

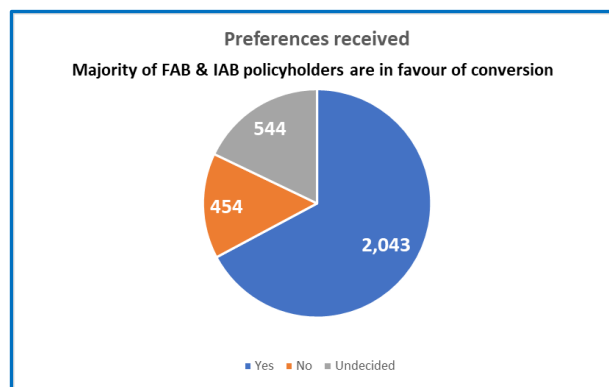
## Conversion – Consultation Feedback – Results, Themes and Improvements – 15 September 2021

### 1 Executive Summary:

The information below outlines the results and themes from the consultation process for the Conversion proposal. It also includes information about the improvements to the initial Conversion proposal made as a result of the feedback received during the consultation process.

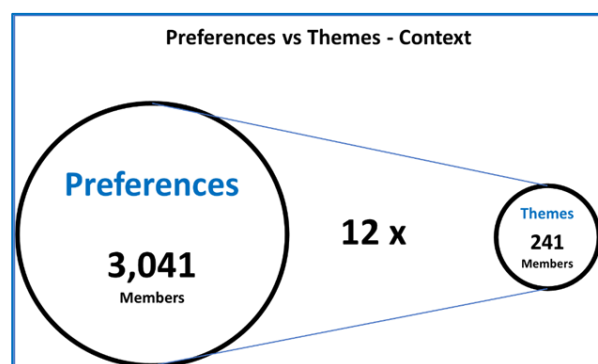
#### ***Response rate and results***

- a) We received 3,041 completed feedback forms from policyholders, a 32% response rate on the 9,465 total information packs prepared. This is a very high rate of engagement.
- b) 67% of respondents gave a Yes preference:



#### ***Comments received during consultation***

- c) Of the 3,041 members who provided their non-binding preference on feedback forms, 241 also provided comments. Their comments have provided a deeper level of engagement and provided the source information for 19 common themes.



- d) Society has analysed the common themes and developed policy responses. As a result, Society will take on board the policyholders' wishes where practical and amend the initial conversion proposal.

### ***Conversion proposal***

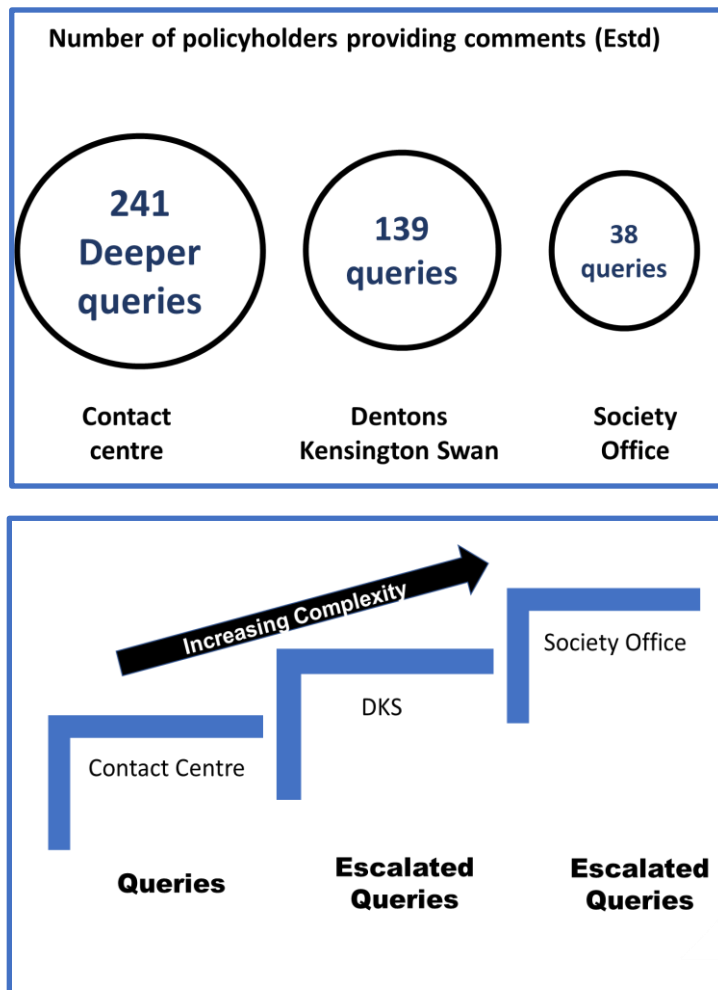
- e) The initial conversion proposal based on the SC2020 remit was to convert interests in FAB and IAB Funds to interests in a management investment scheme. Recognising the comments received, the Board intends to put forward at MC2021 the alternative conversion option of converting FAB/IAB into debt securities.
- f) Additionally, the conversion remit at MC2021 will seek to allocate a one-off appropriation of capital reserves of \$10 million for FAB and IAB policyholders who convert at the Conversion Date.
- g) If conversion goes ahead, the Society will need to cancel its insurer licence. If the Society cancels its insurer licence, existing medical insurance cover will need to be administered by another insurer. We are currently in discussions with another medical insurer who may be able to provide this cover by mapping our products to their product range.
- h) In addition to being unable to provide medical insurance, without an insurer licence we cannot offer any other insurer product, being the Education Support Plan (ESP), Sick Fund and Funeral Fund. For these products, we intend to give to affected members a cash payout of an amount calculated/confirmed by our actuary to enable those policies to be cancelled.

