

23 September 2019

Financial Markets Policy
Building, Resources and Markets
Ministry of Business, Innovation and Employment
PO Box 1473
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By email: defaultkiwisaver@mbie.govt.nz

**Submission on "Review of the KiwiSaver Default Provider Arrangements"
discussion paper**

1. Introduction

Thank you for the opportunity to make a submission on the "Review of the Kiwisaver Default Provider Arrangements" discussion paper. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial and comprehensive consumer information and advice.

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2. General comments

We welcome the review of the KiwiSaver default provider arrangements. We agree the current arrangements need to be amended to ensure default providers are meeting consumers' requirements.

Answers to specific questions are set out below.

3. Answers to questions in discussion document

Question 1: What is your feedback on the proposed objective for the review?

We consider the objective should also recognise other components of the Living Standards framework, in particular those related to natural capital.

***Question 2: What is your feedback on the proposed criteria for the review?
How should the criteria be weighted?***

In our view, criterion 4 is too narrowly focused. We would support the inclusion of this objective if it was reworded to recognise responsible investment (for example, "Support development of New Zealand's capital markets that contribute to individuals' well-being and provide opportunities for responsible investment").

We comment on responsible investment in our response to question 22.

Question 3: What is your feedback on the problem definition for the investment mandate? Is a move away from a "parking space" purpose justified?

When KiwiSaver began, it was assumed members wouldn't stay in default funds for an extended period. However, as the report notes, 430,000 consumers remain in these funds, about 34 percent of all automatically enrolled members.

Unless the obligations on default providers are increased, we anticipate there will continue to be a high numbers of consumers who remain in default funds. We consider changes are needed to require default providers to actively engage with their members about their investment options.

Additionally, we consider consumers must have access to independent information and advice about KiwiSaver. Our latest KiwiSaver survey found 46 percent of consumers didn't feel they had access to sufficient independent information and advice to confidently make decisions regarding KiwiSaver, or didn't know what was available.¹

Addressing these issues should be the first step.

Question 12: What is your feedback on the value that KiwiSaver default members get for their fees? What are the costs that are within and outside a provider's control? To what extent are fees too high?

We are very concerned about the fees being charged. Income from fees has risen significantly, as the total value of funds under management has increased. KiwiSaver fund managers charged \$447.7 million in fees in the year to June 2018, compared with \$382.6 million in 2017.²

The Capital Markets 2029 report notes there are signals fees may have started to fall due to the impact of new entrants and the increasing commentary on fees and their visibility.³ Notwithstanding this, we support measures to reduce fees and ensure providers pass on benefits of economies of scale to consumers.

We consider fees should be capped for default providers. We also consider providers should not be permitted to charge both a monthly/annual fee and a percentage-based fee.

In many cases, the fees being charged are difficult to justify, particularly where managers are taking a passive approach and simply directing investments into index funds. It is difficult to understand how this type of approach can justify the fees being charged.

There is no evidence to suggest higher fees are being used to deliver improved levels of customer service. In our latest satisfaction survey, we found only 48 percent of KiwiSavers were happy with the service they were getting, down from 52 percent in 2018.

¹ Data are from a nationally representative survey of 2072 New Zealanders aged 18 and over, carried out in February 2019.

² See <https://www.fma.govt.nz/assets/Reports/KiwiSaver-Report-2018.pdf>

³ See <https://www.fma.govt.nz/assets/Reports/Growing-New-Zealands-Capital-Markets-2029.pdf>

AMP, ANZ and ASB (all default providers) recorded below average satisfaction scores. ASB's satisfaction score was only 36 percent while AMP and ANZ scored 37 percent and 41 percent respectively.

Our survey results indicate fund managers have not been providing good information about fees or returns. Across all KiwiSaver members, 75 percent didn't know what they paid in fees each year while 66 percent didn't know how their fund was performing relative to the rest of the market.

Question 17: Do you agree with our assessment of the costs and benefits of the different approaches for the number of providers? Can you provide us with evidence that might help us quantify the size of the costs and benefits? What option do you prefer and why?

Default providers should be appointed based on performance. We consider default providers should be able to demonstrate above average performance. Their status as default providers should be contingent on continued high performance. We consider this requirement would limit the number of default providers.

Question 18: If a "minimum requirements" approach is taken should this be on a period-based or rolling system, and why?

A minimum requirements approach should be on a rolling system. That is, providers should have to meet minimum requirements on an ongoing basis. Any failure to meet the requirements should result in the provider's suspension. This would result in better outcomes for consumers than a period-based system.

Question 21: Should the default provider arrangements be used to achieve objectives in relation to responsible investment?

We support the default provider arrangements being used to achieve objectives in relation to responsible investment. Our research shows responsible investment is increasingly important to consumers.

Our latest survey found 49 percent of KiwiSaver members wanted a fund that provided good returns and invested responsibly while a further 14 percent placed responsible investment ahead of returns.

Question 23: To what extent is it a problem that default members do not have information about whether their investments are made responsibly? Would having more information make a difference to the behaviour of default members? What alternatives might there be to more/standardised information to address responsible investment concerns?

We are concerned KiwiSavers don't have enough information to enable them to invest responsibly. We therefore support increased disclosure obligations on providers to ensure consumers have adequate information about where their funds are invested.

We also support this information being provided in a standard form to enable easier comparison. We do not agree providing more information is likely to make decision making more complicated.

Question 27: What is your feedback on our assessment of the costs and benefits of the responsible investment options identified? Which option (or the status quo) do you prefer and why?

We consider there should be a mandatory minimum standard for responsible investment. At present, funds may claim to take a responsible investment approach but, in practice, this may be limited to excluding investment in a single area, such as tobacco.

We believe the claims being made by some providers risk misleading consumers about the nature of their investments and breaching the Fair Trading Act. A mandatory standard would help to ensure there was a benchmark for responsible investment claims.

As noted above, we also support standardised disclosure. We consider funds should be required to report on their holdings in key areas relevant to consumers' expectations for responsible investing.

Question 30: Should default funds take an active role in helping develop the New Zealand capital markets? Would this support the purpose of the KiwiSaver Act and the accumulation of retirement savings by default members?

We would support default funds taking a role in developing New Zealand's capital markets where this also met responsible investment goals. We consider responsible investment and the development of capital markets should be considered together.

Question 38: What is your feedback on the transfer options and the costs and benefits of the options? Which option (or not transferring at all) do you prefer and why? Is there another better option we have not considered?

In the event that a default provider no longer meets minimum requirements, its members should be moved to another provider.

Question 40: Should active defaults be considered default members for the purposes of transfers? How should active defaults be treated and notified of any changes to default provider settings?

No, active defaults should not be considered default members. They have made the choice to join or remain in default funds. At a minimum, providers should be required to notify active default members of any changes to default provider settings so they can make the decision about whether to remain with that fund.

Question 41: What is your feedback on the member education requirements that default providers should have in relation to default members, and how these should be enforced in the instruments of appointment?

We strongly agree obligations should be placed on providers in relation to investor engagement and education.

Providers have not been performing well in this area and we consider they should have specific obligations imposed. Being a default provider brings significant benefits, guaranteeing a customer base. In return, providers should be expected to meet information and education requirements.

As noted above, consumers also need access to independent information, rather than having to rely solely on providers for advice. We therefore consider government-

funding needs to be provided to support the provision of independent information and advice to KiwiSaver members.

Thank you for the opportunity to make a submission. If you require any further information, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sue Chetwin". The signature is fluid and cursive, with a long horizontal flourish at the end.

Sue Chetwin
Chief Executive