# Pieces of eight

KiwiSaver Annual Market Report 2015

By David Chaplin

## Introduction

As at the end of March 2015 over 2.5 million New Zealanders had buried a collective \$28.5 billion in KiwiSaver. That figure was on par with the New Zealand Superannuation Fund (NZS) – the country's other retirement savings hope for the 21st Century.

By year's end – barring a market catastrophe – total KiwiSaver funds under management (FUM) should break through the \$30 billion mark and continue to sail past the NZS, which remains becalmed in non-contributory waters.

KiwiSaver has long since left the traditional employer and retail super market in its wake. And the strong currents of the Financial Markets Conduct Act (FMC) will soon drag the traditional super market further below the horizon.

During 2015 KiwiSaver will also breeze past the non-super NZ retail funds market. According to Australian research house Plan for Life, as at March 31, 2015, KiwiSaver FUM stood at \$28.5 billion compared to \$29.3 billion in other 'unit trusts and managed funds'. By June 30 Plan for Life measured the KiwiSaver market at \$29.6 billion.

But if the twin forces of mandated contributions and, until recently, buoyant investment markets have filled its sails, the good ship KiwiSaver was also unexpectedly broadsided during 2015.

After secret manoeuvres this May, the National government fired a cannon into KiwiSaver, removing the \$1,000 'kickstart' payment during the budgetary skirmish. The damage was almost immediate, particularly among a mutinous under-24 cohort where nominal membership has actually dropped each month since the May attack, according to IRD statistics.

Rumours that the move was a pre-cursor to 'auto-enrolment' – where all remaining non-member employees would be press-ganged into KiwiSaver – have yet to transition to fact.

The government justified its policy based on a Treasury study that labeled KiwiSaver a failure – relying mainly on just three years of data (2007-2010). Another Treasury report released this September begrudgingly admitted that while KiwiSaver may or may not have added to the national treasure chest "it has resulted in a change in household balance sheet composition".

In that report for the first time, Treasury – as per its wonky way – attempted to measure the profitability of KiwiSaver providers. Profit margins of the six largest providers ranged between 5 and 36 per cent, Treasury reckoned, while a sample of smaller schemes yielded profitability estimates of zero to 55 per cent.

Despite "possible deficiencies in this data", the Treasury study did highlight a growing commercial realism in KiwiSaver. Only 33 schemes are covered in this report, 10 fewer than the KiwiSaver peak in 2009: of those 33, a further two have abandoned ship since March with another duo set to walk the plank this year.

This 2015 KiwiSaver survey is based on data culled from the annual reports of the 33 schemes in question. As in previous years the report will analyse the schemes across a range of factors including:

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

Also, fresh on board this year is data on the crew of service providers – such as administrators and auditors – who extract their own piece of eight from the KiwiSaver treasure chest.

## Comparing grapples with grapples: in which schemes keep members on the hook

Over the last couple of years ‘organic’ growth of KiwiSaver membership has noticeably decelerated. While the sign-up slow-down is partly a natural phenomenon (after eight years in operation most volunteer retirement savers have already joined a scheme), the removal of the $1,000 kick-start incentive this May poured more water on the embers.

In the first full three months since the kickstart cancellation, IRD figures show the average net monthly membership growth was about 9,500 compared to over 13,000 in the preceding nine months. (Including only the latest two months – July and August – the average monthly member net growth figures drop to roughly just 8,600.)

The post-kickstart period falls outside the range of this report but the figures hint at an even tougher competitive environment ahead for schemes already grappling in hand-to-hand combat for members.

Over the 12 months to March 31, 2015, the 33 schemes in this survey reported total transfers in from other KiwiSaver schemes of about $2.1 billion and transfers out of roughly $1.2 billion. The approximate $900 million discrepancy between the ins and outs is mostly explained by the closure of three largish schemes – Kiwibank, FirstChoice and Fidelity – during the year. In total the three funds accounted for about $800 million, most of which was transferred to related schemes – Kiwi Wealth, ASB and Grosvenor, respectively.