### ***Independent verification***

- 2 Society has collected, validated, verified, and logged the data on all returned feedback slips. BDO Wellington (Chartered Accountants) have undertaken an independent double-check of the process.

### Comments received during consultation

- 3 In total, 241 members raised more profound queries at the contact centre. The majority of the callers received their answers early. At the same time, more complex queries were escalated to Dentons Kensington Swan and Society Office.



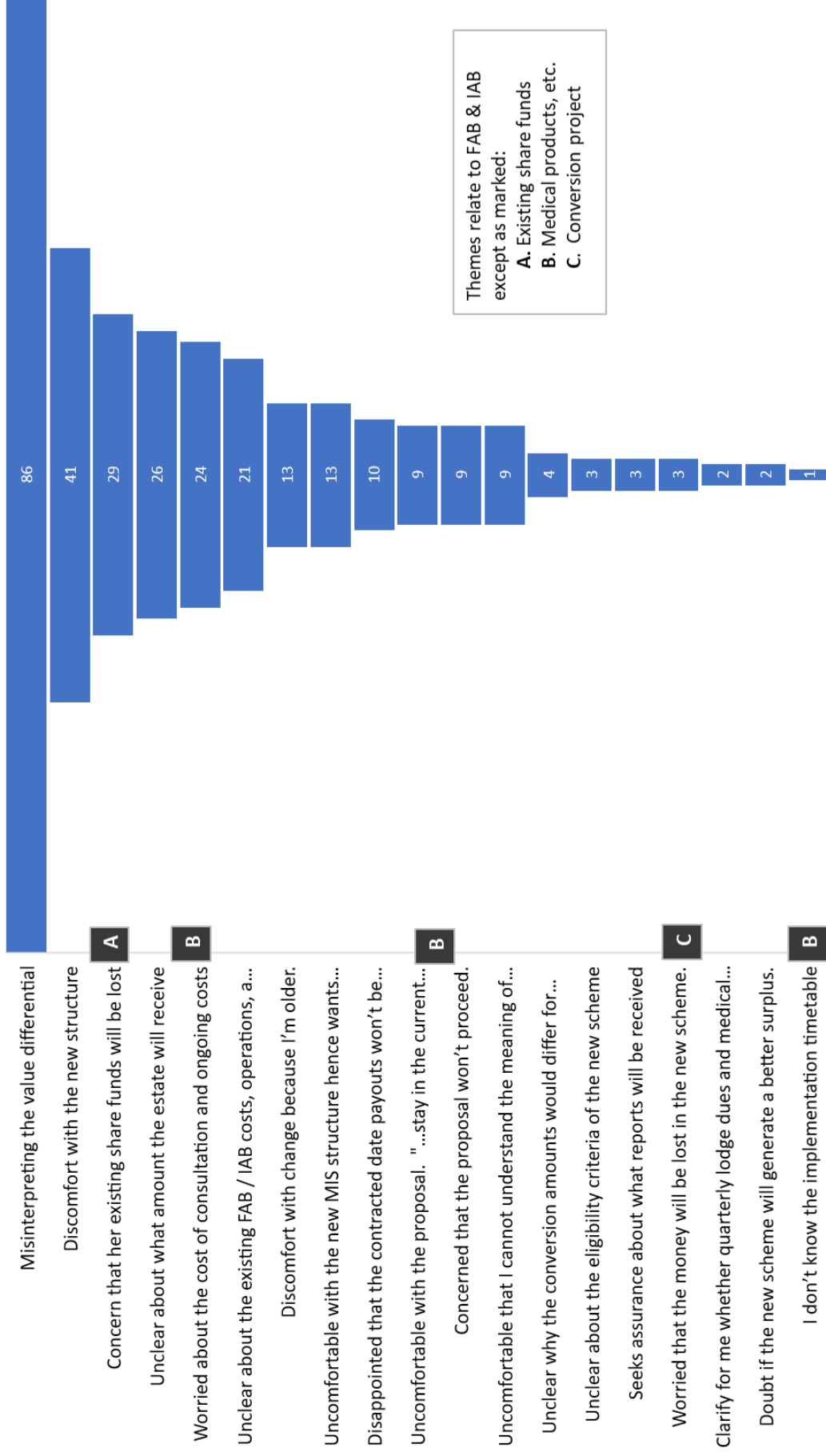
### Common Themes

- 4 Many callers called about the same subject matter. Dentons Kensington Swan, lawyers, have worked with Society to cluster all comments by subject under common themes.

### Responding to the common themes

- 5 All themes were analysed. Some raised simple issues, while others raised complex matters that required professional advice from our lawyers, actuary, and accountants. Some required Board to make policy choices, while others could be addressed with educational communications. The chart overleaf lists the themes.

## Themes



Themes relate to FAB & IAB except as marked:

- A. Existing share funds
- B. Medical products, etc.
- C. Conversion project

## Top-5 themes

6 The top-5 themes:

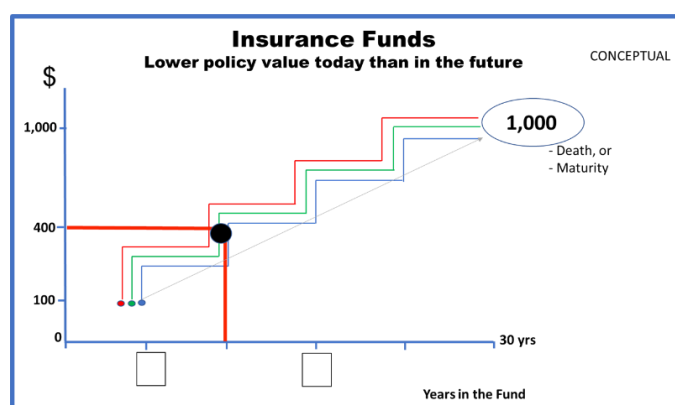
1. Misinterpreting the value differential - Why is there a difference between the estimated conversion amount payable and the November 2020 FAB/IAB certificate value?
2. Discomfort with the new structure – Why is the new structure so much more complex and unattractive than the existing share funds structure?
