



## **Westpac New Zealand Limited / Westpac Life-NZ-Limited**

Submission to the Ministry of Business, Innovation and Employment on the Review of Insurance Contracts Law

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## 1. Background

- 1.1 This submission to the Ministry of Business, Innovation and Employment (**MBIE**) is made on behalf of Westpac New Zealand Limited (**WNZL**) and Westpac Life-NZ-Limited (**Westpac Life**) in respect of the Issues Paper: Review of Contract Insurance Law (**Issues Paper**). WNZL's and Westpac Life's contact for this submission is:

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## 2. Introduction

### ***Westpac's insurance business***

- 2.1 WNZL distributes both Westpac Life and third party insurance products, which include the following:
- (a) Westpac Life issued life insurance products, (Westpac Life has approximately 7.3% of NZ's life insurance market share), providing life, crisis, disability, and redundancy cover;
  - (b) IAG issued home, contents, vehicle and boat insurance products;
  - (c) Cover-More administered online Travel insurance;
  - (d) AIG issued travel insurance (provided with credit cards); and
  - (e) Southern Cross issued medical insurance.
- 2.2 Westpac Life assesses the health and risk for each individual customer for all its insurance products, except for card repayment cover and bill protection where exclusions for certain pre-existing illnesses apply. Westpac Life uses reinsurance to help manage insurance risk for its products where larger sums insured are written. The reinsurance treaty between Westpac Life and each of its reinsurers (Munich Re and RGA) allows the majority of larger individual risks to be automatically accepted by the reinsurer, subject to certain parameters (reinsurers must be specifically asked to extend before cover can be given outside those parameters).
- 2.3 Our submissions focus on the types of insurance issued by Westpac Life as opposed to general insurance.

### ***Intent of the review***

2.4 Westpac welcomes the opportunity to provide feedback to the MBIE regarding the Issues Paper, and fully supports MBIE's stated intent behind the review, namely:

- (a) ensuring a well-functioning insurance system;
- (b) updating and simplifying insurance legislation and reduce the complexity of insurance more generally;
- (c) ensuring appropriate conduct standards for insurers are in place; and
- (d) enabling insurers to make it easier to price risk.

### ***Key matters for consideration***

2.1 In delivering these outcomes, care should be taken to ensure that proposed solutions give consideration to:

- (a) the unique nature of insurance products, which:
  - (i) have two-way information asymmetries between insurer and consumer;
  - (ii) are designed to be used for the maintenance of the status quo (e.g. income and assets), rather than wealth creation (i.e. are not a savings product); and
  - (iii) are designed such that policyholders often share risks and returns through pooling arrangements,
- (b) each product manufacturer / underwriter will have its own design and/or underwriting philosophy, which balances the different features of the product such as premium, subject matter, sum insured, exclusions and limits. These different philosophies enable insurers to offer a wide choice of insurance products to meet consumers' different needs and wants;
- (c) the differences between life, disability and income protection as compared with fire and general types of policies, and not conflate the two (and any related issues);
- (d) other existing applicable legislation, which includes not only the Financial Advisers Act 2008 and the Fair Trading Act (referred to in the Issues Paper), but also Part 2 of the Financial Markets Conduct Act 2013 and the Credit Contracts and Consumer Finance Act 2003 (for all credit related insurance); and
- (e) the role of reinsurers in supporting a well-functioning and efficiently priced local insurance market.

2.2 It will also be critical to ensure that the proposed solutions do not impede the provision of products designed to provide instant and/or cheap insurance cover

(which is what many consumers now expect). Noting also that consumers do not usually respond well where documents are overly long or complex.

**3. Our response**

- 3.1 Our specific responses to the Issues Paper's questions are set out in the attached Appendix.

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