Including the scheme mergers, transfers amounted to about 7.4 per cent of total KiwiSaver FUM as at March 31; or about 4.5 per cent exempting bulk transfers from the calculation.

According to IRD stats, excluding mergers, over 150,000 members, or about 5.5 per cent of total KiwiSaver membership, transferred schemes over the 12 months to the end of March 2015.

On gross figures, this year Kiwi Wealth took out the top spot as measured by net transfers, followed by Grosvenor, with ASB in fourth. However, after deducting bulk transfers from merged schemes (assuming 100 per cent of funds came across) Grosvenor and ASB get bumped out of the top five charts, while Kiwi Wealth faces a demotion.
Tellingly, both the top five and bottom five providers by net transfers filled exactly the same positions last year as per the latest 2015 table below:

| **Top 5 KiwiSaver schemes by net transfer inflows** | | |
|---|---|---|
| Scheme | Net transfer inflow $m | % of total scheme FUM as at March 31, 2015 |
| ANZ | 210 | 4.8 |
| BNZ | 140 | 26.6 |
| Kiwi Wealth | 134 | 6.3 |
| Westpac | 64 | 2 |
| Milford | 48 | 11.2 |

| **Top 5 KiwiSaver schemes by net transfer outflows** | | |
|---|---|---|
| Scheme | Net transfer outflow $m | % of total scheme FUM as at March 31, 2015 |
| AMP | 188 | 5.2 |
| Fisher Two | 83.8 | 6.1 |
| Mercer | 69.2 | 6.4 |
| ANZ Default | 29.8 | 2.9 |
| OneAnswer | 20.3 | 1.4 |

## In a vast sea of FUM: there be monsters

Compounding member contributions, the regular government rations and pleasant investment conditions all added up to a year of solid growth for KiwiSaver: total FUM was up more than $6 billion in the 12 months to March 31, 2015, cresting at almost $28.5 billion.

And as per previous years, the ocean of money is dominated by a small pod of whales. Indeed, the top five providers (all of whom occupied the same positions last year) as tabled below collectively own just under 75 per cent of KiwiSaver FUM.

However, the FUM share of the top five providers has dipped slightly over the year, dropping about 1 per cent compared to 2014. After adding in the next largest scheme, Kiwi Wealth (about $2.1 billion), the top six providers account for just over 82 per cent of KiwiSaver FUM – again about 1 per cent shy of the 2014 result.

Including the remaining major bank scheme, the fast-growing BNZ, brings the total KiwiSaver FUM share of these seven providers to about 84 per cent. While BNZ is only the ninth largest provider, the National Australia Bank subsidiary is more likely to be recruiting members from its institutional rivals than Grosvenor and Mercer, which sit above it in the FUM tables.

Interestingly, with the exception of ANZ, which saw its market share jump over 1 per cent during 2014, all of the top five providers lost ground. In the case of Westpac, the market share decline was marginal while ASB and the conjoined Fishers gave up about 0.5 per cent each during the year. AMP, however, saw its market share drop by more than 1 per cent over the 12 months to March 2015.

| **Top 5 KiwiSaver providers by FUM: March 31, 2015** | | |
|---|---|---|
| **Provider** | **FUM $bn** | **% of Total ($28.45bn)** |
| ANZ (ANZ, ANZ Default, OneAnswer) | 6.87 | 24.2 |
| ASB | 4.99 | 17.5 |
| AMP | 3.62 | 12.7 |
| Westpac | 3.24 | 11.4 |
| Fisher (One and Two) | 2.58 | 9.1 |
| **Total** | **21.3** | **74.9** |

