

# **ENFORCEABLE UNDERTAKING TO THE FINANCIAL MARKETS AUTHORITY**

Pursuant to ss 46 and 46A of the Financial Markets Authority Act 2011

**FMG Insurance Limited and Farmers' Mutual Group**

## **Enforceable Undertaking** dated

### **1. Parties**

- 1.1. These undertakings are given to the Financial Markets Authority – Te Mana Tātai Hokohoko (**FMA**), an independent Crown entity established under s 6 of the Financial Markets Authority Act 2011 (**FMA Act**).
- 1.2. The FMA has regulatory oversight in relation to the Financial Markets Conduct Act 2013 (**FMC Act**).
- 1.3. These undertakings are given by:
  - (a) FMG Insurance Limited, a duly incorporated company having its registered office at Level 1, PwC Centre, 10 Waterloo Quay, Pipitea, Wellington 6011; and
  - (b) Farmers' Mutual Group, a mutual association incorporated under the Farmers' Mutual Group Act 2007(together, **FMG**).
- 1.4. FMG Insurance Limited is a licensed insurer under the Insurance (Prudential Supervision) Act 2010 and a licensed financial institution under the FMC Act.
- 1.5. Farmers' Mutual Group is a registered financial service provider under the Financial Service Providers (Registration and Dispute Resolution) Act 2008.

### **2. Background and admissions**

- 2.1. FMG has agreed to give an enforceable undertaking under ss 46 and 46A of the FMA Act in respect of the conduct set out below.
- 2.2. The undertakings set out in this document are given by FMG in relation to FMG's conduct in respect of:
  - (a) application of inflation adjustments to customers' maximum insurance limits, where those adjustments were either inconsistent with the wording of the policies or applied to policies that no longer included a provision permitting inflation adjustments (the **Indexation Issue**); and

- (b) specification of certain items on Household Contents Policies where, in certain circumstances, doing so may not have benefited the customer (the **Specified Items Issue**).

## **Admissions**

### ***The Indexation Issue***

- 2.3. For FMG's "House: Home, Rental House, Employee House" policies, from approximately 2004 to 2017, and for "Farm Contents" and "Farm Buildings" policies from approximately 2004 to 2019, these policies (the **Relevant Policies**) included a clause which enabled FMG to adjust the customer's amount of insurance and the corresponding premium once a year, on renewal, in line with inflation (the **Inflation Protection Clause**).
- 2.4. Between 2013 to 2017/2019, while the Inflation Protection Clause was included in the Relevant Policies, FMG adjusted certain customers' maximum insurance limits (**Sums Insured**) by applying annual flat rates.
- 2.5. Between 2017/2019 and 2024, the Inflation Protection Clause was removed from the Relevant Policies. However, FMG continued to adjust certain customers' Sums Insured by applying annual flat rates.
- 2.6. These flat rates were not consistent with the Consumer Price Index (**CPI**) or any other inflation related index.
- 2.7. During the period in which the annual flat rates were applied, the annualised CPI varied. Therefore, using a CPI consistent adjustment as a comparator, the adjustments imposed by FMG resulted in some customers:
  - (a) having inaccurate Sums Insured (where FMG either over or under-adjusted for inflation);
  - (b) being charged higher premiums (where FMG over-adjusted the Sums Insured for inflation);
  - (c) being charged lower premiums (where FMG under-adjusted the Sums Insured for inflation); and
  - (d) receiving underpayment in total loss claim scenarios (where FMG under-adjusted the Sums Insured for inflation).
- 2.8. The Indexation Issue occurred from 2013 to 2024. From 1 April 2014, which is when Part 2 of the FMC Act came into force, to 2024, the issue affected an estimated

54,642 customers, with 26,644 customers due a refund due to overcharged premiums and 480 customers due top-up payments because they received an underpayment on a claim due to an under-adjusted Sum Insured.

