

Six years on the road

KiwiSaver Annual Market Report 2013

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Introduction: carry on KiwiSaver

Loaded up with six years of accumulated money KiwiSaver is trucking along with great momentum, if at a slower rate of acceleration compared to previous years.

According to the latest IRD statistics, as at September 30 this year 2,202,414 New Zealanders were KiwiSaver members representing about \$17 billion of funds under management (FUM).

Those figures equate to an increase of almost 109,000 members and over \$500 million in FUM compared to March 31, 2013, the date that this report focuses on.

But despite the still-healthy monthly net member increases (up 15,602 from August 31 to the end of September and almost 22,000 over the previous month) the overall pace of growth has slowed.

The number of net new members signing on to KiwiSaver has steadily declined every year since the regime launched in 2007. From the stellar first year sign-up of 716,637 members, the annual membership increase has fallen from almost 384,000 in the 2008/9 year to just 180,399 over the 12 months ending June 30, 2013.

As noted in last year's report, the dwindling numbers of fresh sign-ups has sparked competition among KiwiSaver firms for existing members: the transfer market remains hot, with the default schemes again typically the biggest losers in this game.

Increased competition, combined with new regulations that come into force last year, have also fueled the first real decline in KiwiSaver scheme numbers covered by this study.

In the previous five annual periods the number of schemes included in this report hovered between 41-43: this year only 38 schemes have made the list, despite one new entrant (IwiInvestor) joining the study group.

The closure of four schemes during the 12 months to March 31, 2013, will certainly be more than matched over the current period. As at the date of this report, four more schemes have officially closed; two others, KiwiBank and the ASB-owned FirstChoice, have shut to new members, pending closure; while the eventual fate of the Tower scheme remains unclear following its purchase by Fisher Funds this April.

To slightly counter the consolidation trend, two new KiwiSaver schemes, BNZ and the boutique hedge-fund-of-funds scheme Generate, will be filing inaugural full annual reports next March.

As this study reveals, with fewer KiwiSaver vehicles on the road the dominance of the larger carriers is even more apparent. In transportation terms, the KiwiSaver market features four or five juggernauts, about 10 three-tonne trucks, 20 or so sensibly-priced family cars (ranging from people-mover down to mini), and a moped or two.

Based on data sourced from annual reports in the 12 months to March 31, 2013, this study investigates how well those 38 schemes have traveled and where they might be headed next.

This analysis will cover:

- Market movements;
- Funds under management (FUM);
- Membership (including a new ‘contributing member’ metric);
- Transfers between providers;
- Fees and expenses; and,
- Annual performance.

Traffic report: casualties pile up, less congestion

With four KiwiSaver schemes heading for the exit ramps over the 12 months to March 31, 2013, the market is looking slightly less jammed than in previous years.

(The above figure excludes several corporate-only schemes that also closed during the period.)

While the wind-up of the Credit Union scheme, with most of the 4,000 or so members transferring to Fisher Funds, was well-publicised, the remaining three switched off quietly.

The truth is hardly anyone would've noticed anyway as between them the three closing KiwiSaver schemes – MSF, PSBG and the New Zealand Maritime Officers – had amassed about 150 members and about \$2 million.

However, in the current period a number of more substantial scheme shut-downs or mergers have already happened, or are likely to occur:

- Axa morphed into AMP Wealth before being absorbed into the main AMP scheme;
- The National Bank scheme closed with most members transferring across to the sister ANZ product;
- Fidelity sold its KiwiSaver scheme to Grosvenor;
- The AonSaver AMT scheme wound up;
- KiwiBank's AMP-run fund has been red-stickered for some time, closed to new members – awaiting the clarification of a few technical details* before a formal wind-up can go ahead;
- Similarly, the ASB-owned FirstChoice scheme is in limbo, until the bank makes a final decision on its fate;
- The Tower scheme may at some point be officially absorbed under the Fisher brand – with much depending

on how the Tower fund makes it through the impending default scheme review.

The table below summarises all KiwiSaver (excluding corporate-only funds) scheme closures mergers and sales since the regime launched in 2007.

