless of party affiliation, to come together on. It would not only benefit New Zealanders but also the national economy.

"With the 2014 election looming, there is an opportunity to have the informed discussions that will enable policymakers to make the decisions to lay the foundations for a sustainable agreement to build a stronger, fairer, more affordable, accessible and harder working KiwiSaver."

Dame Jenny Shipley
Independent Chair, FSC.

A fairer tax treatment for retirement savings would serve to rebalance the tax bias which helps bid up house prices rather than incomes, help cool the overheated property market and create a culture of saving rather than spending beyond our means.

The Financial Services Council has put up a plan of options for politicians to consider. It is based on expert independent tax analysis, financial modelling and in depth consumer research which confirms that New Zealanders do want to save but need more help and, in fact, are pretty resigned to the eligibility age for NZ Super being pushed out and KiwiSaver eventually being made compulsory.

The FSC Options

To cut the level of savings required to fund a comfortable retirement over 40 years from 10% to 7% of income p.a. we have proposed the following package:

- keep NZ Super and the link to wages as is, even if the age of eligibility moves out
- gradually increase KiwiSaver contributions by 1% p.a. to 7%
- move savings in default KiwiSaver funds into higher earning, life stage appropriate funds
- offset additional risk with insurance or a capital guarantee
- level the tax playing field for KiwiSaver funds, paid for by re-targeting KiwiSaver incentives to fund lower tax rates

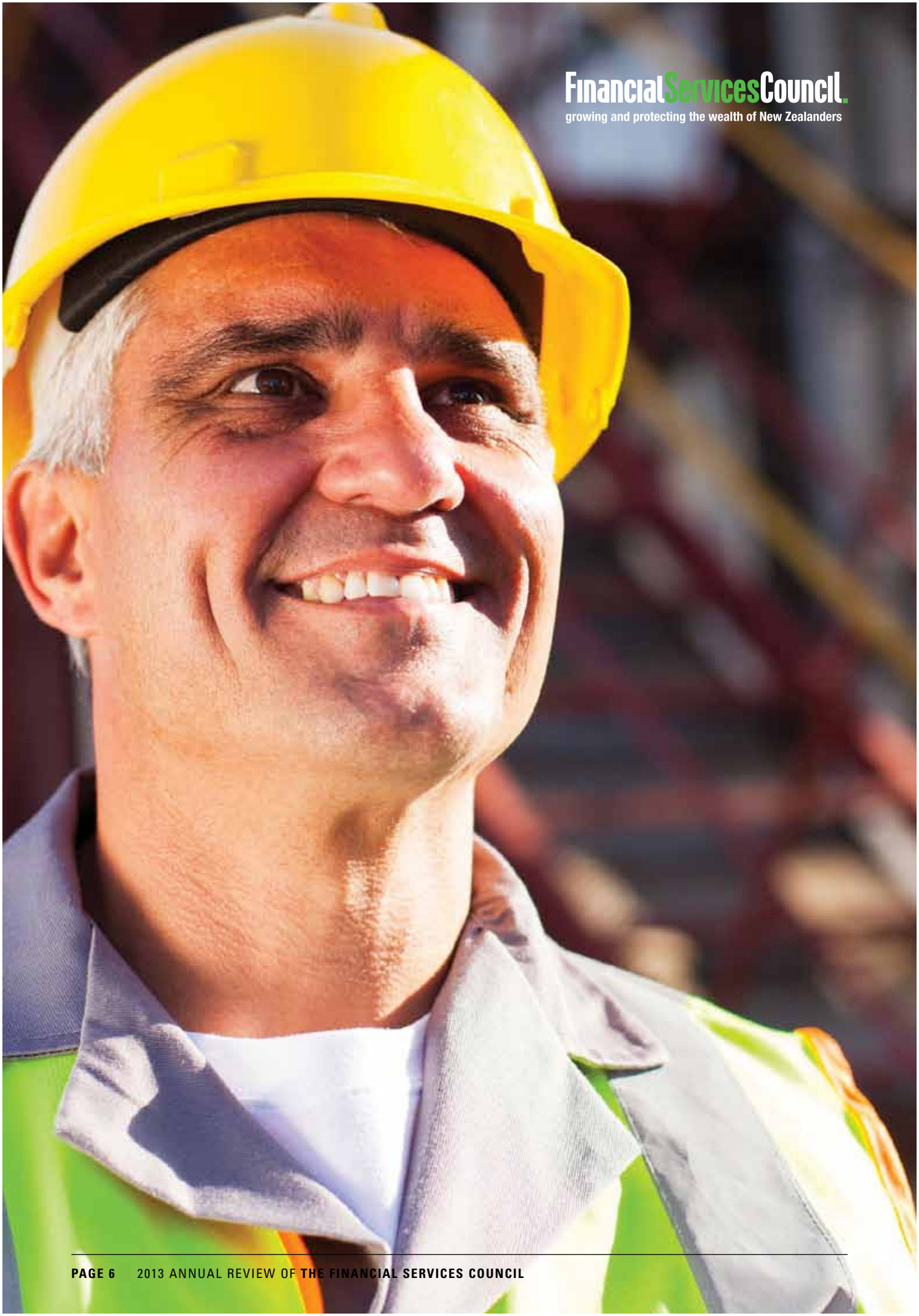
We have made available on our website and sent all Members of Parliament and their key advisors and officials the research, tax modelling, financial analysis papers, a media backgrounder and Future of Super conference presentations. (go to http://fsc.org.nz/SuperSizeRetirementIncome.html)

We also benchmarked this package of options against international best practice, including inviting OECD contribution-based pensions expert and analyst, Stéphanie Payet, as a keynote speaker to our landmark Future of Super Conference held in October 2013 and attended by 150 decisionmakers, industry leaders and government officials.