While the Australian-owned financial institutions have entrenched positions at the top of the FUM ladder (albeit with NZ rivals Fisher and Kiwi Wealth clambering behind), the fastest-growing scheme table is a curious mix of local boutiques and main street banks. Both top of the table Generate (which reported doubling its FUM to $100 million this September) and NZ Funds are growing off relatively small bases – both mainly through adviser network support. Milford, meanwhile, experienced another stellar year of growth (although the period does not encompass its recent run-in with the regulator).
The table below excludes schemes with less than 5,000 members and strips out merger money that would've seen both Kiwi Wealth and Grosvenor make the top five:

| **Top 5 KiwiSaver schemes by annual FUM growth-rate** | | |
|---|---|---|
| Scheme | FUM as at March 31, 2015 $m | FUM Growth-rate April 1, 2014-March 31, 2015 - % |
| Generate | 50 | 622.5 |
| BNZ | 527 | 121.8 |
| NZ Funds | 105 | 73.1 |
| Milford | 428 | 61.5 |
| ANZ (main scheme) | 4,421 | 48.1 |

## All hands on deck: crew count

In line with historical trends, the top five providers as measured by membership more or less track the FUM results – with the one difference (as per 2014) seeing Westpac swapping places with AMP.

Share of total KiwiSaver membership also, unsurprisingly, follows the FUM figures – with ANZ growing market share and the remaining four providers either remaining static or going backwards proportionately.

AMP, which saw its share of KiwiSaver membership slide by more than 1 per cent, also bled members in nominal terms, down almost 8,000 on 2014. AMP and Fisher Two (where a net 401 members jumped ship) were the only major schemes to experience nominal membership declines over the year.

| **Top 5 KiwiSaver providers by members** | | |
|---|---|---|
| **Provider** | **Members** | **% of Total (2.49m)** |
| ANZ (inc ANZ, ANZ Default, OneAnswer) | 664,472 | 26.7 |
| ASB | 454,199 | 18.2 |
| Westpac | 362,326 | 14.6 |
| AMP | 250,974 | 10.1 |
| Fisher Funds (One and Two) | 232,387 | 9.3 |
| **Total** | **1,964,358** | **78.9** |

Similarly, the fastest-recruiting KiwiSaver scheme table closely follows the FUM result, with Kiwi Wealth (even after removing the 22,599 Kiwibank scheme transferees) replacing rival bank scheme ANZ in the top five.

| **Top 5 KiwiSaver schemes by member growth-rate** | | |
|---|---|---|
| Scheme | Members as at March 31, 2015 | Member growth-rate April 1, 2014-March 31, 2015 % |
| Generate | 6,764 | 398 |
| BNZ | 68,092 | 60.3 |
| Kiwi Wealth (ex Kiwibank transfer) | 110,881 | 33.4 |
| Milford | 12,648 | 30.1 |
| NZ Funds | 5,781 | 28 |

Hiring a crew might be one thing, but getting them to work hard is another. Encouragingly, the 'non contributing' member statistic (which combines those on official 'section 104' holidays and members bunking off for other reasons), has declined slightly for all four schemes who made the top five in this category last year.

Excluding Generate, which replaces the (now-closed) Kiwibank scheme in the non-con list, the order hasn't changed year-on-year. Grosvenor comes in a number one by dint of its merger with last year's laziest member scheme, Fidelity.

| **Top 5 KiwiSaver schemes by 'non contributing' member %** | | |
|---|---|---|
| Scheme | Non contributing members as at March 31, 2015 | Non contributing % of total scheme membership |
| Grosvenor | 53,580 | 55.7 |
| Fisher Funds | 65,844 | 54.5 |
| Generate | 3,308 | 48.9 |
| ANZ | 234,137 | 46.5 |
| Westpac | 160,874 | 44.4 |

## Booty call

Over the year, the 33 schemes included in this survey collected a total of about $261 million in fees and expenses.

While that represents an increase of about $16 million compared to the 2014 booty, proportional to FUM, this year's figures actually show a drop – probably the first ever.

In 2014 this report calculated the average per-FUM cost of KiwiSaver at 1.29 per cent, based on comparing total fees and expenses to average FUM (March 31, 2013 FUM plus March 31, 2014 FUM)/2. Using the same formula, the 2015 cost of KiwiSaver equates to roughly 1.05 per cent – or a drop of almost 25 basis points.