3. Concern that the existing share fund will be 'lost' during conversion – Where is my interest in the existing share fund on the conversion statement?
4. Unclear about what amount the estate will receive – What amount will the estate receive? How easy will it be to access the amount? Can estate claim if death occurs before the conversion date?
5. Worried about the costs of consultation and the ongoing costs – How much? Who pays?

Top-5 Themes		POLICY		Number of times query asked	
Rank	Theme	Freq	Top-5 Themes		
1	Misinterpreting the value differential	86	86		
2	Discomfort with the new structure	41	41		
3	Concern that her existing share funds will be lost	29	29		
4	Unclear about what amount the estate will receive	26	26		
5	Worried about the cost of consultation and ongoing costs	24	24		

**Theme 1:** *misinterpreting the value differential - Why is there a difference between the estimated conversion amount payable and the November 2020 FAB/IAB certificate value?*

7 It became apparent during the consultation period that this matter was a concern on most caller's minds. The logical answer:

- a) The value noted on their November 2020 FAB/IAB certificate is the policyholder's interest and will be payable in the event of death or maturity.
- b) The estimated conversion amount is the calculation made by Society's actuary estimating the amount of the policyholder's interest in the new structure if the conversion took place on the date noted on the statement of account being 31 May 2021. The calculation in the fund will always give a lower amount today than in the future (on death or maturity).