KiwiSaver casualty list: 2007-2013				
Scheme	Date Closed	Members	FUM \$m	Reason
Eosaver	5/09	3254	5.9	Closed
IRIS	6/09	1076	4.7	Closed – transfer to GMK
Asteron	4/10	6519	34.4	Closed – transfer to Grosvenor
Real Property	5/10	40	0.4	Closed
First NZ	12/10	650	8.9	Sold to Fisher Funds
Huljich	5/11	93,500	235	Sold to Fisher Funds
Credit Union	5/12	4075	34	Closed – transfer to Fisher Funds
KiwiBank	12/12	26,929	158	Closed to new members
FirstChoice	2/13	14,581	211	Closed to new members
National Bank	4/13	190,347	1,226	Merged with ANZ
Tower	4/13	107,502	936	Sold to Fisher Funds
Axa/AMP Wealth	8/13	108,406	953	Merged with AMP
Aonsaver AMT	5/13		13.5	Closed
MSF	9/13	6	0.046	Closed
NZ Maritime	9/13	6	0.19	Closed
PSBG	9/13	130	1.76	Closed
Fidelity	9/13	65,183	299	Sold to Grosvenor

* According to the KiwiBank KiwiSaver March 2013 report, the bank – which closed the scheme to new members in December 2012 – intends to transfer members to the Gareth Morgan KiwiSaver (GMK) scheme “either by way of Financial Markets Authority or by way of member consent” before March 2014. It is understood the delay concerns the difficulty of shifting funds from the unitised AMP-run scheme to KiwiBank’s non-unitised GMK product.

Heavy load following: banks full of FUM

This study has identified just over \$16.5 billion in the 38 KiwiSaver schemes covered as at March 31, 2013, most of which is controlled by large Australian financial institutions.

Over the 12 months to March 31 this year, KiwiSaver schemes owned by the three Australian banks (ANZ, Westpac and ASB) together with AMP collectively managed just over \$11 billion, or 67.2 per cent of the total market FUM. This represents a slight increase compared to the previous annual period when the Australian quartet managed about 65 per cent of the total FUM.

As the table below shows, with the addition of KiwiBank, the top five KiwiSaver providers now account for almost 74 per cent of the total market.

Top 5 KiwiSaver providers by FUM		
Provider	FUM \$bn	% of Total (\$16.5bn)
ANZ (inc SIL, OnePath, National Bank)	3.7	22.4
ASB (inc FirstChoice)	3.03	18.4
AMP (inc Axa)	2.5	15.2
Westpac	1.86	11.3
KiwiBank (inc GMK)	1.08	6.5
Total	12.17	73.8

While the Fisher Funds takeover of the Tower scheme fell outside the period covered in this report, the two combined as at March 31 would've managed \$1.64 billion, overtaking KiwiBank to claim the number five spot, bumper-to-bumper with Westpac.

Despite being closed to new members for much of the period, the KiwiBank AMP-managed scheme actually experienced the fastest annual growth-rate in FUM of all the banks in the 12 months to March 31, expanding its coffers by almost 90 per cent.

KiwiBank, however, was only the fourth-fastest FUM-gatherer in the land, coming behind Milford (148.6 per cent), the Exclusive Brethren BCF scheme (116.7 per cent) and NZ Funds (110.5 per cent).

Across the board, annual FUM growth-rates ranged from 13.1 per cent (Law Retirement Scheme) to Milford's 148.6 per cent, with the median about 25 per cent.

As relatively tiny absolute FUM growth in smaller funds can skew the result, limiting the measure to schemes with at least \$100 million under management gives a clearer picture:

Top 5 KiwiSaver schemes by annual FUM growth-rate		
Scheme	FUM as at March 31, 2013 \$m	FUM Growth-rate April 1, 2012-March 31, 2013
Milford	122	148.6
KiwiBank (AMP-run scheme)	158	89.7
ANZ	895	56.5
Westpac	1,860	39
National Bank	1,226	38.4

Passenger count: member growth slows

Just about half of New Zealand's population are KiwiSaver members – 2.2 million at the latest count, although this report identifies 2.08 million members as at March 31.

As a stand-alone product, the ASB KiwiSaver scheme remains top of the pile, recording almost 380,000 members as at March 31, followed by Westpac with close to 305,000 members.

Measured by provider, the membership trends closely track FUM levels, however, it's not an exact match-up: AMP, third-largest by FUM, has swapped places with Westpac in the membership stakes; while Fisher Funds, 11th largest scheme by FUM, jumps up into fifth spot by member count.

The anomalies between the FUM and membership tables are, of course, explained by differences in average member balances – and, by extension, the kind of clientbase (for example, income and age profile) each scheme has attracted.

Top 5 KiwiSaver providers by members		
Provider	Members	% of Total (2.08m)
ANZ (inc SIL, OnePath, National Bank)	518,465	24.9
ASB (inc FirstChoice)	392,717	18.9
Westpac	304,744	14.6
AMP (inc Axa)	264,472	12.7
Fisher Funds	115,563	5.6
Total	1,595,961	76.7

Consistent with overall annual decline in KiwiSaver membership growth-rate, most schemes struggle to grow proportionately as much as in previous years. For example, the median scheme member growth-rate in the 12 months to March 2013 was about 4 per cent, compared to 10 per cent over the 2011/12 period.