Miss Payet, who has studied the pension experiences of 37 countries, was also made available to brief officials from the Treasury, IRD, MBIE and MSD and we invited all Members of Parliament to a presentation in the Beehive.

Miss Payet made three key recommendations for the good design of contribution-based pension schemes like KiwiSaver to boost coverage and contribution of lower income employees. These in order of recommendation are:

1. Compulsion or universal enrolment as the most effective policy in reaching high coverage levels
2. Auto Enrolment to get people saving for retirement, but success depends on the design and interaction with incentives in the system
3. Financial Incentives for enabling achievement of an adequate retirement income have to be well designed, but taxation rates, flat-rate subsidies and matching contributions can help.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The FSC plan has taken into account the OECD best practice roadmap and can help increase coverage and contributions whether the policymakers opt for a compulsory scheme or retain voluntary KiwiSaver contributions.

Influence and engagement

The Financial Services Council work on KiwiSaver and the vexing issues related to retirement incomes has taken much time, effort and expertise, but the Board believes that success in influencing change for the good of New Zealanders is fully aligned with our purpose.

Given the opportunity to influence policy making in the run up to the election, our lobby to bring about a new, fit for the times retirement income policy for New Zealanders is a priority.

We are mindful at all times that we have a diverse membership and must deliver value, particularly in efforts to identify and champion the next phase in the development of the insurance sector which faces a number of challenges, including the cost and use of distribution channels in the internet and smartphone age and the need to engage consumers to see the benefit of personal risk insurance.

Critical consumer research we released in 2013 has identified opportunities and attitudes useful for the industry to re-energise its offerings and relevance to different segments of the market. The organisation, which must work within limited financial resources, does have ideas for engaging target consumers and also ensure that the key messages on managing personal risk are communicated on public platforms and through media programmes.

We have made good progress on all fronts during the year under review and have the strategy and plans to continue to build influence and deliver safe and sound options to make a positive contribution to build and protect New Zealanders' wealth – and New Zealand's wellbeing.

The Rt. Hon. Dame Jenny Shipley
Independent Chair

CHIEF EXECUTIVE'S REPORT
Peter Neilson

Our aim is to build and protect the wealth of New Zealanders and within that ambit is what we believe politicians need to do to correct the inequities and make KiwiSaver fairer, more accessible, affordable and harder working so that our citizens can have a comfortable retirement.

KiwiSaver will be a Budget and Election issue in 2014 as middle New Zealanders' awareness grows of just how much poorer they will be in retirement than other developed countries, including their cousins in Europe and siblings in Australia.

In OECD countries, including Australia, most employees can look forward to the same sort of retirement security as our long serving senior civil servants and politicians who achieve a retirement income of 60-70% of their previous salaries. For someone on the average wage, NZ Super pays about 43% of their previous earnings. Perhaps the lack of urgency by the policymakers in correcting the situation and shortfall in retirement savings by ordinary New Zealanders is that these legions are well catered for so there is no problem as far as they can see. As a former cabinet minister who served the minimum nine years I am eligible for an MP's pension, in addition to NZ Super, and so I am guaranteed a retirement income that is more than double NZ Super to assure me of a comfortable retirement. I am also in KiwiSaver.

There are 2 million New Zealanders enrolled in KiwiSaver, but around half of them are on a contribution holiday or are irregular contributors. Unfortunately most of the 1 million people who are regular contributors cannot save enough at 6% p.a., split with their employer, to have a comfortable retirement – and they know it and they are probably invested in a conservative default fund which attracts the highest effective tax rates. Only 8% of New Zealanders told us in an independent poll that they could survive on NZ Super alone – could you live on $357 a week?

The situation gets worse. Procrastination costs. Modelling conducted by FSC-commissioned experts shows that on the current settings people need to save a minimum 10% of their income every year over 40 years from age 25. If they wait another 10 years they will need to save 15% of their annual income and on it goes and if they wait till they are 55 then they will need to save 50% of their income! Is that likely?

Over the past year, the FSC has conducted consumer research, brought on board the best brains in the business to look at the pressing issues of taxation on savings like KiwiSaver, the amount of money savers leave on the table for often unknowingly staying in conservative portfolios rather than shifting to balanced or growth funds and what can be done for the low income earners and women, who spend more time out of the paid workforce caring for family and also do not have pay equality.

Package of Options

We have a plan. It provides options that we believe are safe for politicians to consider as a basis for a new retirement income policy agreement that will enable all New Zealand employees to save enough over their working life to fund a second pension that will give them the comfortable retirement they expect.

The FSC Plan

We have a plan to:

- gradually increase the contribution rate to 7%, starting at 1% for new KiwiSaver members, so you can buy a second pension to provide a retirement income double NZ Super - that's only 1% more if you are already putting aside 6% (3% from the employee and 3% from the employer)
- keep NZ Super as is

"We have a plan. It provides options that we believe are safe for politicians to consider as a basis for a new retirement income policy agreement that will enable all New Zealand employees to save enough over their working life to fund a second pension that will give them the comfortable retirement they expect."

Peter Neilson
CEO, FSC.