- 8 However, the perception among the callers was that the insured amount on their FAB/IAB certificate is some sort of a savings account they can withdraw today.
- 9 In response to this frequently repeated question, the Board has developed a policy response.
- 10 The Board intends to include in the MC2021 remit an allocation of a one-off capital appropriation of \$10 million from reserves to FAB/IAB policyholders who convert at conversion date, using years of membership up to the conversion date as the basis for the appropriation amount.
  - a) It would be essential to cease being an insurer before the capital allocation
  - b) The allocation would occur *after* the Society ceases to be a licensed insurer. In practical terms, it could happen the next day/week/month. The allocation would be subject to Society satisfying the relevant regulatory requirements.
- 11 The Board intends to put forward a capital appropriation proposal, releasing unrealised and realised reserves into Benevolent Benefit Funds, should the conversion remit be accepted at the Movable Conference on 5 November 2021.

**Theme 2: *Discomfort with the new MIS structure – Why is the new MIS structure so much more complex and unattractive than the existing share funds structure?***

- 12 The feedback from the consultation programme primarily flowed from the fact that funds held within a managed investment scheme would not be 'owned' by the Society. This had the undesirable consequence of distancing the Society from the Funds. Some policyholders raised concerns that the Society might not support the converted Funds moving forward. Given the extent of the feedback received, an alternative conversion option for the Funds has been developed, which more closely aligns with our understanding of policyholder expectations. This alternative involves converting policyholders' interests in the Funds to interests in debt securities, regulated under the Financial Markets Conduct Act 2013. It will produce an outcome with features they are more familiar with.
- 13 The Board believes that changing the nature of the proposed conversion due to the feedback on the Initial Conversion Proposal is the right thing to do to best promote policyholder interests. This emphasises the value of the process underpinning the consultation programme. It reflects the extent of our engagement with our membership base, ensuring the Society makes any conversion decision with its policyholders' interests front of mind. The Board intends to put forward the alternative conversion option of converting into debt securities, at the Movable Conference on 5 November 2021.

***Issue debt securities to the FAB/IAB policyholders***

- 14 The conversion of life insurance obligations into debt securities, if agreed at MC2021, will:
  - a) involve cancelling of the existing life insurance policies (FAB and IAB policies) and the issuing of new debt securities to policyholders:
    - i) Resulting in insurance policyholders become debt security holders

- ii) Generating documentation for the new debt securities. The debt securities' amount will equal in aggregate to the current actuarial value of the life insurance policy liabilities (approximately \$40m across all FAB/IAB). The documentation will specify that this amount will be payable on death for most holders and, in the case of certain IABs, the contracted maturity date of their IAB policies.

***Enable appropriations on year-by-year basis***

- 15 The Board may also resolve year by year, and solely at its discretion, to appropriate and credit additional amounts to be added to the principal amount owing on the new debt securities:
  - a) Society will have to apply the RWT regime to such additional amounts. To administer the RWT regime, it will have to collect sufficient information (e.g., IRD numbers and RWT payment rate selections) from the holders of debt securities
  - b) Holders of debt securities will need to include the additional amount as interest income, with RWT pre-paid, on their annual income tax return. If the RWT rate is correct, they won't need to pay any extra cash tax payments.

***Payment to estate***

- 16 At maturity or death, the maturity payment will be a lump sum, non-taxable return of debt:
  - a) the RWT regime needs to be correctly applied in the intervening years
  - b) the claim process will be similar to the current one – requiring a will, probate, death certificate, etc.
- 17 Aside from offering a managed investment scheme, the debt security solution is the only other instrument available for converting IAB/FAB under the prevailing regulatory environment.

***Implementation timetable***

- 18 Dentons Kensington Swan have provided a detailed process description and timetable for implementing the conversion to debt securities. It sets out the regulatory steps required to:
  - a) establish the Society to begin operating as a debt securities issuer, and
  - b) exit the Society from operating as an insurer

***Theme 3: Concern that the existing share fund will be 'lost' during conversion – Where is my interest in the existing share fund on the conversion statement?***

- 19 Legal advisors have advised that conversion will not affect existing share funds' structure or values.
- 20 Therefore, a plain English answer is "conversion will not affect the structure of existing share funds, nor their values."

