

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

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

Non-Bank Deposit Takers

13 December 2006



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Introduction

The Investment Savings and Insurance Association ("ISI") welcomes the opportunity to comment on the Discussion Document *Non-Bank Deposit Takers* 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 members generally do not operate as Non-Bank Deposit Takers, we do have some brief comments to make in respect of the NBDT 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.

ISI provides the following brief points in response to the high level principles and policies contained in the NBDT paper. We do not attempt to answer the specific and detailed questions.

Non-Bank Deposit Takers

ISI believes that application of regulation and policy should be consistently applied across all sectors of the financial services industry and does not support the creation of a two tier structure – Authorised Deposit Takers (ADTs) and Other Deposit Takers (Tier 2 NBDTs).

We consider a two tier structure risks creating uncertainty and confusion between consumers, the organisations involved and the regulators.

ISI does not support the introduction of regulation that is elective. Either regulation applies or it does not – election or choice should not be an option.

ISI does not consider that the discussion document creates a compelling argument for the two tier model proposal.

ISI notes the recent failure of three finance companies but does not believe that the proposed changes would have resulted in any different outcome.

ISI also notes the comments of the Reserve Bank of NZ in its November Financial Stability Report that no contagion risk or significant problems to the financial services sector resulted.

ISI supports continuation of the current model for regulation and supervision of NBDTs incorporating the “enhanced trustee model” as contained in the MED Supervision of Issuers document.

As evidence for this support we note that in the three most recent finance company failures the existing trustee model worked efficiently and effectively in the interests of investors. From information released to the market the impact of these failures on investors has been significantly less than media comment had predicted.

We consider the “enhanced trustee model” has the capacity to build upon the existing trustee model success.

ISI supports proposals for licensing prudential capital requirements consistent with the overall financial services sector.

On the question of credit ratings, the cost effectiveness of credit ratings is subject to question. However, if credit ratings are deemed to be beneficial then they should

apply consistently across all financial services. There should be no ‘carve outs’ for individual sectors or because an industry participant is small – this seems the precise reason why ratings could be adopted. Consistency is essential.

We support the importance of transparency and moves to assist consumers to understand risk vs reward issues. We consider this will be achieved through improvement to the existing model, efforts to improve financial literacy and increase disclosure rather than introduction of a potentially confusing and elective two tier approach.

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