To get to the 7% contribution target four things need to happen:

- move savings to higher earning funds depending on your life stage
- offset higher risk with insurance to guarantee a level of savings at retirement
- level the tax playing field with other forms of savings
- retarget the money spent on KiwiSaver incentives to fund lower tax rates to make it fiscally neutral

And to get that to happen we need all parties in Parliament to agree to a new, updated retirement savings policy that:

- continues to support KiwiSaver to help NZ employees save for a comfortable retirement over their working lives
- progressively steps up KiwiSaver contributions and coverage
- does not put New Zealanders who save for retirement in KiwiSaver at a tax disadvantage compared with other savers
- lowers taxes over time to level the playing field so KiwiSaver members are not at a tax disadvantage in saving for retirement

The options we're putting forward for consideration would work whether KiwiSaver remains voluntary or becomes compulsory which international best practice recommends as the most effective means for increasing contributions and coverage as well as creating a culture of savers. Compulsion is seen by New Zealanders as inevitable in due course, and not a bad thing to help people develop good saving habits, according to our polling, so even that issue is unlikely to be contentious if that is where the politicians decide to settle.

The Way to Wealth

We've also moved the discussion beyond the endless age of eligibility arguments to focus on what really will make the difference to New Zealanders wanting comfortable retirement incomes – finding practical and politically implementable ways to plug the desperate shortfall in retirement savings and strengthen the national savings base.

We are making progress, armed with a substantial body of evidence from analysis and modelling by respected tax and financial experts and independent consumer research as well as expert advice from visiting OECD contribution-based pensions expert Stéphanie Payet. Advisors, officials and politicians have not questioned the assumptions or the analysis we have presented for the basis of our package of options as yet and we will continue to make available to them our specialists and our working papers.

But, we want to continue the conversation at the grassroots and let their voices be heard at the highest levels, and in all political caucuses, because we believe that there is an urgent need to have the retirement income issue sorted in the next few years so people have the security, stability and support they need to save for their future. Voters go to the polls later in 2014 and retirement income savings will be on the agenda.

Best Interests

The FSC, however, has no intentions of being dogmatic. We do not expect that any government will accept all our recommendations. In fact, the current government recently confirmed that it would retain the conservative default funds approach to KiwiSaver rather than encouraging a shift to balanced or higher growth funds. That decision will cost New Zealanders dearly and mean they will have to save a lot more for a lot longer and pay


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> "We want to continue the conversation at the grassroots and let their voices be heard at the highest levels, and in all political caucuses... Voters go to the polls later in 2014 and retirement income savings will be on the agenda."

a lot more tax on those savings as they try and build their retirement nest egg.

Many people are in conservative, default funds and don't know it. We see a pressing need to up our efforts to ensure they know just how much money will be left on the table if they stay there – and we will also work to lift their understanding of the impact of compound interest on their savings and the amount of tax they will pay over the decades.

Our latest HorizonPoll shows that people do not yet fully understand the longer term benefits of changing default fund investments from conservative to balanced or growth funds in order to reduce contributions from 10% of income to 7%p.a. if KiwiSaver were made compulsory.

We understand the Government's position that it deemed the conservative, risk-averse investment approach the most appropriate choice when it was taking decisions about other people's private savings, but there are other ways to mitigate risk and volatility of higher earning funds – and there is a responsibility on all of us to ensure we help people understand the risks and benefits of the fund portfolio they have defaulted into or might choose to shift to as their circumstances change.

Default options – not understood

Most people do not yet understand the longer term benefits of changing from a default, conservative fund to a balanced or growth fund in order to reduce contributions from 10% of income to 7% (split between employee and employer).

The OECD recommends a life stages approach to default investment so younger people invest in more growth assets and then move into conservative funds close to retirement. The OECD also has advice on how to provide guarantees to manage the risk of retirement savers.

The FSC plan suggests providing a form of insurance, or a top-up, to guarantee that anyone who saved over at least 30 years would get enough in their retirement nest egg to purchase a second pension, equivalent to NZ Super, and double their retirement income.

An independent assessment shows that this would cost KiwiSaver members about 0.31-0.35 of 1% in additional contributions, a bargain if your returns are to be 2.0-2.5% higher each year. If a government decided that it should be paid by taxpayers it would be just 0.2 of 1% of GDP.

This would be of particular value to people who spend more time out of the paid workforce, like women looking after family members, or if retirement collided with poor financial markets.

We have work underway to quantify the cost of providing a capital guarantee that would give KiwiSaver members peace of mind and not leave them any worse off if they suffered a loss due to a major financial markets event they have no control over in the year before they retire.

Taxation is another area where people have a slim grasp of how it is hitting their KiwiSaver and bank term deposit savings, or how our tax system works against people who save a little for a long time. It certainly discourages saving as a life time habit.

Hostile Taxes

New Zealand has the most hostile tax environment for long term savings in financial products with compound returns like KiwiSaver conservative assets that we could find anywhere in the world. Over 40 years of saving for retirement, the effective tax rate on your investment returns reduces a retirement nest egg by more than 50%.

NEST EGG FOR SOMEONE ON AVERAGE WAGE CONTRIBUTING 6% TO KIWISAVER OVER 40 YEARS

If someone on the average wage contributing 6% p.a. (3% from the employer and 3% from the employee) stays in a conservative fund for the next 40 years they'll end up with a nest egg at least $150,000 smaller than if they invested in a balanced portfolio, $250,000 less than being in a growth fund. Investors also need to know that conservative funds suffer the highest effective tax rate which increases the savings required to get to a comfortable retirement.

KiwiSaver Fund	Interest Rate Return After Tax and Fees	Nest Egg at 65	Difference
Conservative	4.0%	$328,772	-
Balanced	6.0%	$514,521	$185,749
Growth	6.6%	$596,543	$267,771

The Rule of 72

A simple illustration of how tax and time can eat into your potential savings.

