The front nine

KiwiSaver Annual Market Report 2016

By David Chaplin

Introduction

The field has narrowed.

Just 30 schemes made the cut for the 2016 Investment News NZ (IN NZ) KiwiSaver survey – the ninth in a series that stretches back to the regime's first year of operation over 2007/8.

In all, the 2016 KiwiSaver contender list is down a net three on last year (with four dropouts and one new entrant – the Mercer-backed NZ Defence Force scheme) and 12 under the inaugural competition numbers.

But, if anything, the raw figures understate the extent of change in the KiwiSaver business over the last nine years. Of the 42 names listed in the first round of this survey 22 no longer exist as mergers, trade sales and player exits have taken their toll.

The IN NZ scheme figures also exclude the corporate-only KiwiSaver market, which has seen the dozen or so original contenders shrink to zero in 2016: a big swing and a miss.

Based on available information, scheme numbers in the current fiscal period will take another drop, with the exit of the well-intentioned but ill-fated IwiInvestor and the pooling of the SRF and Waterfront KiwiSaver funds into the Maritime Retirement Scheme (MRS).

After formally teeing off in September 2016, the online index-based provider Simplicity, will take up one of the vacant spots but the KiwiSaver register looks set to finish the annual period on 29.

However, in addition to shrinking scheme numbers – which has been the case in every one of the last four years – a new fashion trend has also crept into the KiwiSaver market as the game enters the back nine.

As well as the previously-mentioned MRS, at least three other freshly-clothed schemes will front-up for play in KiwiSaver year 10: the eponymous Forsyth Barr scheme has taken on the 'Summer' brand; rival broking firm Craigs has repatched its 'Defined' product under subsidiary fund manager name, QuayStreet, (and also slightly amending its 'kiwiStart Select' scheme name to Craigs Investment Partners KiwiSaver); meanwhile, Grosvenor, has dropped its dapper English title in exchange for the high-energy 'Booster'.

Both the ongoing consolidation and rebranding trends are closely related to the imminent Financial Markets Conduct Act (FMC) deadline. Due to take effect this December, the FMC has forced KiwiSaver providers to decide whether they want to stay in the game and, if so, what shot to play next.

A handful of players – mostly bearing the logos of bank sponsors – are already on the green, lining up their putts; a few more lurk back on the fairway, considering the wood v iron question; a couple have gone for the wedge; many more are hacking about in the rough, searching for the ball.

The retirement savings business, of course, is more about the long game. And as this IN NZ 2016 survey reveals, the KiwiSaver top 10 leaderboard is little-changed year-on-year.

However, the competition, is far from over with some interesting moves afoot from both big-hitters and swing-adjusted smaller players. Sourced from the annual reports of the 30 schemes still on the course in 2016, this study shows some of those highlights, including:

- Transfers between providers;
- Funds under management (FUM);
- Membership;
- Fees and expenses; and,
- Annual performance.

New members welcome: high scores and low points on the scheme transfer circuit

KiwiSaver is not an exclusive club.

According to the latest Inland Revenue Department (IRD) figures, the regime has lured more than 2.6 million New Zealanders into joining, or more than half the current population of almost 4.7 million.

Membership growth to date has exceeded the wildest dreams of the central planners who laid out the KiwiSaver course a decade ago.

Based on the most recent population figures, there are perhaps another 600,000 New Zealanders of working age (18-65) yet to sign up for KiwiSaver.

But despite the potential large pool of new members, the era of easy growth for KiwiSaver providers is now over. Over the 12 months to June 2016, KiwiSaver membership grew by a net 110,000 or so compared to more than 180,000 in the previous annual period, the IRD figures show.

Much of the decline can be attributed to the removal of the $1,000 'kickstart' payment in April 2015, effectively removing any incentive for under-18s to join KiwiSaver. Indeed, the under-18 KiwiSaver cohort fell by more than 16,000 over the 12 months to June 2016, closing the period at just above 352,000.

The loss of the kiddy market, most of whom end up on the books as non-contributing members, may not concern many providers. However, as natural new member growth dwindles, the only way to build market share for most schemes is by targeting competitors.

