The seven-year switch

KiwiSaver Annual Market Report 2014

By David Chaplin

Introduction

According to Hollywood, the typical marriage hits peak volatility at seven years.

Indeed, ‘The seven-year itch’, first popularised in the 1955 Billy Wilder-directed movie of the same name, remains the benchmark risk measure of maximum marital infidelity.

But the seven-year disloyalty standard may not be up to statistical scratch. A cursory internet search reveals alternative studies that identify the relationship danger zone at three, four or twelve years.

Figures from the Inland Revenue Department (IRD), however, do show a weak correlation with seven-year itchiness in the KiwiSaver market.

According to IRD statistics for the 12 months to June 2014, almost 150,000 KiwiSaver members – or 6.4 per cent of total membership – switched providers during the period. Over the previous annual period the IRD recorded about 127,000 scheme transfers, equating to 5.9 per cent of total KiwiSaver membership at that time, which itself was up on the 2012 number of 103,438 transfers, or 5.3 per cent of all scheme members.

(Curiously, the IRD figures also support the three- and four-year itch theories with the 2010 and 2011 transfer numbers hitting 115,801 and 111,707, respectively, or 7.9 per cent and 6.4 per cent of total membership.)

In its annual helicopter review of the KiwiSaver market, the Financial Markets Authority (FMA) reported total funds under management (FUM) transferred between schemes at about $1.4 billion in the year to March 31, 2014.

This study, which covers the 12 months to March 31, 2014, found total scheme transfers of approximately $1.1 billion. The discrepancy from the FMA figures is probably due to an anomaly in the ANZ Default transfer figures, which include related scheme transfers of about $145 million in its membership transfer information but not in the financials.

All the above numbers exclude the two major scheme mergers of the 2013/14 year which added about $2.2 billion in FUM and 290,000 members to the transfer pool: ANZ absorbing almost 190,000 members and over $1.2 billion from the National Bank scheme; while the AMP merger with the now-defunct Axa scheme accounted for the remainder.

Including the two scheme mergers, over $3.3 billion or 15.6 per cent of total KiwiSaver FUM shifted official home over the 12 months to March 31, 2014.

As detailed in the 2013 KiwiSaver Market Report, the AMP/Axa and ANZ/National shotgun marriages are part of an overall consolidation trend.

This 2014 KiwiSaver report surveys 35 schemes; down from 38 the previous year. By Christmas 2014 at least three more will switch off.

Based on the annual reports of the 35 KiwiSaver schemes, comprising about $21.4 billion in FUM and 2.3 million members, this analysis will cover:

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

Safe relationships: how the banks woo

Over the seven-year life of KiwiSaver, banks have consistently dominated the transfer market.

Bank-owned schemes have generally topped the table as measured by this report's preferred 'net transfer' statistic (which reflects a scheme's ability to keep members as well as attract them from rivals). Only the Gareth Morgan scheme in 2009 and the now-closed Huljich KiwiSaver in 2010, prevented a bank whitewash of the annual top net transfer awards.

(On a gross level, Fisher Funds did come out ahead in the 2012 transfer stakes. But without the $191 million it picked up following its purchase of Huljich, the Fisher net transfer figure would've been close to zero.)

The ability of banks to convert mundane financial relationships into longer-term KiwiSaver commitments has always irked providers with less attractive distribution profiles.

However, the regulator finally issued a warning over bank KiwiSaver matchmaking practices in September 2014.

The FMA, in its inaugural review of the Qualifying Financial Entity (QFE) regime, expressed some concern that banks were exerting undue influence over KiwiSaver transfers.

"We continue to receive reports from various sources about concerning KiwiSaver sales and switching practices in the marketplace," the FMA QFE report says.

Whether gentle persuasion from the regulator can prevent the nation's bank tellers from seducing clients over to the house KiwiSaver scheme is another matter.

As it stands, banks again top the net transfer tables this year. Even stripping out the National Bank merger FUM ($1.2 billion) the non-default ANZ scheme claimed the number one spot again, likely boosted by transfers from its sister default scheme.

Late KiwiSaver bank blow-in, BNZ, earns the number two place by net transfers in its first full-year of operation (although the figure covers 15 months). Not surprisingly given its belated entry into the market, transfers from other schemes constitute almost 75 per cent of the BNZ KiwiSaver total FUM as at March 31, 2014.

As the table below shows, Milford, with $54 million in net transfers, rounded out the top five, avoiding a bank clean sweep of the category.