Suppose your Grandmother gives you a $1000 investment bond earning 6% a year tax free as a 17th birthday present for you to cash in when you are 65.

How much will you have at 65 (using the rule of 72)?

72 ÷ 6% = 12 years

So your money doubles every 12 years at 6% interest tax free:

$1000 becomes $2000 in 12 years
$2000 becomes $4000 in 24 years
$4000 becomes $8000 in 36 years
$8000 becomes $16000 in 48 years

After 48 years your $1000 would have grown to $16,000 by the time you get to 65, assuming you kept reinvesting all the interest each year and paid no tax on the interest earnings. So $1000 of savings has produced a $16,000 nest egg at retirement.

Now.....

Imagine instead of it being tax free you were taxed at 50 cents in the dollar on any interest you earned. That is a 50% tax rate. That means that rather than 6% interest each year you are earning just 3% interest after tax.

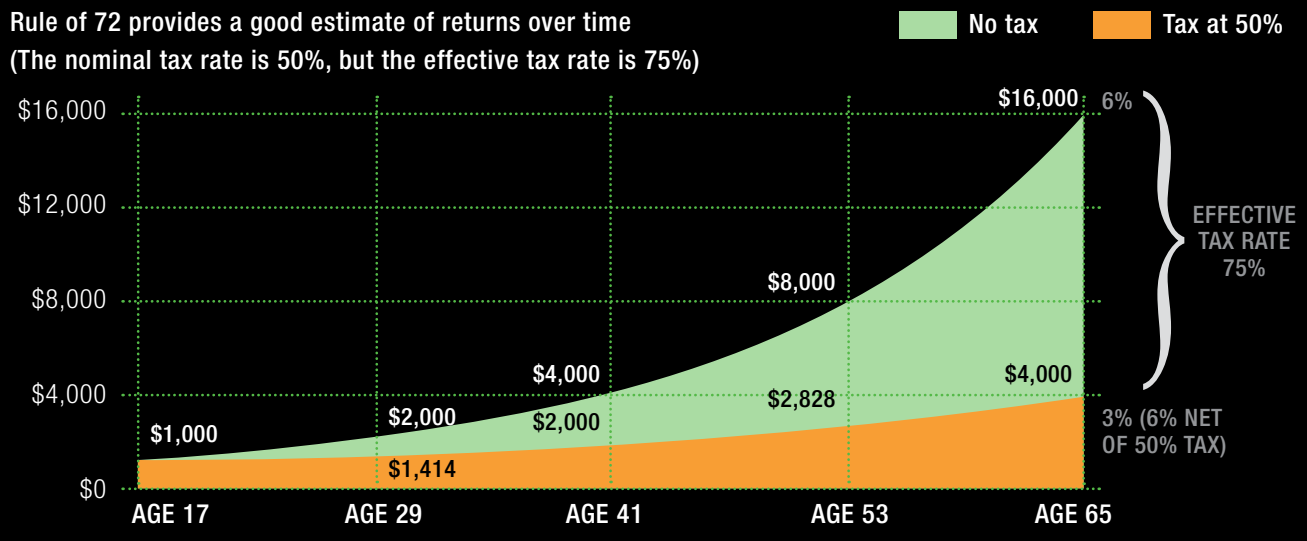
72 ÷ 3% = 24 years

So your money only doubles every 24 years at 3%

$1000 becomes $2000 in 24 years
$2000 becomes $4000 in 48 years

After 48 years your $1000 would have grown to only $4,000 when you get to 65 because of the impact of tax.

Rule of 72 provides a good estimate of returns over time
(The nominal tax rate is 50%, but the effective tax rate is 75%)



You can see the impact of the 50% tax rate on that initial $1000 investment, but what you can't see is that the effective tax rate is actually 75% over 48 years.

Moving from 6% with no tax to 3% after tax does not halve your retirement nest egg, it cuts it by three quarters. That's the difference between the marginal tax rate and the effective tax rate when you earn compound returns over time.

> "The FSC sees as one of its priorities in the next year, a big push to talk directly to savers so they are aware of the tax system and its punishing impact on their nest eggs as well as show them the options that politicians do have available to level the tax playing field."

Understanding how savings will be taxed and the impact of compound interest are difficult concepts and the reality is that despite best efforts to continue to better educate and lift the nation's level of practical financial literacy, we have a long way to go.

The FSC sees as one of its priorities in the next year, a big push to talk directly to savers so they are aware of the tax system and its punishing impact on their nest eggs as well as show them the options that politicians do have available to level the tax playing field.

Our plan suggests that it would be possible to bring down the harsh taxes on KiwiSaver so they were level with property investments by eliminating the hundreds of millions of dollars Government pays in tax incentives to KiwiSaver members. Many are often contributing just the minimum $1042 p.a. to get their $521 return. This money could then be redirected to make KiwiSaver fund tax cuts fiscally neutral.

Lower taxes on savings would have a benefit for the economy too, dampening the attractiveness of investments in rental properties and the overheated property market and turning the light on to lifting productivity, export competitiveness with a lower dollar and building a more robust national savings pool to fund greater investment in New Zealand enterprises and infrastructure.

No Place like Home

That resilience, along with a fairer tax treatment on savings and encouragement and guarantees to mitigate the risk of shifting to higher earning KiwiSaver funds, might also serve to retain young New Zealanders in their own country as contributing tax payers and savers.

