Submission

to the

Economic Development, Science and Innovation Committee

on the

KiwiFund Bill

13 April 2018

NEW ZEALAND BANKERS ASSOCIATION
Level 15, 80 The Terrace, PO Box 3043, Wellington 6140, New Zealand
TELEPHONE +64 4 802 3358 EMAIL nzba@nzba.org.nz WEB www.nzba.org.nz

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.

2. The following seventeen registered banks in New Zealand are members of NZBA:
   - ANZ Bank New Zealand Limited
   - ASB Bank Limited
   - Bank of China (NZ) Limited
   - Bank of New Zealand
   - Bank of Tokyo-Mitsubishi, UFJ
   - China Construction Bank
   - Citibank, N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - Industrial and Commercial Bank of China (New Zealand) Limited
   - JPMorgan Chase Bank, N.A.
   - Kiwibank Limited
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited
   - Westpac New Zealand Limited

Background

3. NZBA welcomes the opportunity to provide feedback to the Economic Development, Science and Innovation Select Committee (**Committee**) on the KiwiFund Bill (**Bill**) and commends the work that has gone into developing the Bill.

4. If you would like to discuss any aspect of the submission further, please contact:

Antony Buick-Constable
Policy Director & Legal Counsel
04 802 3351 / 021 255 4043
antony.buick-constable@nzba.org.nz

Introduction

5. NZBA fully supports initiatives to improve New Zealanders' engagement in KiwiSaver and achieve good KiwiSaver outcomes more generally.

6. Given the enormous impact KiwiSaver has, and will increasingly have, on New Zealanders' lives, NZBA encourages the Committee to consider whether the

proposals in the Bill provide the best path towards achieving better KiwiSaver outcomes for New Zealanders.

7. NZBA considers that, overall, the industry for KiwiSaver providers is competitive and operates in a manner that is consistent with the legislative objectives underpinning the scheme. We note that that is consistent with the Financial Markets Authority's (**FMA**) 2017 KiwiSaver report which found that, generally, KiwiSaver is performing well.[1] Indicators of its current success include:

   (a) *Increased membership:* Membership increased 4%, from just over 2.6 million to 2.7 million.

   (b) *Increased contributions:* Members' standard contributions rose 13.7% and their lump sum contributions rose 15.2%.

   (c) *Decreasing investment fees as a percentage of returns:* Investment fees fell from 16.87% of investment returns to 9.84% of investment returns.

   (d) *Entry of low fee providers:* Low fee providers (such as Simplicity and SuperLife) have now entered the market, providing low fee KiwiSaver alternatives.

   (e) *Increased value paid out to New Zealanders:* Total withdrawals amounted to over $1.4 billion ($631 million for retirees, $614 million for first home buyers, $81 million for hardship and $28 million for emigrating members).

   (f) *More members are making active fund choices:* Default schemes' share of total membership fell from 17.1% to 16.4%. 16,902 KiwiSaver investors switched within their providers schemes and 58,253 switched to another providers scheme.

Examination of accountability of current KiwiSaver providers

8. Should an independent working group be deemed necessary, NZBA and its members would of course work constructively with that working group. However, NZBA does not agree with the general policy statement's directive that the working group "examine the accountability of current KiwiSaver providers relating to complaints of charging exorbitant fees, unethical investments, and profiteering in the trading of KiwiSaver providers". Claims of exorbitant fees, unethical investments and profiteering generalised across the industry are incorrect.

9. NZBA strongly supports moves to improve transparency over how fees are charged. We note that significant work is already underway across the industry to increase fee transparency and help KiwiSaver investors better understand the fees they pay. Providers offer a wide range of investment options, and this necessitates a wide range of business models. Communicating the various fees structures in a way that is meaningful for investors is an issue that both the FMA and providers are continuing to work together on. For example, from April 2018 KiwiSaver providers must publish fees in dollar terms.

10. Additionally, the industry has made considerable progress with regard to responsible investment practices. Transparency has greatly improved through the provision of

[1] https://fma.govt.nz/assets/Reports/FMA-KiwiSaver-Report-2017.pdf, this report covers the period from 1 July 2016 to 30 June 2017.

environmental, social and governance statements as part of KiwiSaver product disclosure statements.