ASB, the only major bank outside the top five by net transfers, could only muster a gain of $10.6 million (on massive gross flows in and out). With net transfers of about $11.4 million the minnow New Zealand Funds Management scheme shut ASB out of seventh position.

Top 5 KiwiSaver schemes by net transfer inflows		
Scheme	Net transfer inflow $m	% of total scheme FUM as at March 31, 2014
ANZ (ex $1.2bn Nat Bank transfer)	193*	6.5
BNZ	176	74
Kiwibank (Kiwi Wealth scheme)	60.7	4.6
Westpac	56.2	2.3
Milford	54	20.3

* this figure likely includes a large portion of the $70m transferred out of the ANZ Default scheme over the period.

The negative end of the transfer market featured, as usual default providers. Excluding the estimated $1 billion boost from the Axa scheme, AMP topped the bottom with net transfer losses of about $163 million.

(However, including the Axa transfers, AMP would've pushed BNZ out of second place in the above table.)

Fellow default schemes - Fisher Two, ANZ Default (formerly OnePath) and Mercer – joined AMP in the net transfer outflow top five. Another ANZ-owned scheme, the financial adviser-sold OneAnswer, was the only non-default in this category.

Overall, 15 schemes experienced net transfer losses with Fidelity, the ASB-owned FirstChoice (due to close in late 2014) and the original Fisher Funds (referred to as Fisher One in this report) scheme sitting just outside the five included in the table below.

Top 5 KiwiSaver schemes by net transfer outflows		
Scheme	Net transfer outflow $m	% of total scheme FUM as at March 31, 2014
AMP	163	5.5
Fisher Two (formerly Tower)	84.6	7.5
Mercer	70.1	7.9
ANZ Default	67.8	8.3
OneAnswer	28.9	2.6

Why big FUMs are attractive

The KiwiSaver provider FUM leader board has barely changed over the 12-month period to March 31, 2014.

With the exception of Fisher (this year including the former Tower scheme), which displaced Kiwibank as number five, the positions, as per the table below, remain exactly the same as in the 2013 report.

While the overall proportion of total KiwiSaver FUM owned by the top five providers has slightly increased (almost 76 per cent this year compared to 73.8 per cent in 2013), the market share of each institution has hardly budged – excluding Fisher which grew by acquisition. AMP saw a marginal drop of 1 per cent market share compared to 2013.

If the two Kiwibank schemes, totaling about $1.5 billion, are included, these six institutions control over 83 per cent of KiwiSaver FUM.

Top 5 KiwiSaver providers by FUM: March 31, 2014		
Provider	**FUM $bn**	**% of Total ($21.36bn)**
ANZ (ANZ, ANZ Default, OneAnswer)	4.91	22.98
ASB (inc FirstChoice)	3.86	18.07
AMP	2.98	13.95
Westpac	2.44	11.42
Fisher (inc One and Two)	2.04	9.55
Total	**16.23**	**75.98**

FUM growth-rate is a measure of both member increase and investment performance. While the two metrics are not necessarily correlated, the top three schemes in the table below, showing annual FUM growth-rates, also feature in the high-performance rankings.

The table measures single scheme FUM growth as opposed to the aggregated provider figures above. Schemes with less than 5,000 members have also been excluded but, as an aside, the NZ Funds and Craigs Select KiwiSaver schemes – both with over 4,000 members as at March 31, 2014 – grew membership by 72.4 per cent and 34.3 per cent, respectively, over the period.

Also of note, despite switching to a restricted membership structure over a year ago, the Medical scheme scored a top five slot in the FUM growth-rate statistics.

Top 5 KiwiSaver schemes by annual FUM growth-rate		
Scheme	FUM as at March 31, 2014 $m	FUM Growth-rate April 1, 2013-March 31, 2014 - %
Milford	265	117.3
ANZ (ex Nat Bank transfer of $1.2bn)	1,782	99
Kiwi Wealth	1,311	41.2
Westpac	2,437	31
Medical Assurance	289	30.8

Contributing factors: the members-only section

As with the FUM figures, the top five providers' share of membership remains more or less static compared to the previous period. Fisher again the only exception, boosting its market share (and fluffing up the total top five share from 76.7 per cent to 80.4 per cent) following its buyout of the Tower scheme.

Also in line with the 2013 result, only Westpac and AMP have transposed places compared to the provider FUM table – reflecting the higher average FUM-per-member of the AMP scheme compared to Westpac, which measured $11,500 and $7,200 respectively.

With the addition of the two Kiwibank schemes, these six providers own roughly 85 per cent of KiwiSaver members.