- 2.9. The total remediation will amount to approximately \$2,138,000 in refunds for overpaid premiums (including GST and use of money interest) and \$1,242,220 (including GST) in top-up payments for underpaid claims, resulting in a total of \$3,380,220.
- 2.10. During the period when the Indexation Issue arose, FMG issued statements to its customers, which served as an invoice. The statements represented that:
- (a) an inflation adjustment had been applied to the customers' Sum Insured in accordance with the policy;
  - (b) the total amount owed was the premium payable under the policy, and was reached through a correct application of the terms of the policy; and
  - (c) FMG had a right to charge the total amount owed as stated in the statement.
- (together, **Indexation Representations**)
- 2.11. The Indexation Representations were:
- (a) made in trade;
  - (b) made in connection with the supply of financial services; and
  - (c) false or misleading representations that, in respect of affected customers:
    - (i) an inflation adjustment had been applied to customers' Sum Insured in accordance with the policy (in breach of s 22(d));
    - (ii) the total amount owed was the premium payable under the policy, and was reached through a correct application of the terms of the policy (in breach of s 22(f) of the FMC Act); and
    - (iii) FMG had a right to charge the total amount owed as stated in the statement (in breach of s 22(h) of the FMC Act).
- 2.12. By virtue of paragraphs 2.3 to 2.11 above, FMG admits that it breached s 22(d), (f) and (h) of the FMC Act.

### ***The Specified Items Issue***

- 2.13. As part of its standard household contents cover, FMG's Household Contents policy provides cover for certain items up to a specified sub-limit. FMG allows customers who have a Household Contents policy to select between two bases of settlement under their policy: present day value (**PDV**) and nominated replacement value (**NRV**). Some items are automatically covered for either PDV or NRV and therefore do not need to be specified.
- 2.14. Since September 2013, FMG has enabled customers with a Household Contents policy to specify items, either to obtain full cover in cases where the sublimit applies, or to obtain NRV or PDV cover where it is not automatically covered by the overall general contents Sum Insured.
- 2.15. Customers pay a premium to specify an item, in addition to the premium they pay for the overall general contents Sum Insured. This premium is calculated at a higher rate than the premium for the general contents Sum Insured.
- 2.16. Since 2012, customers had items specified on their Household Contents policy in cases where specification was of no additional benefit because the items were already covered, and for the same level of cover, under the Sum Insured. Customers were charged additional premiums for these Specified Items.
- 2.17. The Specified Items Issue persisted for approximately ten years. From 1 April 2014 to 2024, it affected 3,904 customers and resulted in overpaid premiums totalling \$1,936,520.09 (including GST and use of money interest). The total amount of top-up payments made for underpaid claims is \$6,089.42 (including GST). The top-up payments relate to five instances where a client received cover limited to the level of Specified Items Cover, rather than the more beneficial default position under the base cover.
- 2.18. FMG issued Policy Certificates and statements, which served as invoices, to its customers (**Renewal Documents**). The Renewal Documents represented that:
- (a) the cover in respect of the Specified Items was additional to that already conferred by the general policy; and/or
  - (b) customers needed to specify that item to receive full cover for a particular item.
- (together, **Specified Items Representations**)
- 2.19. The Specified Items Representations were:
- (a) made in trade;

- (b) made in connection with the supply of financial services; and
- (c) false and misleading representations that, in respect of affected customers:
  - (i) the cover in respect of the Specified Items was additional to that already conferred by the general policy and that the customer was therefore getting a benefit in respect of the item specified (in breach of s 22(d)); and/or
  - (ii) to receive cover for an item at the intended level, the customer needed to have that item specified (in breach of s 22(g)).

2.20. By virtue of paragraphs 2.133 to 2.19 above, FMG admits that it breached s 22(d) and/or (g) of the FMC Act.

### **3. Purpose and effect of the Undertakings**

3.1. FMG have offered the undertakings set out at paragraph 4.1 below (**Undertakings**).

3.2. The Undertakings:

- (a) are accepted by the FMA as court enforceable undertakings in terms of sections 46, 46A and 47 of the FMA Act; and
- (b) come into effect when executed by FMG and signed as accepted by the FMA.

### **4. Undertakings**

4.1. FMG undertakes to:

- (a) pay the FMA a total of \$2,100,000 in lieu of a pecuniary penalty (**Penalty Sum**), and to do so within 20 working days of the Undertakings coming into effect;
- (b) fully remediate its customers affected by the Indexation Issue and the Specified Items Issue within 3 months of the Undertakings coming into effect; and
- (c) provide written assurance to the FMA, within 3 months of the Undertaking coming into effect, that it has fully remediated its customers affected by the Indexation Issue and the Specified Items Issue.