***Theme 4: Unclear about what amount the estate will receive – What amount will the estate receive? How easy will it be to access the amount? Can estate claim if death occurs before the conversion date?***

- 21 If the conversion to a debt security offering occurs, your estate shall receive:
- a) your debt securities holdings: an amount comprising the accumulated total of the finalised conversion amount, plus annual interest declared in the intervening years (if any), held in your account by Society, plus
  - b) your share fund holdings: an amount comprising the accumulated total of your interest in the existing share funds, plus one-off capital distribution(s) in the intervening years (if any), plus annual appropriations declared in the intervening years (if any), held in your account by Society.

***Theme 5:** Worried about the costs of consultation and the ongoing costs – How much? Who pays?*

- 22 The cost of the consultation process and ongoing costs as part of this proposal is borne by Society.
- 23 Based on the estimates available, Society is confident of achieving lower ongoing costs than if we remained as an insurer.

**Next 14-themes**

- 24 The chart overleaf summarises the next 14 themes.



Next-14 Themes		POLICY																					
Rank	Theme	Freq	Number of times query asked																				
6	Unclear about the existing FAB / IAB costs, operations, and terms & conditions	21	<p><b>POLICY - Next-tier Themes</b></p> <table border="1"> <tr><th>Rank</th><th>Freq</th></tr> <tr><td>6</td><td>21</td></tr> <tr><td>7</td><td>13</td></tr> <tr><td>10</td><td>10</td></tr> <tr><td>11</td><td>9</td></tr> <tr><td>12</td><td>9</td></tr> <tr><td>16</td><td>3</td></tr> <tr><td>17</td><td>3</td></tr> <tr><td>20</td><td>2</td></tr> <tr><td>21</td><td>2</td></tr> </table>	Rank	Freq	6	21	7	13	10	10	11	9	12	9	16	3	17	3	20	2	21	2
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7	13																						
10	10																						
11	9																						
12	9																						
16	3																						
17	3																						
20	2																						
21	2																						
7	Discomfort with change because I'm older.	13																					
10	Disappointed that the contracted date payouts won't be available under the proposal.	10																					
11	Uncomfortable with the proposal. " ...stay in the current scheme"	9																					
12	Concerned that the proposal won't proceed.	9																					
16	Unclear about the eligibility criteria of the new scheme	3																					
17	Seeks assurance about what reports will be received	3																					
20	Clarify for me whether quarterly lodge dues and medical benefits are going to continue after Conversion.	2																					
21	Doubt if the new scheme will generate a better surplus.	2																					
<i>Policy themes that were moved under other top-5 themes</i>																							
9	11 What will be the taxation implications of the new MIS for me? (to theme 2)																						
14	8 What are the costs to members – ongoing costs (to theme 5)																						
19	2 Have simulations been performed? (to theme 5)																						
22	2 Worried that the proposed MIF funds will not be able to be pledged as security. (to theme 2)																						
<b>COMMUNICATIONS</b>		<b>Number of times query asked</b>																					
Theme																							
<i>COMMUNICATIONS - Next-tier themes</i>																							
8	Uncomfortable with the new MIS structure hence wants to cash-in immediately.	13	<p><b>COMMUNICATIONS - Next-tier themes</b></p> <table border="1"> <tr><th>Rank</th><th>Freq</th></tr> <tr><td>8</td><td>13</td></tr> <tr><td>13</td><td>9</td></tr> <tr><td>15</td><td>4</td></tr> <tr><td>18</td><td>3</td></tr> <tr><td>23</td><td>1</td></tr> </table>	Rank	Freq	8	13	13	9	15	4	18	3	23	1								
Rank	Freq																						
8	13																						
13	9																						
15	4																						
18	3																						
23	1																						
13	Uncomfortable that I cannot understand the meaning of actuarial calculation.	9																					
15	Unclear why the conversion amounts would differ for similar tenure members.	4																					
18	Worried that the money will be lost in the new scheme.	3																					
23	I don't know the implementation timetable	1																					

**Please note that we are not currently seeking any commitments to convert interests in the FAB and IAB Funds, and no additional contributions are being sought in response to the proposal. No debt securities can currently be applied for or acquired. If the Conversion occurs, debt securities will be made available in accordance with the Financial Markets Conduct Act 2013, as required by law.**