Even the transfer business, though, slowed slightly over the last year. The IRD stats put the number of member transfers (excluding mergers and bulk shifts) in the year to June 2016 at 140,557 compared to almost 158,000 in the previous period.

In monetary terms, about $1.8 billion (including bulk transfers) shifted home over the 12 months to March this year, according to this survey. Excluding bulk transfers – namely Mercer (which absorbed about $150 million after merging its Super Trust scheme), SuperLife (roughly $35 million following the takeover of Smartshares) and the SBS Lifestages scheme ($55 million from the now-defunct Staples Rodway KiwiSaver) – the top five winners and losers are listed in the tables below.

Top 5 KiwiSaver schemes by net transfer inflows		
Scheme	Net transfer inflow $m	% of total scheme FUM as at March 31, 2016
ANZ	180.2	3.3
BNZ	105.7	13.2
Generate	98.8	56.1
Kiwi Wealth	81.4	3.3
Westpac	27.8	0.7

Top 5 KiwiSaver schemes by net transfer outflows		
Scheme	Net transfer outflow $m	% of total scheme FUM as at March 31, 2016
AMP	169.4	4.2
Fisher Two	93	6
ANZ Default	61	5.2
ASB	53.2	0.9
Grosvenor	21.9	2.2

In general, the most recent transfer results closely track the 2015 findings, albeit with the dollar figures slightly muted this time around. ANZ once again tops the net transfer table – even after netting out the $61 million lost from its default scheme (most of which ends up in its main KiwiSaver product) – the blue bank comes out ahead. (Although, the ANZ stats exclude the group's other scheme, the adviser-supported OneAnswer, which dropped a further $15 million in net transfers.)

The same banks as 2015 (BNZ, Kiwi Wealth and Westpac) also feature in the top five transfer winners' circle in the same order as previously. But the Auckland-based boutique firm, Generate, has pulled off the major shock of the 2015/16 tournament, ranking third overall in the net transfer stakes.

After clawing in an almost net $100 million from rival schemes over the year, Generate, has achieved the double as the fastest-growing scheme (of those with more than 5,000 members) as measured by both funds and membership. The critical importance of transfer money to Generate is clearly shown by the fact it represents more than 56 per cent of the scheme's total FUM as at the end of March 2016 – more than four-times that of the second fastest-growing scheme, BNZ.
Generate has hit such remarkable targets chiefly by offering generous incentives to a growing workforce of advisers mostly housed under its qualifying financial entity (QFE) status.

And while Generate is not the only predator at large, its sales pitch has no doubt been a factor in the negative transfer scores racked up by five schemes in the table below – particularly those more influenced by third-party advisers: AMP, Fisher Two (formerly Tower), and Grosvenor.

In spite of a slight reduction in net outflows compared to last year, AMP once again comes off the worst for wear in the transfer market. Notably, all of the transfer losers are default schemes. As previously mentioned, ANZ tends to upcycle its default members leaving ASB as the only bank to see net losses via transfers.

Both ASB and Grosvenor enter the top five transfer loser list this year, replacing Mercer and OneAnswer from the 2015 table. Excluding the merger with its SuperTrust KiwiSaver scheme over the period, Mercer would likely have retained its spot from the previous period. According to its 2016 annual report, Mercer lost a net 2,086 members over the year, disregarding the 6,800 or so SuperTrust transferees.

Grosvenor, one of the four newly-appointed default providers in 2015, has since amalgamated its 2014 purchase of the Fidelity scheme, which had been in the red, transfer-wise, for a number of years. ASB, too, has had an erratic transfer game over the years, hitting the bunker this year after piling on a net $450 million net gain over the previous period.

The transfer figures refer mostly to movements between KiwiSaver schemes rather than inputs from other NZ or Australian super funds – although a handful of providers don't separate out the figures. While still a tiny proportion of overall funds flow, transfers from Australian super to KiwiSaver schemes is a growing business - this study identified about $90 million of trans-Tasman flows over the year (albeit with two large schemes yet to supply figures as at publication date). Nevertheless, it's clear from the provisional data that AMP plus four banks have this game in the bag.

