bravura insights

bravura solutions

Discussion paper: The evolution of KiwiSaver

financial software solutions that deliver

The evolution of KiwiSaver

In September 2012, Bravura Solutions partnered with FST Media to host an executive round table* on KiwiSaver. Two years on, we have revisited some of the original participants to hear their current thoughts on KiwiSaver's progress and its place in the New Zealand savings landscape.

Snapshot

In the two-year period to September 2014, KiwiSaver membership rose from approximately 2 million to more than 2.35 million New Zealanders, while funds under management (FUM) increased by 55 per cent from NZ$12.9 billion to approximately NZ$20 billion.[1]

From 1 July 2014, after a competitive tender process and assessment by an independent panel, the New Zealand government renewed its default provider arrangement, appointing nine default KiwiSaver providers for a period of seven years. BNZ, Grosvenor, Kiwibank and Westpac joined the five original default KiwiSaver providers — AMP (following its merger with AXA), ANZ (formerly OnePath), ASB, Fisher Funds (formerly Tower) and Mercer.

"For members assigned under the default arrangements, there is a level of comfort that there is some very thorough due diligence surrounding the appointment of the default providers."

Ana-Marie Lockyer
ANZ

Our follow up participants – University of Auckland, Financial Services Council, ANZ, ASB and Milford Asset Management – represent a cross section of KiwiSaver stakeholders (i.e. academia, industry bodies, default providers and other providers). Each coming from a different perspective, they provide some interesting insights into the evolution of KiwiSaver.

Default arrangements

Two years after the original KiwiSaver round table, there continued to be a range of views about the default arrangements.

University of Auckland Co-Director Retirement Policy & Research Centre, Michael Littlewood, maintained his opposition to the government appointing a select number of default providers, asserting that the field should have been extended to all providers that meet certain minimum standards. He accepted that, if the current auto-enrolment arrangements continue then there must be default schemes, each with its own default investment strategy.

Financial Services Council (FSC) Chief Executive, Peter Neilson said the FSC continued to broadly support the default arrangements, but had specific ideas about how they should be improved.

"The default investment strategy is particularly important, because the people who are least confident to make active decisions about their investments are often more likely to be female, more likely to be over 45 years, more likely to be relatively poor in terms of household income and are also more likely to be risk averse. We need a default investment strategy that best protects their interests."

Not surprisingly, the two default providers in our follow up – ANZ and ASB – were in favour of the default arrangements.

ANZ General Manager, Wealth Products & Marketing, Ana-Marie Lockyer[2] held the view that the default provider arrangement served as a parking spot, particularly for those members who were auto-enrolled and not – at least initially – making an active choice.

"For members assigned under the default arrangements, there is a level of comfort that there is some very thorough due diligence surrounding the appointment of the default providers," she said.

Similarly, ASB Head of Wealth Product, Roger Clayton, said his company remained supportive of preserving the objectives of the default arrangements as a parking space, while members familiarise themselves with KiwiSaver and become comfortable with making their own investment choices.

Milford Asset Management, a non-default KiwiSaver provider, was equally comfortable with the default arrangements.

Communication and education

There was broad agreement among our follow up participants that communication and education remained the key to realising the original intention of the default arrangements. While they felt that member communication had increased and improved over the two-year period since September 2012, most considered there was still more work to be done in this area.

A recent FSC survey reveals why communication and education remain such salient issues. The survey found that in 2013, 55 per cent of the KiwiSaver population either did not know or were not sure which type of investment fund they were in.[3]

FSC's Peter Neilson stressed that member communication from all providers – default or otherwise – needs to get the basics right.

"If you don't know what type of fund you are in – whether conservative, balanced or growth – how can you have a conversation about whether this is the most

appropriate long-term strategy for you personally. So certainly, there is still huge potential for improvement."

The new default provider scheme sought to address this communication deficit by introducing a requirement that default providers offer investor education to encourage their members to make an active choice about which fund they are in.

Milford Asset Management Managing Director, Anthony Quirk, felt the requirement was well intentioned, yet he queried its efficacy, given that member education may prompt members to leave their default provider.