4.2. The Penalty Sum will be paid into a Crown Bank Account, after deducting the FMA's actual costs incurred in connection with its investigation into this matter.

## **5. Breach**

- 5.1. In the event FMG fails to pay the Penalty Sum within the time specified in paragraph 4.1 above, the FMA may at its absolute discretion pursue recovery of the Penalty Sum plus interest in accordance with the Interest on Money Claims Act 2016 and any legal costs incurred in pursuing recovery on a solicitor-client basis.

## **6. Record of commitment**

- 6.1. In addition to providing the Undertakings at paragraph 4.1 above, FMG also records its commitment to developing and maintaining effective policies, systems and processes to support good customer outcomes and to prevent issues of the kind referred to in these Undertakings from occurring in the future.
- 6.2. In particular, FMG records its commitment to:
- (a) complete redrafting of the wording of its Household Contents policy to remove any ambiguity pertaining to the circumstances in which an item needs to be specified;
  - (b) implement effective systems and/or processes necessary to address the root causes of the Indexation Issue and the Specified Items Issue;
  - (c) provide written assurance to the FMA, within 12 months of the Undertaking coming into effect, that it has taken the steps set out at 6.2(a) to (b); and
  - (d) provide a written explanation to the FMA, within 12 months of the Undertaking coming into effect, of what it has done to comply with the steps set out at 6.2(a) to (b), including examples of the redrafted policies to support its confirmation of compliance with 6.2(a), a description of the systems and/or processes put in place in accordance with 6.2(b), an explanation of what assurance measures have been taken to assess and ensure the effectiveness of these systems in practice, and the findings of those assurance measures.

## **7. Miscellaneous**

- 7.1. FMG gives these Undertakings in full and final settlement of any claims that could have been made against FMG or any of its current or former officers, employees, directors, or interconnected bodies corporate arising out of the conduct set out in Part 2 above.
- 7.2. No amendments to the Undertakings (or anything else in this document) will be effective unless in writing, executed by FMG, and signed as accepted by the FMA.

- 7.3. These Undertakings are properly executed if FMG and the FMA sign the same copy or separate identical copies of the execution page(s). Where separate copies are signed by FMG and the FMA, the signed copy can be the original document or an emailed copy.
- 7.4. In providing these Undertakings, FMG:
- (a) acknowledges that the FMA:
    - (i) will make these Undertakings publicly available by publishing them on the FMA's website, including by giving the notice required by s 46A(3) of the FMA Act.
    - (ii) will also publish on its website a brief description of the circumstances and nature of the alleged contravention to which the Undertakings relate; and may make public reference to the Undertakings including in media statements or other publication.
  - (b) will ensure that any public statements made by them (or their related parties) relating to these Undertakings are consistent with Parts 2 to 5 above; and
  - (c) acknowledge that, in accepting the Undertakings, the FMA is not prevented from exercising its rights and powers under any relevant legislation for any contravention of the Undertakings or in relation to any other matter not the subject of these Undertakings.
- 7.5. The FMA will provide FMG with reasonable prior notice of the FMA's media release confirming the acceptance of the Undertakings. The content of the release will be consistent with the content and terms of these Undertakings. FMG will be provided a reasonable opportunity to correct any factual inaccuracies.

## Execution

**Signed** by and on behalf of  
FMG



Adam Heath  
Chief Executive Officer

*In the presence of*



Witness name Antonio Ybarra

Witness address 283 Karaka Bay Road, Karaka Bays, Wellington

Witness occupation FMG Chief Risk Officer

Date 30 January 2026

## Acceptance

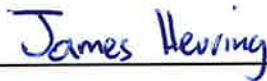
**Accepted by the Financial  
Markets Authority by:**

X



Authorised signatory

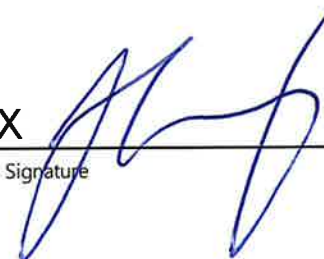
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Name

*In the presence of*

X



Signature

Witness name James Herring

Witness address Auckland

Witness occupation Lawyer.

Date 2 February 2026.