Most of the pricing decline can be attributed to the new default provider regime, which came into effect in the middle of 2014.

As well as increasing the number of default providers from five to nine (with newcomers BNZ, Westpac, Grosvenor and Kiwi Wealth), the government squeezed some basis points in costs out of the scheme operators.

To a certain extent, the default effect has spread through the system. AMP, for example, lowered its costs across all its funds post the new default scheme arrangements, resulting in a 20 basis point fall in its per-FUM costs year-on-year.

The three tables below plot the five top schemes over nominal dollar fees/expense as well as highest and lowest per-FUM costs. Most are familiar names in these categories (although, Generate again makes an inaugural appearance). As an aside, Supereasy, a restricted scheme for local government employees, reported a nominal decline in fees/expenses over the year, resulting in costs falling from an already low 0.7 per cent to 0.5 per cent.

| Top 5 KiwiSaver schemes by fees/expenses charged | | |
|---|---|---|
| Scheme | Fees/expenses $m | % of average FUM 2014/2015 |
| ANZ | 45.8 | 1.2 |
| ASB | 32.8 | 0.8 |
| AMP | 32 | 1 |
| Westpac | 28 | 1 |
| Kiwi Wealth | 20.9 | 1.2 |

| Top 5 KiwiSaver schemes by fees/expenses per FUM | | |
|---|---|---|
| Scheme | Fees/expenses $m | % of average FUM 2014/2015 |
| NZ Funds | 3 | 3.6 |
| Generate | 1.9 | 2 |
| Fisher | 19.3 | 1.8 |
| Aon | 4.3 | 1.5 |
| Milford | 5.1 | 1.5 |

| Bottom 5 KiwiSaver schemes by fees/expenses per FUM | | |
|---|---|---|
| Scheme | Fees/expenses $m | % of average FUM 2014/2015 |
| Supereasy | 0.69 | 0.5 |
| SuperLife | 2.4 | 0.7 |
| Smartshares | 0.25 | 0.7 |
| ASB | 32.8 | 0.8 |
| ANZ Default | 7.8 | 0.8 |

## The clink of silver: solid returns

The 12 months to the end of March 2015 marked a particularly good investment period for KiwiSaver schemes. In total, the 33 schemes reported returns of almost $3 billion, for an aggregate performance (as compared to average total FUM over 2014/15) of close to 11.9 per cent – up more than 1 per cent on the previous annual period.

Those returns were achieved across a tighter range between the worst and best-performer of 8-18.5 per cent (2014: 5-19.6 per cent) – excluding the tiny Exclusive Brethren BCF scheme, which returned about 4.3 per cent from its largely cash holdings.

As per usual caveats, the performance figures – which measure total scheme returns without accounting for asset allocation/risk profile - should be taken with a large dose of salts.

| **Top 5 KiwiSaver schemes by annual performance** | | |
|---|---|---|
| Scheme | Total return $m | Performance |
| NZ Funds | 15.3 | 18.5 |
| Kiwi Wealth | 287 | 16.6 |
| Supereasy | 20.1 | 15.2 |
| Generate | 4.4 | 15.1 |
| Medical Assurance | 50.9 | 15 |

| **Bottom 5 KiwiSaver schemes by annual performance** | | |
|---|---|---|
| Scheme | Total return $m | Performance |
| SBS (Lifestages) | 9.3 | 8 |
| Mercer | 97.1 | 9.9 |
| Fisher Two | 125.5 | 10.1 |
| AMP | 334.5 | 10.1 |
| BNZ | 39.9 | 10.3 |

## Parties of the third-party, and other associates

While fund managers and scheme promoters claim most of the glory (and blame) in KiwiSaver, below decks a large crew of service providers keep the ship afloat.