Scheme	**Australian super transfers year to March 31, 2016 $m**
ANZ	20.6
ASB	16.1
Kiwi Wealth	8.3
AMP	7.4
BNZ	6

Big shots in the FUM club

Sometime during the 12 months ending March 2016 KiwiSaver sealed its place as the single largest retail funds sector in New Zealand with FUM on track for $34 billion as the period closed out.

While KiwiSaver's rise up the rankings was inevitable, given the mandated contributions, the 2015/16 fiscal year score has not been a course record. Total FUM increased by almost $5 billion over the latest reporting period, down more than $1 billion on the previous year's result.

The year-on-year growth shortfall was entirely due to subdued investment performance, which added about $1.3 billion to the KiwiSaver prize pool compared to almost $3 billion during 2014/15.

But even as performance lagged - and some providers dropped shots in the transfer competition – all KiwiSaver schemes in this survey carded a positive FUM score over the latest annual period, albeit with quite a wide variance.

The top five providers remain as per last year's rankings. However, just two – ANZ and Westpac - of the five largest KiwiSaver providers have lifted market share over the year. Meanwhile, both AMP and ASB have seen market share declines of about 1 per cent as the Fisher twins sliced off 0.2 per cent. As the table below shows, overall, the top five FUM-holders represent 73.3 per cent of the total market, compared to 74.9 per cent 12 months previously.

Most of the slightly fading influence of the top five is due to pressure from a couple of rapidly-rising bank players: Kiwi Wealth, which continued to gain on rivals despite a horror investment round; and, the big-hitting BNZ. Up-and-comer, Generate, may also be cutting some grass here.

Top 5 KiwiSaver providers by FUM: March 31, 2016		
Provider	**FUM $bn**	**% of Total ($33.77bn)**
ANZ (ANZ, ANZ Default, OneAnswer)	8.34	24.7
ASB	5.54	16.4
AMP	3.99	11.8
Westpac	3.89	11.5
Fisher (One and Two)	2.99	8.9
Total	**24.75**	**73.3**

As noted in the transfer section, the upstart Generate has been the player to watch over the year. Perhaps not so surprisingly, Generate's aggressive game plan has seen it maintain the trophy for fastest-growing scheme of the year. Interestingly, even in nominal FUM terms Generate has been competitive this year, outscoring the big-name boutique Milford and adding almost half as much as institutional heavyweight, BNZ. NZ Funds also turned out a decent FUM-growth result despite an out-of-bounds investment performance.

The figures below exclude schemes with less than 5,000 members (ignoring that would have ranked the tiny Amanah scheme as the fastest FUM-grower in town with 311 per cent):

Top 5 KiwiSaver schemes by annual FUM growth-rate		
Scheme	FUM growth year to 31/3/16 $m	FUM Growth-rate April 1, 2015-March 31, 2016 - %
Generate	125	247.2
BNZ	274	52
Milford	118	27.6
ANZ (main scheme)	1,117	25.3
NZ Funds	26	24.4

How members drive into the banks

Collectively, bank-associated schemes – including the TSB 50/50 Fisher Funds venture – control about 72 per cent of KiwiSaver FUM and members. The big-swinging banks, of course, have dominated the field from day one of the regime, and not much has changed year-on-year.

Indeed, as measured by nominal member growth over the latest annual period the big banks fill out the top five places as follows: ANZ, BNZ, Kiwi Wealth, ASB, and Westpac. Market share of the top five players also mirrors the 2015 result as well as the FUM tables (with just AMP and Westpac swapping places in share of membership).

As per the FUM tables, however, it's clear ASB, Fisher and AMP have lost ground in member market share – dramatically in the case of the latter, which saw nominal membership slump almost 6,500 over the year after bleeding about 8,000 in the prior period. Similar to the FUM result, the top five providers have given up about 1 per cent share of total membership over the year, reflecting, once again, snappy recruiting practices by Kiwi Wealth, BNZ and Generate.

