

**INVESTMENT SAVINGS & INSURANCE ASSOCIATION OF NZ
INC**

SUBMISSION
TO THE
MINISTRY OF ECONOMIC DEVELOPMENT
ON THE
REVIEW OF FINANCIAL PRODUCTS AND
PROVIDERS

Mutuals Governance

13 December 2006



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Introduction

The Investment Savings and Insurance Association ("ISI") welcomes the opportunity to comment on the Discussion Document *Mutuals Governance* issued as part of the Review of Financial Products and Providers ("RFPP"). Our comments are made on behalf of our members who are the issuers and managers of life insurance, superannuation and managed funds listed at the end of this paper. Our members are keenly interested in the proposals put forward for regulation of the financial services industry and we have appreciated the extensive consultation on these issues with officials and advisory groups.

ISI generally supports the overall framework for regulation of the financial services industry and the registration proposal. Although ISI does not currently have any members that are mutuals, we do have some brief comments to make in respect of the Mutuals Governance discussion document.

General Comments

ISI commends the Ministry of Economic Development for the process followed in the RFPP and the opportunity it presents for the regulation of financial services to be considered in a comprehensive manner. The discussion documents produced by MED together provide a very useful overview of the application of different pieces of legislation to the various products and services available within the industry.

We endorse the approach to financial services regulation from the point of view that comparable products and services should be regulated on a comparable and consistent basis in order to increase the protection and understanding of consumers and reduce the cost of compliance for providers. One of the key outcomes to be hoped for must be an improvement in the environment for saving in New Zealand in order to raise the level of personal saving and increase the pool of local savings available for investment.

As noted above, ISI members are the companies issuing and managing life insurance, superannuation and managed funds in New Zealand. That involves various ISI members in most of the activities reviewed as part of the RFPP: insurance, superannuation, collective investment schemes, platforms and portfolio management services, the offering of securities and consumer dispute resolution and redress.

All ISI members have an interest in New Zealand maintaining a robust and efficient financial services system which has the confidence and respect of the New Zealand public and local and international institutions. ISI has taken a leading role for the industry in commenting on law reform issues. Key issues in recent years have been the recommendations for review of the Life Insurance Act 1908 and the review of the Securities Act and Regulations.

We are aware of the need for financial services regulation in New Zealand to take account of responsibilities towards the security of international financial markets and ISI has provided submissions to recent Ministry of Justice discussion documents on anti-money laundering and countering the financing of terrorism (FATF

Recommendations). As most ISI members are trans-Tasman companies, we are also acutely aware of the issues around trans-Tasman mutual recognition.

A holistic approach to regulation of the financial services industry should ensure that all of these factors are taken into account in the design of a new regime.

Our key concern in respect of the issue of mutuals governance is differential treatment for comparable securities and we provide the following brief comments on that point. We do not attempt to answer the specific and detailed questions.

Mutuals Governance

ISI believes that all institutions operating within the financial services sector should be subject to the same and consistent regulation and licensing.

We consider that the questions raised by Mutual Governance should be answered in the same manner as applies to all other financial services organisations and in the context of the appropriate MED discussion document to which they apply.

- For example, a mutual organisation providing life insurance should be considered in the context of the issues raised by the life insurance discussion document.

ISI believes that mutual organisations should not be considered as special or different cases but should be subject in all respects to the same regulations, registration licensing requirements applicable to the product lines they offer.

- For example, mutual organisations offering collective investments should be subject to the regulation applying to that product line.

Mutual organisations offering life insurance should be subject to regulation applying to life insurers.

There should be no ‘carve outs’ or special conditions applied. Consistency of treatment is essential.

Failure to apply any new regulations consistently risks creating confusion between product providers, regulators and consumers, and inevitably leads to distortions.

The discussion document claims that previous reviews of mutual organisations as identified that “the governance regime was not as robust” as other comparable organisations and industry sectors. The Review of Financial Products and Providers is the appropriate time to address Governance and ensure consistency across the total financial services sector.

List of ISI Members

ISI MEMBERS

American International Assurance
AMP Financial Services
Asteron Life Ltd
AXA New Zealand
BNZ Investments and Insurance
BT Funds Management Ltd
CIGNA Life Insurance NZ Ltd
Equitable Group
Fidelity Life Assurance Co Ltd
Gen Re LifeHealth
Hannover Life Re of Australasia Ltd
ING New Zealand Ltd
Medical Assurance Society NZ Ltd
Munich Reinsurance Co of Australasia Ltd
Public Trust
RGA Reinsurance Co. of Australia Ltd
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