"There seems to be a conflict of interest," said Mr Quirk. "Default providers are being asked to provide education for people to make an active choice, but they actually have an incentive to keep their clients within their scheme. As a result, members may be encouraged to choose a fund which may not be best for them."

University of Auckland's Michael Littlewood similarly expressed doubt about the investor education requirement, stating he did not expect it would lead members to be engaged to any greater extent.

Several follow up participants also spoke about the challenge of engaging investors, who by virtue of their allocation to a default provider, may have a limited interest in making an active choice.

However, FSC's Peter Neilson felt the investor education requirement provided an incentive for default providers to genuinely engage with their members.

"Firstly, there is no guarantee that any of these providers will be renewed at the end of the seven year period if they don't meet this obligation. Secondly, as people's balances increase over time, they will become more engaged and default providers will increasingly need to convince members why they shouldn't switch to another fund."

As a default provider, ANZ's Ana-Marie Lockyer said investor education was not something new to her company and that they had been working on improving their communications with their members for some time.

"At ANZ, we believe investor education is hugely important, however, we like to frame it more as financial well-being rather than financial literacy. It's about ensuring our members are better positioned to understand the benefits around planning, goal setting and budgeting for their future needs."

Mrs Lockyer said while ANZ had spent considerable time and effort developing websites and 'plain Englishing' its customer correspondence, it aimed to do more.

"The recent Inland Revenue conference revealed that only 59 per cent of New Zealanders eligible for KiwiSaver member tax credits had actually claimed them this year. Clearly, there is still a lot of work to do to help people understand KiwiSaver and maximise the benefits."

Online and mobile service delivery

At the 2012 round table, several participants spoke of the need for funds to provide online and mobile service delivery of KiwiSaver, as a means of better engaging their members. While some providers have taken steps in this direction, it would appear the industry as a whole has some way to go.

According to ASB's Roger Clayton, technology is the key to better engaging with members and empowering them to make more informed decisions. He cited easy online access, online fund switching, online account transfers, mobile apps and social media, including blogs and YouTube clips as valuable tools available to enhance investor education.

"ASB is a firm believer of using digital platforms to increase member engagement. We recently launched KiwiSaver on our banking platform and also our mobile app. We continue to receive a swathe of unprompted delight from our customers on this functionality."

ANZ's Ana-Marie Lockyer said digital communication was paramount going forward because it enables members to access their information, any time and any place. She said in recent years ANZ has made a considerable investment in websites, case studies, calculators and other online tools that helped people to easily understand their investment and bring it to life. She added there would be more to come.

"Our members can also view their ANZ KiwiSaver balances from their mobile devices, using ANZ's mobile app."

FSC's Peter Neilson agreed that the trend towards online and mobile delivery was important and that the industry was committed to doing more in this area.

"Online and mobile service delivery are helpful in explaining the story. They make it easier for people to gain access to their current balance to see it grow. People are often pleasantly surprised when they find out they have more than $10,000 in an account, and this helps to engage them."

Among the providers in our follow up, there was agreement that while the initial set up costs for communicating with members via digital means were high, these measures would ultimately drive provider costs down.

Portfolio structure

At the 2012 round table, some participants questioned the default provider arrangements adopting a conservative investment approach for members who do not make a specific investment choice. The new default arrangements continue this approach, which includes a 15 to 25 per cent allocation to growth assets.

There was a diversity of views among the follow up participants about this conservative portfolio structure.

Peter Neilson said the FSC had considerable reservations about this approach.

"If you ask most politicians which structure they would recommend for their kids, they would go for a growth or a balanced structure. Yet they don't wish to take on the responsibility of that decision for the typical investor," said Mr Neilson.

"At FSC, we have done some work suggesting that the use of guarantees would be a cost effective solution. In this scenario, members would pay a guarantee in order to protect them against the worst outcomes in the worst years. So you might pay $3,000, but you ultimately earn an additional $170,000 over the life of the fund. Most people would say 'Yes, that's a no brainer'."

"If you don't know what type of fund you are in, how can you have a conversation about whether this is the most appropriate long-term strategy for you personally."

Peter Neilson
Financial Services Council

"Default providers are being asked to provide education for people to make an active choice, but they actually have an incentive to keep their clients within their scheme."