Top 5 KiwiSaver providers by members		
Provider	**Members**	**% of Total (2.29m)**
ANZ (inc ANZ, ANZ Default, OneAnswer)	596,790	26
ASB (inc FirstChoice)	429,934	18.7
Westpac	333,829	14.5
AMP	258,859	11.3
Fisher Funds (One and Two)	226,780	9.9
Total	**1,846,192**	**80.4**

Likewise, the top five per-scheme member growth-rate table virtually mirrors its FUM equivalent. ASB – despite a poor performance in the transfer wars – is the sole point-of-difference here.

Top 5 KiwiSaver schemes by member growth-rate		
Scheme	Members as at March 31, 2014	Member growth-rate April 1, 2013-March 31, 2014
Milford	9,720	66.4
ANZ (ex 187,931 Nat Bank transfers)	248,321	40.5
Kiwi Wealth	83,228	29.7
ASB	415,864	10
Westpac	333,829	9.5

Introduced in last year's report, the 'non contributing' member statistic (which combines those on official 'section 104' holidays and 'other' non-contributing members), also has a déjà vu feel.

Fidelity and Fisher Funds have swapped places and the (about to close) Kiwibank scheme has replaced Grosvenor in the table below but the 'non-contributing' rates in these five schemes are well above the median level of about 35 per cent. However, across all the schemes in the table below the 'non contributing' member rate has slightly declined compared to last year. Schemes under 5,000 members have been excluded.

Top 5 KiwiSaver schemes by 'non contributing' member %		
Scheme	Non contributing members as at March 31, 2014	Non contributing % of total scheme membership
Fidelity	42,028	67.6
Fisher Funds	76,037	66.2
ANZ	208,423	47.8
Kiwibank	11,575	46.7
Westpac	154,594	46.3

Price-check on KiwiSaver: five bips up

Collectively, the 35 KiwiSaver schemes included in this study scooped off about $245 million in fees and expenses over the 12 months to March 31, 2014.

That figure represents an increase of about $64 million compared to last year's charge-out rates. As well as a hike in absolute terms, costs were also up as measured against the average total KiwiSaver FUM over the year – (March 31, 2013 FUM plus March 31, 2014 FUM)/2 – coming in at approximately 1.29 per cent versus 1.24 per cent in the previous period.

An increase of 5 basis points in operating costs for KiwiSaver is probably not unreasonable given the extra regulatory demands heaped onto providers over the last year or so.

However, with the introduction of the new default provider regime in July 2014 (that awarded the status to four new providers), a number of fees are set to fall in the current period. Furthermore, growing economies of scale due to merger and acquisitions and natural FUM expansion, would be expected to put a cap on proportional fee increases: time will tell.

Regardless, the 35 schemes included in this study exhibited a wide variation in fees and expenses charged. The three tables below show the top five KiwiSaver schemes across a couple of fee/expense metrics: absolute dollars charged, and; compared to scheme FUM.

The figures exclude schemes with less than 5,000 members. It should be noted, however, that six smaller schemes sit between ANZ and Fidelity in the fees-per-FUM table, and one more between Milford and ANZ. A further tiny scheme actually tops the fees-per-FUM league.

Top 5 KiwiSaver schemes by fees/expenses charged		
Scheme	Fees/expenses $m	% of average FUM 2013/2014
ANZ	33.8	1.7
ASB	26.7	0.8
AMP	26.5	1.2
Westpac	24.5	1.1
Fisher (One)	20.7	2.6

Top 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2013/2014
Fisher (One)	20.7	2.6
Milford	4.8	2.5
ANZ	33.8	1.7
Fidelity	5.2	1.6
Lifestages (SBS)	1.4	1.5

Bottom 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2012/2013
Supereasy	0.7	0.7
Smartshares	0.22	0.7
Superlife	2.1	0.7
ASB	26.7	0.8
ANZ Default	6.6	0.9

A brief performance review

In aggregate, the schemes included in this report returned about 7.8 per cent for the 12 months to March 31, 2014, compared to approximately 10.5 per cent over the previous annual period.

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 2013 and March 2014 FUM figures.

Overall performance for the year ranged from 2.1 per cent to 19.6 per cent, with the top and bottom five performers compared as below, excluding schemes with under 5,000 members.