Top 5 KiwiSaver providers by members March 2016		
Provider	**Members**	**% of Total (2.61m)**
ANZ (inc ANZ, ANZ Default, OneAnswer)	702,373	26.9
ASB	468,979	18
Westpac	376,825	14.5
AMP	244,505	9.4
Fisher Funds (One and Two)	233,804	9
Total	**2.03m**	**77.8**

Again, as expected, the fastest-growing schemes by membership closely follow the FUM growth-rate figures with a couple of interesting differences: Kiwi Wealth substitutes for ANZ while NZ Funds and Milford swap positions.

Top 5 KiwiSaver schemes by member growth-rate		
Scheme	Member growth year to 31/3/16	Member growth-rate year to 31/3/16 %
Generate	10,854	160.3
BNZ	20,972	30.8
NZ Funds	1,076	18.6
Kiwi Wealth	19,699	14.8
Milford	1,100	8.7

Not all members are equal, however, with quite a large proportion of KiwiSavers just weekend hackers or holding honorary titles. In total, about 43 per cent of KiwiSaver members are classed as 'non contributing' in this survey but across a range (excluding smaller schemes) from 25 per cent at Milford to almost 60 per cent at Fisher number one as per the table below. With the removal of the 'kickstart' incentive last year – followed by a dramatic fall in the under-18s comp – it is possible the 'non-con' rate may drop over time.

Top 5 KiwiSaver schemes by 'non contributing' member %		
Scheme	Non contributing members as at March 31, 2016	Non contributing % of total scheme membership
Fisher Funds	71,877	57.5
Grosvenor	52,723	53
ANZ	245,410	45.4
ANZ Default	41,574	45.1
Generate	7,541	45.1

Pay to play: appearance fees plus expenses

Following a fall of about 25 basis points in total KiwiSaver costs as measured against FUM over 2014/15, the metric has held par in the latest survey.

Based on a comparison of total fees and expenses to average FUM as per the formula (March 31, 2015 FUM plus March 31, 2016 FUM)/2, KiwiSaver cost about 1.04 per cent this year versus 1.05 per cent last year. Even so, nominal costs rose more than $60 million on 2015 to hit roughly $321 million as at March 31, 2016.

While last year's price decline was most likely due to the deflationary impact of the expanded default provider regime, cost pressures swung the other way over the most recent 12-month stretch. Most importantly, the FMC effect – also responsible for the rash of rationalisations over the last couple of years – has left providers sinking implementation costs.

Nonetheless, there has been some slight movement downwards in per FUM costs, especially at the more expensive end of the market. Notably, however, the country's largest provider – ANZ has managed to hold cost ratios steady across all of its three schemes. The bank's largest scheme, represented in the table below, reported about $60 million in fees/expenses with its two satellite products (ANZ Default and OneAnswer) chipping in another lazy $25 million in total.

The top five list of nominal fees/expenses charged remains the same as 2015, mostly reflecting relative FUM sizes (note the figures are per scheme, not aggregated provider numbers). Similar names from last year - mostly small- to mid-tier schemes (except Fisher) - fill out the most expensive FUM-relative cost table.

At the cheaper end of the scale, the only change from the 2015 report is the appearance of Mercer in place of Smartshares (now part of the other NZX-owned low-cost scheme, SuperLife). Overall, total costs ranged from about 0.5 per cent for perennial cheapie, Supereasy, to 4.3 per cent for the tiny, now holed-out, IwiInvestor (which, ironically, turned in the top investment performance of the year as measured in this survey).

Top 5 KiwiSaver schemes by fees/expenses charged		
Scheme	Fees/expenses $m	% of average FUM 2015/2016
ANZ	60.9	1.2
ASB	40.2	0.7
AMP	37.4	1
Westpac	33.7	0.9
Kiwi Wealth	28.6	1.2

Top 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2015/2016
NZ Funds	2.7	2.3
Generate	2.1	1.9
Grosvenor	14.4	1.6
Fisher 1	19.6	1.5
Aon	5	1.4

Bottom 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2015/2016
Supereasy	0.78	0.5
SuperLife	2.6	0.6
ASB	40.2	0.7
ANZ Default	9.1	0.8
Mercer	10.2	0.8

No gimmes (and a few slices) as returns sink

Investment performance, as previously noted, was generally a sub-par experience for KiwiSaver schemes over 2015/16: total returns of about $1.3 billion (over $3 billion the previous year) equating to about 4.2 per cent (almost 12 per cent in 2014/15).