Anthony Quirk
Milford Asset Management

"ASB is a firm believer of using digital platforms to increase member engagement."

Roger Clayton
ASB

"The government knows nothing about investment strategy and shouldn't pretend otherwise."

Michael Littlewood
University of Auckland

"In the future, KiwiSaver will be increasingly bundled with other financial products such as income protection and life insurance."

Peter Neilson
Financial Services Council

"There is a large cohort of KiwiSaver members who are hungry for online tools that enable them to manage their own accounts and control how their provider interacts with them."

Roger Clayton
ANZ

University of Auckland's Michael Littlewood maintained his view that the investment strategy within the default scheme arrangements should not be set by the government. He felt each default provider should develop its own default investment strategy, just as non-default providers do at present.

"The government knows nothing about investment strategy and shouldn't pretend otherwise," said Mr Littlewood.

In contrast, ASB's Roger Clayton felt the current portfolio structure was appropriate and had been proven to be effective. He said members should be engaged and encouraged to regularly review their risk profile and should also be provided with online fund switching tools to enable them to change their portfolio structure according to their needs.

ANZ's Ana-Marie Lockyer noted effective investor education was particularly important considering all members entering default schemes were allocated to conservative funds.

"If investor education is working well, then the question of the default conservative portfolio structure ceases to become an issue, because members can make their own active choice about whether or not that's the best place for them to be."

"While we would like all members to be actively engaged with their KiwiSaver, the reality is that many people forget about it."

ANZ believes a lifetime approach – which automatically moves members' money to funds with different risk profiles, based on their ages – would still be a more suitable default option. This approach would ensure members were invested in a fund with levels of risk and expected returns considered appropriate for an average person of that age.

In 2012, ANZ calculated the difference between the lifetime and default conservative setting to be $72,000 of an individual's retirement savings, pointing to historical analysis that growth assets outperform defensive low risk assets over the long term.

Milford Asset Management's Anthony Quirk said he thought the current portfolio structure was 'very conservative' and he also suggested a life stages model might be more effective in meeting members' changing needs.

Key challenges

When asked about the key challenges currently facing KiwiSaver providers, a number of themes emerged.

Economies of scale have become increasingly important as providers seek to keep their costs down.

According to FSC's Peter Neilson, mergers will be inevitable as the industry becomes increasingly competitive.

"It's unlikely we can continue with 45 plus schemes all being competitive and all being successful. It's clear that a number of providers will decide that funds management is not their long-term best business."

In this environment, KiwiSaver providers are turning to technology solutions to help them achieve operational efficiencies and streamline costs.

ANZ's Ana-Marie Lockyer believes that continued investment in capability and capacity of their registry system is fundamental to meeting the current and future service delivery expectations and needs of KiwiSaver members and remaining relevant and competitive in the marketplace.

ASB similarly employed technology to improve their process and operating systems and drive costs down.

Future trends

When asked about future trends for the New Zealand superannuation landscape, the follow up participants held a range of views.

University of Auckland's Michael Littlewood expected that KiwiSaver would ultimately replace all other forms of occupational superannuation and that employers would increasingly have no direct interest or involvement in retirement saving issues.

ANZ's Ana-Marie Lockyer also felt there would be a continued rationalisation of the older, stand-alone employer superannuation schemes.

"Changes in legislation are making it more onerous to continue these schemes and they simply are not as easy to manage as KiwiSaver, so it's a natural progression," said Mrs Lockyer.

FSC's Peter Neilson predicted that – with a change of government – KiwiSaver would become compulsory and contribution rates would increase.

"It's also likely that, sometime in the future, KiwiSaver will be increasingly bundled with other financial products such as income protection and life insurance, as is common in Australian workplace based schemes. There's also a fair prospect that the over taxation of superannuation funds will be addressed within the next three years."

ASB's Roger Clayton felt that online self-service tools would be a key trend in the future.

"There is a large and increasing cohort of KiwiSaver members who are hungry for online tools that enable them to manage their own accounts and control how their provider interacts with them. There is no doubt that members see real benefits of ease and convenience of having their KiwiSaver account consolidated with their online banking platform."