Otherwise, Australia certainly has its attractions with higher wages, perceived higher living standards and most definitely higher retirement incomes. In fact the quickest way to double your retirement income would be to move to Australia which has a compulsory Super scheme with a treasure chest of $1.6 trillion in savings accumulated over 20 years and continuing to grow fast. But, we are not the lucky country. We too could have had a rich treasure chest but New Zealand rejected compulsory savings in 1975.

OECD Best Practice

The clear conclusion from international experience is that making enrolment into private pensions compulsory is ultimately the most effective policy in reaching high coverage levels, according to the OECD roadmap which we have shared with government officials.

Most countries exempt the very low paid and the self-employed from the requirement to contribute to retirement savings, but countries where retirement savings are compulsory like Sweden has 90% coverage, the Netherlands 88%, Iceland 86% and Denmark 84%.

Compare these rates with KiwiSaver in New Zealand which covers 46% of the population but with a high proportion of people enrolled not saving regularly or at a level sufficient to enable them to purchase a second pension on top of NZ Super to have a comfortable income.

Automatic enrolment is recommended by the OECD as the second-best option to get people saving for retirement, but success depends on the design and interaction with incentives in the system.

The third option for achieving an adequate retirement income is well designed financial incentives, including taxation rates, flat-rate subsidies and matching contributions.

OECD Roadmap

The three key recommendations for the good design of contribution-based pension schemes like KiwiSaver to boost coverage and contribution of lower income employees are:

1. Compulsion or universal enrolment
2. Auto Enrolment
3. Financial Incentives

Having benchmarked the FSC plan against the OECD roadmap and sought feedback from decisionmakers and policymakers, we are now analysing the findings of the latest HorizonPoll of over 3,000 average New Zealanders to get their view on the FSC package of options and gauge whether it is on track to meet their needs, wants and expectations.

Financial Literacy

The keys to New Zealanders making successful decisions about their personal finances is higher levels of practical financial literacy.

A survey by the Commission for Financial Literacy and Retirement Income, in association with ANZ, looked at what New Zealanders did know. We were better than most countries, but only 49% understood the concept and only one in seven understood how compound interest worked and its impact on savings. Our own work has highlighted the need to help savers

understand the long term effect of tax on their nest egg and also their ability to make decisions about the KiwiSaver fund that would best suit their needs.

We are looking forward to working with the Commission which is keen to see progress in financial literacy, particularly to make people less vulnerable to schemes that are just too good to be true or making decisions that could see them lose out.

Personal Risk Insurance

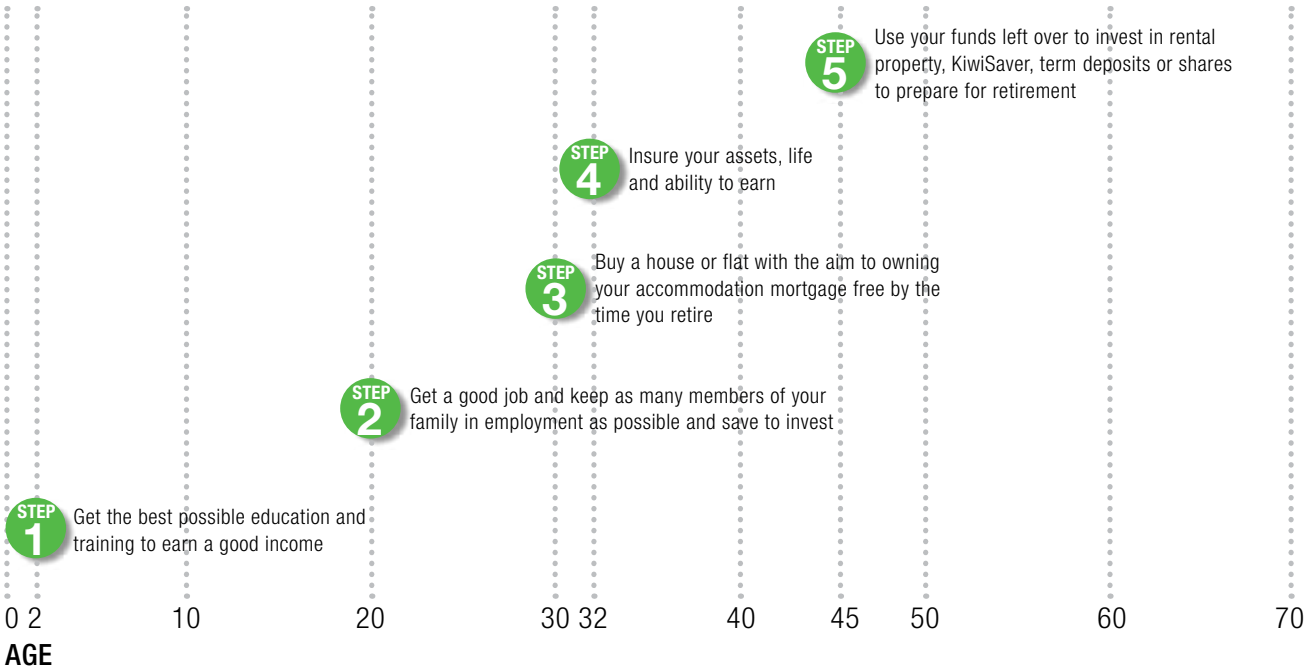
The FSC has a clear role too in educating people to understand what they need to do to protect their own vulnerability, their lives and livelihood, not just their property, while they are earning and have their lives ahead of them.

Financial literacy has a large part to play but really it is up to the industry to transform itself and its offering to meet the times and expectations of consumers because the potential for growth in the personal insurance arena is huge.

Our research shows that people are underestimating their life expectancy after age 65 and don't save enough and we also know that New Zealanders do not have adequate insurance to cope with the unexpected.