This year, too, only 10 schemes recorded member growth-rates over 10 per cent versus 21 schemes over the previous year.

As well, six schemes suffered absolute member declines (the same as during the 12 months to March 31, 2102) with Fidelity recording the highest annual reduction in membership (losing almost 3,400 members) while Smartshares dropped the most proportionally with its member count down 5.9 per cent.

Fastest-growing by FUM, Milford also heads the member growth-rate table (78.9 per cent) followed by NZ Funds (52 per cent) and the KiwiBank AMP-run scheme (50.5 per cent). Notably, some of the even smaller schemes recorded double-digit growth rates, including the Seafarers Retirement Fund (SRF), Forsyth Barr and Brook Asset Management, which grew by 22 per cent, 20.9 per cent and 11.1 per cent respectively.

Excluding schemes under 5,000 members, the top five fastest-growing schemes are:

Top 5 KiwiSaver schemes by member growth-rate		
Scheme	Members as at March 31, 2013	Member growth-rate April 1, 2012-March 31, 2013
Milford	5,843	78.9
KiwiBank (AMP-run scheme)	26,929	50.5
ANZ	176,745	30.9
Westpac	304,744	16.4
ASB	378,136	12.5

This year schemes were also required to supply a new statistic in their annual reports showing numbers of ‘contributing members’, which excludes those members on contribution holidays and others who, do not contribute regularly – for example, members under 18 or self-employed who may contribute to their schemes on an ad-hoc basis.

Of the 29 annual reports that did include this new membership figure, the median ‘non contributing’ proportion of total members was about 38 per cent.

And while the ASB scheme reported the highest absolute number of ‘non contributing members’ (172,538 or 45.6 per cent of total membership), it didn’t make the top five by proportion:

Top 5 KiwiSaver schemes by ‘non contributing’ member %		
Scheme	Non contributing members as at March 31, 2013	Non contributing % of total scheme membership
Fisher Funds	81,853	70.8
Fidelity	44,451	68.2
Grosvenor	15,761	51.2
ANZ	88,129	49.9
Westpac	144,160	47.3

There probably is some variation among the schemes in interpreting the ‘non contributing’ definition, however, the two stand-out providers in this category – Fisher and Fidelity – do share at least one common historical feature.

Prior to the FMA tightening its KiwiSaver marketing rules in 2011 both Fidelity and Huljich (whose 90,000 or so members shifted to Fisher when it bought the scheme, also in 2011), were known for recruiting members face-to-face via incentivised salesforces, often in low-income areas.

Changing lanes: transfer indicators

With the exception of ASB, the providers with default schemes experienced the biggest net loss in the transfer market again over the March 2013 annual period.

(The figures do show National Bank recording the largest net transfer out of funds – however, this relates to the scheme’s closure and subsequent shift of most members and money to the related ANZ scheme.)

Overall about half of the 38 schemes included in this study saw net outflows via transfers to other providers, similar to previous years.

While default providers suffered the worst in this category, it was, once more, bank schemes winning the transfer battle (Milford, again, the exception here).

In the case of the ANZ-owned OnePath, at least, it is possible these default members are transferring to other schemes owned by the group. The OnePath 2013 annual report says 4,005 default members (representing about \$40 million) switched to “active membership” in other ANZ-owned schemes.

And the transfer winners are...

Top 5 KiwiSaver schemes by net transfer inflows		
Scheme	Net transfer inflow \$m	% of total scheme FUM as at March 31, 2013
ANZ	101	11.3
Westpac	89.6	4.8
Milford	33.7	27.6
KiwiBank	27.1	17.1
ASB	27	0.96

... while the net losers are:

Top 5 KiwiSaver schemes by net transfer outflows		
Scheme	Net transfer outflow \$m	% of total scheme FUM as at March 31, 2013
AMP	82.6	5.2
Axa/AMP Wealth	58.2	6.1
Mercer	50	6.7
Tower	49.4	5.3
OnePath	45.5	6.6

On-road costs: not unreasonably up

In total, the 38 KiwiSaver schemes in this study collected fees and expenses of about \$181 million over the 12 months to March 31 this year – up almost \$50 million compared to the previous annual reporting period.

The spike in fees/expenses is not surprising given the natural increase in member numbers (up about 160,000 over the period) leading to more administration fees (which may be higher, too, due to increased regulatory costs) and the consequent rise in FUM, increasing asset-based investment fees.

Investment fees were further boosted by the healthy market returns generated by most schemes, a factor particularly important to the two schemes (Fisher and Milford) that charge explicit performance fees.

As a proportion of the average KiwiSaver FUM as at March 31, 2012 and March 31, 2013 (\$14.55 billion), fees and expenses represented about 1.24 per cent, which, by global standards appears not unreasonable.