Milford Asset Management's Anthony Quirk said in the years ahead he expected members to become more aware and engaged as their balances grow and they see the impact of fund performance. He thought the industry should focus on developing appropriate investment products for when people reach retirement, so they can enjoy a tax-efficient income stream in that life phase, rather than spending their nest egg as soon as it becomes available.

ANZ's Ana-Marie Lockyer felt that as KiwiSaver balances continue to increase, there is likely to be a cascade effect as people start to get into the savings habit.

"Once people start to see their balances grow, they may well seek out other investment opportunities that enable them to save on a regular basis, but are not locked in until retirement. Also, providing a spectrum of advice options and access for members will be increasingly important."

KiwiSaver – success or failure?

With one exception, our follow up participants felt KiwiSaver represented a step in the right direction for New Zealanders in terms of retirement savings.

While the University of Auckland's Michael Littlewood continued to regard KiwiSaver as 'a solution looking for a problem to solve', he would not recommend its abolition due to the substantial taxpayer investment – more than NZ$5 billion – in its creation. He felt there was no evidence to suggest that KiwiSaver had increased households' financial savings.

In contrast, ANZ's Ana-Marie Lockyer believes KiwiSaver has served as catalyst, helping raise awareness of the importance of retirement savings among New Zealanders and helping them to plan and contribute to their retirement savings.

"If you asked people seven years ago, where KiwiSaver would be today, I don't think anyone would have predicted the current membership or the funds under management, so it's been extremely successful. It will, and should continue to evolve, but I believe it's pretty well set in foundation now for New Zealand as a core part of retirement savings. Now it is up to the industry to ensure members know how to use it to save for better retirement outcomes."

ASB's Roger Clayton agrees, stating that KiwiSaver has made a huge difference with respect to retirement savings, particular among younger New Zealanders.

For FSC's Peter Neilson, the success of KiwiSaver is unequivocal.

"New Zealanders have voted with their feet. There are now more than 2.3 million people who have signed up and there are only a few people who remain opposed to it. It's too popular to kill on a political basis and it is convenient enough that people like it. It's not perfect by any means, but it has been the most successful financial innovation in New Zealand in the last 100 years, since the development of the savings bank."

*The 2012 discussion – KiwiSaver: The Next Five Years – Staying in the Game – featured a keynote address by University of Auckland's Co-Director Retirement Policy & Research Centre, Michael Littlewood. Moderated by Bravura Solutions' National Relationship Manager, Martin Gould, the round table was attended by an elite group of CEOs, Divisional Heads and General Managers from New Zealand's top wealth management companies.

"KiwiSaver will, and should, continue to evolve, but I believe it's pretty well set in foundation now for New Zealand as a core part of retirement savings."

Ana-Marie Lockyer
ANZ

Endnotes

1. Morningstar KiwiSaver Performance Survey September Quarter 2012, Morningstar KiwiSaver Survey June Quarter 2014, and www.kiwisaver.govt.nz/statistics/ks-monthly-statistics.html
2. In September 2014, Ana-Marie Lockyer replaced David Boyle who left ANZ to take up a position with the Commission for Financial Literacy and Retirement Income.
3. Horizon Research 'KiwiSaver Investment Risk Types and Future Packages' conducted for the FSC November 2013.

About Bravura Solutions Pty Limited

Bravura Solutions Pty Limited is a trusted provider of software solutions for the wealth management, life insurance and transfer agency industries, underpinned by functionally rich technology that enables modernisation, consolidation and simplification.

We are committed to increasing operational and cost efficiency for our clients, enhancing their ability to rapidly innovate and grow, minimising their risk and enabling them to provide better service to their customers.

Backed by over 30 years of experience, our installed or managed hosted solutions are mission critical to some of the world's leading financial institutions. In excess of A$2.5 trillion / £1.4 trillion in assets are entrusted to our systems.

We support our clients with a team of more than 750 people in 16 offices across Australia, New Zealand, Asia, United Kingdom, Europe and South Africa.

info@bravurasolutions.com
@BravuraFinTech
Bravura Solutions

www.bravurasolutions.com

bravura solutions

ON1131_0914