

Aioi Nissay Dowa Insurance Co.,Ltd.

MS&AD INSURANCE GROUP

Submission on the New Zealand Income Insurance Scheme

Date: 26 April 2022

1. Introduction

At Aioi NZ, we support building and sustaining secure communities across New Zealand. Our communities and government face economic pressures when jobs are lost. Well-thought-out risk management strategies and social programmes can minimise the strain caused by job losses. The intention to support and protect workers aligns with our values. However, we do not support the scheme as we believe it will hurt New Zealand. We support initiatives that reduce unemployment and improve the employability of New Zealanders.

2. Timing

New Zealanders and businesses are struggling with the current economic environment. We are facing three-decade high inflation. Introducing a new tax or levy now will only accelerate the undesired consequences.

The levy will force New Zealanders to re-evaluate what they can afford. As prices increase, people are trading off their consumption of goods and services to fit their budgets. Reducing the workforce disposable income by increasing levies will have a ripple effect on the economy.

A new tax or levy will add to employers' challenges currently faced. Employers will likely pass on the costs to their employees, reduce their production, or go out of business. Businesses are still recovering from the Covid-19 operational restrictions. Business closures reached alarming numbers due to the pandemic.

The sudden desire to introduce the scheme into legislation this year is alarming. We have seen rushed legislation that created more problems than it hoped to fix. A recent example is the Consumer Contracts and Consumer Finance Act introduced at the end of 2021. The Act intended to protect vulnerable consumers instead it prevented households from borrowing that could afford to pay for a mortgage or loan. We recommend that any legislation goes through a thorough review process with all the relevant stakeholders.

3. Productivity

We support creating programmes that help our economy. The scheme does the opposite, as it increases the costs of doing business and creates incentives to hurt our economy rather than improve it. Rising business costs will hurt the productivity and production of our economy. As mentioned earlier, businesses will pass on the costs to workers, reduce production, or shut their doors as expenses rise. As a result, New Zealand's investment opportunities will become less attractive.

Economics teaches us that incentives drive people. The scheme rewards job seekers for more extended unemployed periods. The incentive is created by covering a large portion of lost income. The Urban Institute's report on the Consequences of Long-Term Unemployment shows that the longer an individual is unemployed, the fewer job opportunities they will be offered. Consequently, an individual will likely receive worse offers than they previously earned. The offers could be less rewarding than the jobseeker's prior earnings. Thus, jobseekers are incentivised to decline offers the longer they have been unemployed. The scheme will ultimately reduce household income.

4. Existing Products

Insurers currently offer a wide range of products that meet customer needs. Before introducing a new insurance scheme, we recommend that MBIE works with insurance product providers to ensure products remain relevant. The existing products will likely transform to stay relevant to the new environment.

MBIE should also work with product providers, industry bodies, and financial advice providers to understand the scheme's impact on consumer behaviour. The scheme has limitations on the protections offered to New Zealanders. Consumers may have a false sense of security from the protections offered. We will likely have more New Zealanders downsize their insurances and fewer seeking insurance financial advice.

5. Conclusion

We do not support the current state of the proposed insurance scheme as it does not factor in existing insurance products, impact on insurers, the current economic environment, and the impact on productivity and growth. We believe the proposed features will have a series of negative consequences that will hurt New Zealanders in the long run. The scheme will take away opportunities from the workforce while also hurting businesses. We believe there are opportunities to create social programmes to improve the overall well-being of our communities and the economy.

If you would like any further information provided to you, please contact us. I may be contacted at [Privacy of natural persons](#). Alternatively, you may contact the Chief Financial Officer, Dreeson Andrew, at [Privacy of natural persons](#).

Kind regards

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Simone Labady
Chief Executive Officer