In spite of rather windy investment conditions during the course of the year all schemes carded positive returns – excepting NZ Funds, Amanah and Kiwi Wealth (the latter two heavily exposed to offshore equities). Excluding those with under 5,000 members, returns ranged from about -5.4 per cent for NZ Funds to 8.3 per cent at Milford – a top score not large enough, however, to trigger a performance fee.

As per usual warnings, the performance figures presented below measure only total scheme returns without accounting for asset allocation/risk profile or other handicapping factors.

Top 5 KiwiSaver schemes by annual performance		
Scheme	Total return $m	Performance
Milford	40.6	8.3
Aon	22.7	6.6
Fisher	72.9	5.5
Supereasy	8.8	5.4
SuperLife	24.9	5.4

Bottom 5 KiwiSaver schemes by annual performance		
Scheme	Total return $m	Performance
NZ Funds	-6.4	-5.4
Kiwi Wealth	-24.5	-1.1
AMP	89	2.3
Medical Assurance	11.1	2.7
Lifestages (SBS)	5.1	3

Conclusion

Approaching the 10th, the surviving KiwiSaver providers have settled into the swing of things.

The consolidation trend, which has seen scheme numbers plummet from over 50 (including corporate funds) to 29 at the latest count, has probably run its course for now.

Of those 26 providers still standing as at March 31 this year, 18 boasted membership of 5,000 or more and FUM above $100 million: while the benchmarks are somewhat arbitrary, hitting those targets may offer enough encouragement for journeymen players to persevere.

Since March one tiny scheme (IwiInvestor) has folded while other minnows, SRF and Waterfront, have created a blended family under the MRS brand. Elsewhere outside the 5,000-member cut, just five schemes remain, all of which have their own reasons for slogging it out: three religious-based funds – BCF, Koinonia and Amanah; the on-the-march NZDF scheme; and, Forsyth Barr (now appearing under the Summer brand).

Tellingly, in spite of a couple of air-shots and subdued investment performance all round, every KiwiSaver scheme in this survey grew its FUM over the course of 2015/16. Even AMP, the only major to experience nominal member decline over the year, still managed to grow FUM by 10 per cent, piling on more than $370 million in the process.

While ANZ has cemented its place at the top of the table – accounting for about a quarter of the entire KiwiSaver market – there is some tussling for the minor rankings: Westpac is making a move on third-placed AMP as outside the top five, BNZ, a latecomer to the game, has racked up impressive growth figures in the race to catch up with its bank buddies.

Most of the mid-tier schemes also appear reasonably well-established in their respective niches with perhaps one or two potential takeover targets.

However, the quick-fire rise of 2014 rookie, Generate, has shown some incumbents may be vulnerable to new players wielding fancy strategies. Generate has jumped from the 30th (out of 35) largest scheme in its launch year of 2014 to 15th in the latest rankings, growing membership more than 12-times and FUM 25-fold in the process.

The industry will be watching closely to see whether the index-based Simplicity, the only new scheme to join the tour in 2016, can replicate the Generate growth trajectory. Simplicity, however, will have to do so by pitching to a different crowd: the scheme is almost the polar opposite to Generate in terms of investment and distribution philosophies.

From December this year all KiwiSaver providers will also be playing under tougher governing rules as the FMC introduces a new, potentially game-changing, dynamic to the competitive backdrop.

But with 2.6 million members and more than $35 billion under management, the KiwiSaver regime has racked up an impressive collection of statistics in its first nine years of operation: this is not putt-putt anymore.

The findings in this report are based on figures collected from the annual reports of 30 KiwiSaver schemes.
A complete set of the data in Excel spreadsheet form, covering member and funds under management trends; fees and expenses; investment returns; scheme transfers and other metrics, is available for a not-unreasonable fee of $260 plus GST ($299 including GST).
Please contact the author at david@investmentnews.co.nz or ph +64 6 878 4295 for further details.