National Underinsurance ($m)				
	Life	TPD	Critical illness	Disability income
Single	9,954	13,715	10,237	366
Couples	62,649	88,027	14,858	660
Single parent family	806	1,752	3,661	153
Families	68,507	134,147	13,655	754
Total	141,918	237,641	42,411	1,933

How New Zealanders currently build their wealth



Most New Zealanders traditionally start saving seriously for retirement only when they reach their late 40s or early 50s.

Kiwis follow a well-trodden path on their road to riches and it does not take into account the unexpected life changing event that may shortstop that dream.

Most New Zealanders live financially close to the edge. Unemployment, sickness or retirement could quickly knock them over that edge:

- Only 15% say they have sufficient savings to last six months if they were made redundant
- 26% would not be able to pay their bills after just one week
- 54% have insufficient savings to last 4 weeks after being made redundant
- Only 8% think NZ Super ($357 p.w. after tax for an individual and $549 for a married couple) is sufficient to retire on (Horizon Oct 2013)
- Only 15% have Income Protection insurance (Horizon Oct 2012)

Most people find insurance boring and in the too hard basket even when it is about protecting their greatest asset – themselves and their capacity to earn. But can you blame them?

The industry needs to take notice of what their customers are telling them. The research says that if you scratch the surface, insurance is a highly emotive subject for people. Motivations for insurance revolve around protecting loved ones, personal dignity and independence. The potential of immediate financial action and relief has strong appeal. That provides a hook for the industry to turn the negative views to a positive action and experience.

Our polling showed that the insurance industry is seen as 'out of step with the times' compared with the customer focused experiences people enjoy with other service sectors.

The insurance sector has a bright future if it heeds the signs and transforms into a customer-aligned service industry.

- It needs to have flexible products that meet different life stages.
- Offers that are written in simple language, devoid of jargon, so they are understandable, relevant and the value or benefit is obvious.
- People would also like access to professional and cost effective financial advice.
- Easy access to insurance schemes through the workplace or as part of KiwiSaver.
- Culturally relevant insurance products made available to ethnic communities.

If the industry listens, customers are providing them with the answers that will overcome their fears, anxiety, confusion and indecision about insurance.

And not only can the industry reframe the message but also the medium.

The days of buying a policy and forgetting about it are over and a new agility is required to keep up with people's lives and deliver services in a way that meets the market rather than what is seen as a one size fits all policy, delivered through a rather clunky mechanism.

Our members are currently investigating new distribution mechanisms not only to cater for a web literate shopper but also to reduce costs, increase accessibility and efficiencies and put the personal insurance sector in touch with their current and new customers.

Connecting with customers is only one of the industry's big challenges. The FSC, on behalf of our members, is working to develop a clearer understanding with government on a range of tax and competitive constraint issues.

The industry is in a position to take the lead and future proof its business so it is relevant to New Zealanders' lives not only in the range of services it provides but also in how it engages customers in a rapidly changing world of technology and mobility.

Peter Neilson
CEO

"It is up to the industry to transform itself and its offering to meet the times and expectations of consumers because the potential for growth in the personal insurance arena is huge."

STATISTICAL OVERVIEW

Funds under Management

Unlisted retail investment funds under management (FUM) by New Zealand managers increased 11 % from $33.8 billion to $37.3 billion in the year to 30 June 2013.* FSC members are responsible for managing 80% of this total.

Net Retail Funds Under Management (NZ$ millions)

Product	2013	2012	% change
KiwiSaver	15,042	11,665	29
Investment Trusts			
PIE	16,788	16,606	1
Non PIE	106	215	-50
Superannuation (non KiwiSaver)			
PIE	3,238	3,135	3
Non PIE	1,578	1,517	4
Group Investment Funds	64	77	-16
Insurance Bonds	571	587	-3
All Products	37,387	33,802	11

Source Morningstar New Zealand Retail Managed Investments Market Share Report, June quarter 2013.

The 11% increase in FUM mainly comprised a 29% increase in KiwiSaver funds with only small increases in other superannuation and in PIE investment trusts, offset by decreases in non-PIE products. A positive funds flow of $390 million contributed to the growth in KiwiSaver FUM for the year ending 30 June 2013, while non-KiwiSaver products had a negative funds flow of $2,371 million.

Morningstar notes that the total FUM for the June 2013 year has been reduced by one fund manager restructuring and transferring three retail funds into wholesale funds which are not included in the Retail Managed Funds report.

The dominance of conservative investment portfolios is illustrated by more than twice as much FUM in conservative as in the next category, balanced.

Reserve Bank

The Reserve Bank series differs from the Morningstar data in that it includes wholesale funds and "other" funds, including funds managed on behalf of charities and not for profit organisations. The Reserve Bank data shows an increase of $10.4 billion (+14 %) rising from $75 billion at the start of the year to $85.5 billion at 30 June 2013. KiwiSaver once again showed the strongest growth, increasing 31%, from $13.1 billion to $17.2 billion.

Managed Fund Assets by Product Category

(NZ$ millions)

Product	2013	2012	% change
Life Insurance	5,920	6,049	-2
Superannuation			
- KiwiSaver	17,203	13,117	31
- Other	22,207	19,851	12
Unit trusts & GIFs	18,499	15,983	16
Other Funds	21,705	20,091	8
Total	**85,534**	**75,091**	**14**

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

FSC STATISTICS FOR Y/E 30 JUNE 2013

Traditional and Risk Business

Traditional Whole of Life, Endowment and Unbundled products continue to represent a diminishing part of the market compared with the increase of 5% in annual premium income for term insurance. The more modern product types such as Trauma and Income Protection policies are also seeing strong growth of 10% and 8% respectively in the year to June 2013.