11. Finally, we note that proposals in the Bill may signal to the market that:

    (a) Something is wrong with the current KiwiSaver regime.

    (b) The FMA is not adequately regulating KiwiSaver providers. That is not the case at all; KiwiSaver is a key priority area for the FMA and there is no evidence to suggest that the FMA has failed in its role to license and supervise KiwiSaver scheme providers. The working group should be cognisant of FMA's efforts to date.

    Such signals are likely to have a negative effect on investor confidence in the KiwiSaver regime.

Working group should instead focus on financial capability

12. KiwiSaver has led to significant growth in both the financial services industry and New Zealanders' savings; there are now 2.7 million New Zealanders investing $40 billion worth of assets in the scheme. However around 1.1 million KiwiSaver accounts are either inactive or have extremely low levels of contributions.[2] It is estimated that for half of those accounts the reason for low/no contributions is low income.

13. In light of that, NZBA submits that the working group's time may be better spent looking at how financial inclusion and financial capability could be improved. For example, the review could be used as an opportunity to engage on how the industry can help to ensure that New Zealanders are using KiwiSaver to save for a more comfortable retirement, and how we get more New Zealanders on-board and actively managing their KiwiSavers.

KiwiFund general policy statement should be reviewed

14. The market for KiwiSaver is highly competitive – there are currently 30 providers – meaning that New Zealanders have plenty of choice. NZBA's members would welcome a new provider such as KiwiFund as long as it is not afforded preferential treatment (ie without the benefit of a government guarantee).

15. A government guarantee is likely to be seen by investors as an incentive to participate in KiwiFund, rather than another KiwiSaver provider. The FMA has recently considered the impact of incentives on KiwiSaver choices, and released the following guidance:

    > *We may be concerned where there is a combination of a high value incentive and an effort to influence a customer to make a significant decision about KiwiSaver (such as decision to switch to another KiwiSaver provider). Our concern would centre on whether the value of the incentive is such that the customer focused on that, rather than making a good decision about KiwiSaver.*

16. We consider that a government guarantee could be interpreted as the kind of incentive that the FMA seeks to exclude.

---

[2] https://www.stuff.co.nz/business/money/100032279/an-anatomy-of-kiwisaver-abstainers

17. In addition, a government guarantee may disadvantage investors in other schemes and raises the question: why should all New Zealanders bail out just one group of KiwiSaver investors, or any KiwiSaver investors at all? Additionally, government guarantees can have the potential to create a moral hazard, where investors may not apply the normal rigour to their investment decisions.

18. NZBA considers that the effect of government guaranteed KiwiFund would be to skew the competitive nature of the KiwiSaver market. There is also a risk that some providers may exit the market, resulting in less choice for consumers.

19. NZBA also has concerns around the requirement that a KiwiFund gives preferential treatment to New Zealand based investments. Currently 47% of total KiwiSaver funds under management are invested in New Zealand assets (we note that this is significantly higher than the New Zealand Superannuation Fund which has 14.4% of its funds under management invested in New Zealand assets). This suggests there is already a strong representation of New Zealand assets in KiwiSaver.

20. Mandating a bias towards New Zealand assets by way of the Bill could inflate NZ asset prices and create concentration risk, which could adversely impact fund performance. Additionally, it may encourage investment in passive conservative assets which does not benefit New Zealand businesses.

Working group composition and reporting

21. Clause 6 of the Bill provides for the membership of the working group, including that three of the four-five members must have specialist experience in the banking, savings and retirement fields. We query what is meant by “savings” or “retirement issues” experience. Further clarity around the experience required for the working group would aid in attracting and identifying appropriately qualified candidates. We also consider a further requirement of independence from existing KiwiSaver providers should be included in the criteria for working group membership. The nomination of an individual closely related to an existing provider could lead to a perception that the working group lacks independence or will simply adopt the views of a particular market participant.

22. Clause 9 of the Bill provides that the working group must prepare a report containing the results of its investigation for the Minister. NZBA submits that, as a matter of fairness and due process, existing KiwiSaver providers should be supplied with a copy of the working group report in advance of its finalisation to enable them to comment on the findings and assist in validating its content.