However, there was a fair degree of variation across the schemes, fees/expenses per FUM ranging from 0.7 per cent 3.4 per cent, (disregarding an outlying figure from IwiInvestor, which was in its first full year of operation).

The fee/expense data has been cut two ways in the tables below, the first highlighting the five most expensive schemes in absolute terms while the remaining two rank schemes by costs as a percentage of FUM (measured as an average of the March 2012 and March 2013 figures). The tables exclude schemes with less than 1,000 members.

Top 5 KiwiSaver schemes by fees/expenses charged		
Scheme	Fees/expenses \$m	% of average FUM 2012/2013
ASB	21.9	0.9
Westpac	19.9	1.2
Fisher Funds	17.9	2.9
AMP	16.9	1.2
National Bank	14.1	1.3

Top 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses \$m	% of average FUM 2012/2013
Milford	2.9	3.4
Fisher Funds	17.9	2.9
Forsyth Barr	0.44	2.1
Fidelity	4.6	1.7
Grosvenor	3.8	1.7

Bottom 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses \$m	% of average FUM 2012/2013
Supereasy	0.61	0.8
Smartshares	0.19	0.8
Superlife	1.9	0.8
ASB	21.9	0.9
OnePath	5.9	0.9

Performance-testing for investment vehicles

In general the 2012/13 period was kind to investors with all schemes reporting positive investment performance, compared to seven funds that fell into the red in the previous year.

Performance has been calculated for the schemes as a whole, rather than per underlying strategy, comparing reported investment returns to the average of the March 2012 and March 2013 FUM figures.

Overall performance for the year ranged from 0.9 per cent to 21.2 per cent, with the top and bottom five performers compared the tables below, excluding schemes with under 1,000 members.

Top 5 KiwiSaver schemes by annual performance		
Scheme	Total return \$m	Performance*
Milford	18.1	21.2
Smartshares	4.2	16.3
Aon Kiwisaver	26.5	15.5
National Bank	150.7	14.3
Fisher Funds	86.1	14

Bottom 5 KiwiSaver schemes by annual performance		
Scheme	Total return \$m	Performance*
SBS (Lifestages)	5	7.1
Mercer	50.8	7.4
ASB	204	8.1
Axa (AMP Wealth)	74	8.4
OnePath	55.5	8.9

* Performance has been calculated by dividing the reported March 2013 investment returns by the average of scheme March 2012 and March 2013 FUM.

Conclusion: a road more-traveled by fewer

As this report was completed, the government released its warrant of fitness review of the KiwiSaver default regime: proposing no change to the conservative investment mandate; adding in a requirement for default providers to provide “impartial advice” to members, and; re-opening the default tender, suggesting the number of approved providers could increase from the current five to “a maximum of 10”

The net effect of the default review amounts to little more than a tyre change and a lube for the industry. Most of the heavy re-engineering work was completed in 2011/12 with tighter KiwiSaver regulations and the introduction of new standardised quarterly reporting requirements (published for the first time this October).

While the majority, if not all, of the current default providers will probably be reappointed in April 2014, the addition of five more would undoubtedly dilute the growth rates of existing default schemes, which, as this study shows, are decelerating anyway.

However, if the current National government carries through on a proposal to ‘auto-enrol’ the 2 million or so eligible New Zealanders who have yet to sign on to KiwiSaver – or a Labour government introduces compulsion – default status would indeed give providers a valuable boost.

Even on current settings, default status remains a worthwhile commodity – but no guarantee of success: as this survey found, three of the top five KiwiSaver schemes by funds under management are default providers.

On the downside, default providers lose out the most in the transfer market, with exception of ASB and possibly OnePath

(which appears to be directing most departing members to other schemes in the ANZ family).

Irrespective of how the default regime realigns, the entire KiwiSaver market is already on the road to rationalisation. This report found up 11 schemes have closed or merged over the last year or are about to in the months ahead.

Despite two new providers (BNZ and Generate) due to provide full annual reports for the first time next year, the final tally of KiwiSaver schemes covered by this survey could be as low as 33 in 2014 – down from 43 two years ago.

According to data collected for this report, only 20 KiwiSaver schemes have membership of 10,000 or more, suggesting further consolidation is likely. At the same time, members and FUM continue to congregate with the large – mainly bank-owned – schemes, with the top five providers controlling almost 75 per cent of all KiwiSaver money.

Over the long-term, ever-expanding FUM backed by mandated fund flows (possibly increasing if compulsion and/or higher contribution levels are introduced) may entice new competitors. In the meantime, the KiwiSaver market is much like most New Zealand roads – quite narrow and hard to overtake trucks on.

The findings in this report are based on figures collected from the annual reports and financial statements of 38 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 fee of \$250 plus GST.

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