The 2012 report in this series reviewed the trustee companies, finding Guardian Trust as the number one supplier in the KiwiSaver space. In the years since, little has changed in the trustee market share. However, Guardian now boasts a new owner while Perpetual (sold and renamed as Corporate Trust) has since been bought by the conglomerate which owns Guardian.

Naturally, the number of KiwiSaver trustee clients has been shrinking along with scheme numbers.

The 2015 KiwiSaver report also casts an eye over a number of other below-deck toilers including, administrators, auditors and lawyers.

Most of the smaller schemes outsource administration (comprising unit pricing, registry and accounting), while some of the larger providers may hive off components to third-party specialists. With the sale of Aon's admin business (which services 10 schemes) this year to Link Market Services, the subject has unexpectedly hit the headlines. Trustee Executors, which provides some admin services to six schemes is also engaged in a battle with Mercer to win the entire Fisher Funds registry business. Mercer only has one external KiwiSaver admin client – Fisher Two (ex Tower).

KPMG is king of the auditors with 12 KiwiSaver clients followed by PwC (8), Deloitte (6) and Ernst & Young (4). Meanwhile, Minter Ellison Rudd Watts tops the lawyers' table boasting nine clients while Chapman Tripp turns up as legal expert in seven schemes. DLA Piper and Kensington Swan are lead hands in five and four schemes respectively.

## Conclusion

Aged eight, KiwiSaver's buccaneering days appear to be over.

From a motley assembly of 43 schemes (more including the widely-ignored, and disappearing, corporate-only funds) in 2009, KiwiSaver has been whittled down to just 33 as at March 2015.

There have been some events after balance date. Both the Mercer Super Trust and the NZ Harbours schemes have been scuttled: the former to merge with its bigger sister scheme; while the latter's 136 members have boarded AMP.

At least two other schemes have been earmarked for scrap. The NZX-owned Smartshares is simply awaiting orders from the UK tax department before it can rescue its dozen QROPS castaways and officially wind-up. The change to the UK Qualifying Registered Overseas Pension Scheme (QROPS) rules – effectively shutting out KiwiSaver from the game – has added another unwelcome layer of administrative complexity. The remaining 1,350 or so Smartshares passengers will – pending FMA approval – re-embark on the new NZX KiwiSaver hope, SuperLife.

Meanwhile, the fate of the $55 million Staples Rodway is also under review. The SBS-owned Funds Administration NZ (FANZ), which runs the South Island-domiciled bank's Lifestages KiwiSaver scheme, took over management of the Staples Rodway fund in March 2015: consolidation seems a likely outcome.

Next year could very well see the list of KiwiSaver schemes covered by this survey fall below 30 for the first time. But despite the downward trend, at least one new scheme could launch in the current financial year. Australian small cap specialist firm, PIE Funds, has indicated a desire to paddle into

KiwiSaver. Another start-up scheme is also rumoured to be preparing to cast off in the first quarter of 2016.

Milford, NZ Funds and Generate – all local boutique firms – have shown there is room in KiwiSaver waters for fast-moving smaller boats among the super cruise-liners.

And as the larger providers continue to build scale (plundering rival schemes for members if necessary), further regulatory attention is likely to turn to corporate behaviour and costs in the KiwiSaver market.

For all its quirks, the recent Treasury report mentioned in the introduction will be the basis for "future policy advice on KiwiSaver settings and the fund manager market".

"Overall, the market appears to be competitive, however, with a growing level of concentration," the Treasury report says. "Concentration *per se* is not concerning as economies of scale exist in funds management which should, in theory, lead to cost reductions and efficiency gains."

In practice, KiwiSaver providers may find it harder to ignore the insistent commercial voice, which, like Long John Silver's shoulder-dwelling parrot in Robert Louis Stevenson's *Treasure Island*, can only repeat: "Pieces of eight, pieces of eight, pieces of eight."

**The findings in this report are based on figures collected from the annual reports of 33 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.**
**Please contact the author at david@investmentnews.co.nz or ph 06 878 4295 for further details.**