BUILDING A FUTURE
FOR ALL

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Labour

KIWIASSURE: NEW ZEALAND'S NEW LOCAL INSURANCE PROVIDER – FACTSHEET

HIGHLIGHTS

Labour will:

- **Expand the KiwiBank family of companies by establishing KiwiAssure as a publicly-owned provider in the general insurance market, to provide a local alternative in an industry dominated by foreign-owned businesses much in the same way as KiwiBank has done for banking. This venture would be subject to a business case.**

THE ISSUE

New Zealand's recent history has been marked by short-sighted assets sales. Many valuable public institutions have been sold off, generally ending up in foreign hands. Only occasionally have events flowed in the other direction, and opportunities been taken to build new public assets. One such proud moment was the launch of KiwiBank in 2002, as a subsidiary of New Zealand Post.

The banking sector in the late 1990s was marked by foreign ownership and customer discontent. KiwiBank arrived on the scene as a beath of fresh air, with a new approach and a new attitude. Its success is reflected in its signup rate of about 1,500 new customers a week since 2002. It has grown to a market share of 10% of personal current accounts.

KiwiBank's influence has extended much more broadly than that, however. It is widely considered to have brought a new level of competition in banking in New Zealand in terms of lower fees and growth in service. KiwiBank also has higher customer satisfaction ratings than the four large Australian-owned trading banks.

KiwiBank produced its first profit in 2005, just three years after launch. The profit for the full year ended 30 June 2013 was NZ$97 million after tax. It did this without subsidies, monopolies or regulatory advantages. It has been a success of public enterprise.

Now the time has come to extend the KiwiBank model into general insurance.

THE CHALLENGE

In 2010 the Reserve Bank said that, of the top twenty insurers in New Zealand, 74 percent of them by business volume were foreign-owned. The figure has grown higher since, with the loss of AMI. According to the Insurance Council of New Zealand, the total household insurance market collects $1.17 billion in home and content premiums each year and approximately $1.36 billion in vehicle insurance. The vast proportion of the profits from this flow offshore.

That's not good for our country. New Zealand should strive to own its financial services sector, and not send overseas the profits from this significant portion of the economy.

And it's not good that New Zealanders have few New Zealand owned choices. People have concerns about complex policies, often presented on a take-it-or-leave it basis, with small print that comes back to haunt them when it comes to the claim.

The Canterbury earthquakes have also brought problems with insurance to the fore. Thousands of Cantabarians are still struggling to get their claims approved, while others are having trouble getting insurance cover for the future.

The pressures have been felt nationwide as well, and there are fears that New Zealand will face higher premiums and more restrictive cover for years to come. Premiums for home and contents policies have increased by around 30% on average over the last two years. A recent survey found that sixty per cent of respondents felt they were paying too much for their home and contents insurance, while 17% had reduced their cover because they were finding it too expensive. (Canstar, Home & Contents Insurance customer survey, June 2012).

The new entrant will bring transparency and competition, while emulating the responsiveness to customers achieved by KiwiBank.

LABOUR'S SOLUTION – KIWIASSURE

A new substantial locally owned insurer would offer a secure choice to New Zealanders wanting to insure their homes, cars and contents. This would provide another local alternative in an industry dominated by foreign-owned businesses and keep downward pressure on premiums, in much the same way as KiwiBank has done for banking.

We intend to form a sister company to KiwiBank, as part of the NZ Post Group, with the working title of 'KiwiAssure'. Its products would be sold through Kiwibank offices, as well as through independent brokers. It would be a separate entity, within the same overall group. KiwiAssure is intended to provide cover for homes, contents and vehicles, along with small business plant and equipment.

KiwiAssure will broaden competition in the market and be able to offer a different and more responsive consumer experience. Experience with KiwiBank shows that a new publicly-owned but profit-oriented actor with a fresh perspective and an innovative approach can make a real difference. KiwiBank offered customers an alternative, and by doing so, drove changes to the wider market.

We would see KiwiAssure as a significant expansion and scaling up of an existing firm within the New Zealand Post Group of companies, Kiwi Insurance Limited, which offers life insurance and related products to KiwiBank customers. The business case we will commission will involve expanding its operation into the general insurance market home, with the aid of a capital injection.

The experience of establishing KiwiBank shows how this can be done. The same model KiwiBank used at that time – leveraging an existing network of retail staff and outlets and tapping into the public's trust and its own authentic 'localness', together with government backing of its capital requirements – will make KiwiAssure a success and improve the lives of New Zealanders. It is envisaged that policies could also be sold by insurance brokers.

COST

We are prepared to support the development of KiwiAssure with a capital injection, in accordance with a business case to be prepared by the NZ Post group. As per standard fiscal procedure, we will set aside money in a contingency for this purpose. The initial capital injection to establish KiwiBank in 2001 was $80 million – we anticipate the initial capital needs for KiwiAssure will be somewhat less than that and that the capital requirements to meet prudential requirements for the new insurer will grow as the business expands.