Top 5 KiwiSaver schemes by annual performance		
Scheme	Total return $m	Performance
Milford	40	19.6
Fisher (One)	112.3	13.9
Kiwi Wealth	151.5	13.5
ANZ	240.3	12.4
Aon	26	11.8

Bottom 5 KiwiSaver schemes by annual performance		
Scheme	Total return $m	Performance
ANZ Default	37.4	5
ASB	182.3	5.6
Superlife	16.9	5.9
Grosvenor	17.5	6.1
Fidelity	21.6	6.6

Conclusion

In its seventh year of operation, KiwiSaver reached a level of almost-boring consistency. Annual member, FUM, growth-rate, fee and performance trends closely tracked the 2013 results.

The consolidation trend, which accelerated last year, spilled over in 2014 as the AMP/Axa and ANZ/National schemes completed their respective mergers.

By the end of 2014, three more largish schemes will close: the ASB-owned FirstChoice, comprised of about 14,000 members and $220m in FUM has a hybrid merger scheduled with its parent scheme; under a similar arrangement the AMP-managed Kiwibank scheme – almost 25,000 members and $200 million FUM – will semi-fold into the bank's main Kiwi Wealth scheme (formerly known as Gareth Morgan KiwiSaver); meanwhile the 62,000-member and $350-plus million Fidelity scheme has been cleared to marry the smaller Grosvenor scheme to create a roughly $700m, 95,000-member united entity – assuming zero transfer spillage.

A single new entrant, the niche Amanah KiwiSaver scheme that targets Islamic Shari'a investors, has been confirmed for the 2015 reporting season. (In fact, probably due to an administrative oversight, the Amanah scheme filed 2014 annual accounts covering one-week of operation, which has been disregarded in this survey.)

If there are no further closures, the total number of KiwiSaver schemes (ignoring the handful of tiny corporate-only schemes) will bottom-out at 33 in the 2015 period, compared to the peak of 43 in the 2009 report.

As at March 31, 2014, only 19 schemes reported membership levels of 10,000 or more (although Milford was just under this benchmark). By FUM, a mere 18 schemes had accumulated

$200 million or more (with about $197 million in FUM, the closing AMP-managed Kiwibank scheme just missed this cut) by March 31, 2014: of these, two are scheduled for demolition.

Outside this elite group sit a handful of industry or religion-based restricted schemes; three broker-owned funds (two of them run by Craigs); an Iwi scheme; a couple of small but fast-growing relative newcomers – NZ Funds and Generate; and a few hard-to-categorise, low-growth schemes – SmartKiwi, Mercer Super Trust and Staples Rodway.

Further consolidation in 2015 would not surprise.

The expansion of the default provider regime adds a complicating factor in the year ahead. With four new approved default providers – Grosvenor, Kiwibank, Westpac and BNZ – to add to the existing five (Fisher Two, Mercer, AMP, ANZ and ASB), auto-enrolled member and FUM inflows will be spread thin across an already declining growth market.

Barring the National government introducing its alleged policy of ‘soft compulsion’ (the auto-enrolment of all eligible non-members, with an opt-out provision), default status could be of negligible value.

As this report shows, unless providers have strong distribution channels to funnel members into active choice options, default members tend to walk out the door.

IRD figures also illustrate, KiwiSaver members are exiting in greater numbers at the other end: over 47,000 individuals closed accounts due to retirement in 2014, up from 28,006 the previous year and two in 2012. Death is also beginning to exact a greater toll on KiwiSaver membership; 10,090 checked out in the 12 months to June 30, 2014, compared to 1,666 during the 2009/10 year.

Overall, as the 2014 FMA KiwiSaver report points out, membership growth slowed to 10 per cent in latest annual period, down from 14 per cent in 2012.

While fewer schemes are now operating in an era of lower growth, KiwiSaver providers are, unsurprisingly, looking to boost membership and FUM by targeting competitors.

As previous editions of this survey have shown, banks, for the most part, are the winners in this game. This year was no different, with ANZ, BNZ, Kiwibank and Westpac, particularly adept at converting customers to KiwiSaver members (while minimising transfers out).

The regulator chose this year to warn banks on KiwiSaver switching practices. While transfer statistics were up in 2014 to 6.4 per cent of total membership compared to 5.9 per cent the previous year (as per IRD statistics), they have yet to reach the peak churn level achieved in the 2009/10 annual period when almost 8 per cent of KiwiSaver members switched sides.

Banks are unlikely to give up their KiwiSaver distribution powers easily. And as long as consumers can be tempted away from a perfectly-adequate, if passionless, KiwiSaver relationship, by the promise of online account consolidation and a piggybank the bank scheme transfer queues will only lengthen.

The findings in this report are based on figures collected from the annual reports of 35 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.

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