The FSC Quarterly Statistics have been collecting data on individual Trauma and Income Protection cover since the year ending 30 June 1996. In that time there has been an average 416% p.a. increase in annual premium income for individual trauma policies and a 31% p.a. increase for Income Protection policies.

Benefits Paid

A total of $1.1 billion was paid out during the year under review to 30 June 2013, the biggest sector being payments of $422.5 million in death benefits on term insurance policies. That was followed by $189.8 million in maturity benefits on whole of life and endowment policies. The next largest category of payments was Trauma benefits of $130.8 million and then Income Protection benefits of $103.6 million.

New member

The statistics for the year ending 30 June 2013 are affected by the entrance of a new member from the September 2012 quarter. This should be noted when comparing total figures reported for the 2013 year with the 2012 year.

Traditional & Risk Business – Product Summary 4 Quarters ending 30 June 2013

Product	Annual Premiums $000								Annual Premium Contracts		Single Premium Contracts	
						Discontinuances			Benefit Count		New Contracts	
	Inforce @ start	Contractual increases plus adjustments	Revisions	New Business	Transfers	Claims & expiries	Lapses, surrenders, & cancellations	Inforce @ end	New	Inforce @ end	Premiums $000	Benefit count
Traditional	(a)	(b)	f	(c)	(d)	(e)	(f)	(g)	(h)	(I)	(j)	(k)
Whole Life & Endowment	110805	519	-31	363	0	5323	3290	103045	204	310985	22	0
2012	116577	562	626	414	0	4476	2898	110805	307	324514	15	0
Unbundled	38304	1010	-836	23	0	981	3081	34436	0	19397	0	0
2012	42626	1366	-64	23	0	1093	4554	38304	8	21952	0	0
Risk												
Term	933329	79873	1134	97688	-3023	6691	122109	980195	177215	1529611	2472	19282
2012	854395	78481	-197	90808	-700	5191	97436	920160	165122	1332100	2219	18779
Guaranteed Acceptance	52789	790	56	10717	2	1211	5226	57915	19498	170497	0	0
2012	47672	103	1062	10886	3	1214	5718	52794	21241	154940	0	0
Trauma	267874	24052	-177	41623	2588	1435	40090	294431	106646	644279	0	0
2012	244291	20691	-11	33352	-209	1558	36403	260153	93066	523730	0	0
Replacement Income	268646	19453	-1771	43932	442	1513	39543	289639	106518	649440	0	0
2012	252135	14602	1760	30749	913	1173	35757	263229	79331	482039	0	0
Lump Sum Disablement	53876	4806	398	8191	-8	539	8496	58226	51886	265934	0	0
2012	48595	7907	-1400	6174	-7	660	7617	52992	39007	234943	0	0
Accidental Death	14450	316	-55	1846	0	277	1609	14670	10658	144924	0	0
2012	14296	392	3	1353	0	260	1333	14451	8730	146376	0	0
Credit Insurance	59790	1155	0	16793	0	27	16509	61202	79725	325289	24032	31970
2012	58134	-30	237	16070	0	3	14615	59793	72559	348721	22829	32694
Group					0						0	
Death & Disablement	77310	4397	-357	3612	0	0	2941	82023	0	0	0	0
2012	82326	3436	-6735	2554	-167	0	4051	77363	0	0	0	0
Replacement Income	32236	1805	-15	1857	0	0	1283	34600	0	0	0	0
2012	33923	1899	-4045	1912	167	0	1619	32237	0	0	0	0
Trauma	4125	429	-8	557	0	0	349	4756	0	0	0	0
2012	3361	316	0	546	0	0	103	4120	0	0	0	0
Total	**1913534**	**138605**	**-1661**	**227203**	**0**	**17997**	**244526**	**2015158**	**552350**	**4060356**	**26527**	**51252**
2012	1798331	129725	-8764	194841	0	15628	212104	1886401	479371	3569315	25063	51473

ACKNOWLEDGEMENTS

FSC has a very small staff and we rely on member companies to work with us on our Policy Committees and Tax Advisory Group to ensure that we are able to represent the industry. In addition, we have a number of ad hoc working groups assisting us in specific areas. We realise that this participation requires a commitment from members and we would like to thank and acknowledge the contribution that the following people have made in the past year:

Board Administration Committee

Dame Jenny Shipley	Independent Chair
David Carter	Asteron
Martin Lewington	Mercer

Managed Investment Schemes & KiwiSaver Policy Committee

David Wallace	AMP
John Body	ANZ
Craig Haycock and Alan Gilbert	ASB
Chris Lynch	Fidelity Life
Mark Weaver	Melville Jessup Weaver
Sarah Whitelock	Mercer
Chris Douglas	Morningstar Research
Lisa Brock and Richard O'Brien	Sovereign Ltd
Kate Armstrong	Westpac

Life Insurance & Advice Policy Committee

Therese Singleton	AMP
Nadine Tereora and Errol Timmins	Asteron Life
Michael Burrowes	Burrowes and Co
Milton Jennings and Neale Watling	Fidelity Life
Petar Peric	General Reinsurance Life Australia
Naomi Ballantyne	Partners Life
Andre Dreyer	RGA Reinsurance
Kate Gillmore and Tim Chambers	RGA Reinsurance
Damian Lawrence	Sovereign Ltd
Kevin Crowley	Westpac

Mental Health & Insurance Working Group

Damian Lawrence	Sovereign Ltd
Michael Burrowes	Burrowes and Co
Kate Gillmore	RGA Reinsurance
Stephen Potter	Fidelity Life

Distribution Working Group

Nick Scarlett	AMP
Jeremy Nicoll	ANZ/OnePath
Mark Frecklington	Asteron
Mike Grenfell	Cigna
David Chamberlain	Kiwibank
Neil Brock	Sovereign
Kevin Crowley	Westpac

Taxation Advisory Group

Karen Scheirlinck	AMP Financial Services (Convenor)
Michelle Burton	AMP
Richard Leung	AMP
Adele Smith	AMP Capital
Martin Boffey	ANZ Bank
Reid Hebden	ANZ Bank
Sandra Baird	BNP Paribas
Seinjileen Naidu	BNZ Insurances
Donald Wong	Deloitte
Greg Haddon	Deloitte
Cameron Rose	Deloitte
Matthew Hanley	Ernst & Young

Milton Jennings	Fidelity Life
Tim Clark	Fidelity Life
Alan Crowe	FNZ
Tony Lines	Kensington Swan
Greg Grant	Kiwibank
Paul Dunne	KPMG
John Cantin	KPMG
John Peterson	Minter Ellison
David Lamb	PricewaterhouseCoopers
Mark Russell	PricewaterhouseCoopers
Damien Smith	Public Trust
Shaun Connolly	Russell McVeagh
Bevan Miles	Sovereign Ltd
Ruari McGregor	Trustees Executors Limited
Alex Howe	Westpac
Eugene Young	Westpac

Industry Regulation

Richard McIntosh	AIA
Chris Peters	AMP
Peter Long	AMP
Jeff Thompson	AMP
David Boyle	ANZ/OnePath
Joanne Macredie	ANZ/OnePath
Michelle Smith	ASB Bank
Haydn Wong	Bell Gully
Mark Brent	Westpac/BT Funds Management
Michael Burrowes	Burrowes and Co.
Mike Woodbury	Chapman Tripp
Tim Williams	Chapman Tripp
Anna Black	Fidelity Life
Catriona Grover	Kensington Swan
David Ireland	Kensington Swan
Linda Caradus	Melville Jessup Weaver
Graeme Cosgrove	Mercer
Lloyd Kavanagh	Minter Ellison
Chris Douglas	Morningstar Research
Greg Bunkall	Morningstar Research
Stuart Auld	Morningstar Research
Catherine Johnston	PricewaterhouseCoopers
Paul Rhodes	PricewaterhouseCoopers
Mike Birchler	Public Trust
Damian Lawrence	Sovereign Ltd

Actuarial

Maarten Romijn	AMP Financial Services
Michael Bartram	ANZ
Daniel Wong	Asteron
Hamish Farrar	BNZ Insurances
Richard Johnson	CIGNA
Adam Follington	Deloitte
John Smith	Fidelity Life
David Chamberlain	Kiwibank
Catherine Johnston	PricewaterhouseCoopers
Paul Rhodes	PricewaterhouseCoopers
Ben Coulter	Sovereign Ltd
Jonathan Turner	Sovereign Ltd
Doune Connett	Sovereign Ltd
Joe Benbow	Westpac
Ian New	Westpac

SUBMISSIONS

Following a strategic review, the FSC resources have been refocused on issues that have the most impact at an industry level. The FSC has commented on behalf of the financial services industry on the following issues in the year ended 30 June 2013:

- Commerce Select Committee– Financial Reporting Bill – January 2013
- Finance and Expenditure Select Committee – Insurance (Prudential Supervision) Act Amendment Bill – June 2013
- Financial Markets Authority – Class Exemption Review – July 2012 and January 2013
- Financial Markets Authority – Guidance Note on the Sale and Distribution of KiwiSaver- July 2012
- IRD – Life Insurance Remedial Items – December 2012
- IRD – Life Insurance Remedial Legislation – April 2013
- IRD/Treasury – Taxation of Foreign Superannuation – September 2012
- MBIE – KiwiSaver Default Provider Arrangements – December 2012
- MBIE –FMC Regulations – March 2013
- MBIE- KiwiSaver (Periodic Disclosure) Regulations – November 2012
- Ministry of Justice – Anti-Money Laundering/Countering Financing of Terrorism Regulations – August 2012
- Reserve Bank – Insurance Solvency Standards Consultation – February 2013
- Commission for Financial Literacy and retirement Income – Review of Retirement Income Policies – May 2013
- Finance and Expenditure Select Committee – Taxation (Livestock Valuation, Assets Expenditure and Remedial Matters) Bill – February 2013

Since the end of the June 30 2013 financial year we have also submitted on the following:

- Reserve Bank – Insurance Solvency Standards Consultation – July 2013
- Finance and Expenditure Committee – Taxation (Annual Rates, Foreign Superannuation and Remedial Matters) Bill – July 2013
- IRD-FATCA- Draft enabling legislation – September 2013
- Treasury – Flexible Superannuation – October 2013
- Financial Markets Authority- Regulatory Reporting Guide for AFAs – October 2013
- Commission for Financial Literacy and Retirement Income – Review of Retirement Income Policies – Comments on Draft Report-November 2013

MEMBERS

FSC MEMBERS

AIA New Zealand

AMP Financial Services

ANZ

Asteron Life

BNZ Insurances

CIGNA Life Insurance NZ

Fidelity Life Assurance

FNZ

Gen Re LifeHealth

Hannover Life Re of Australasia

Kiwibank

Mercer

Munich Reinsurance Co of Australasia

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