Now we are five

KiwiSaver Annual Market Report 2012

By David Chaplin

Introduction

At five the KiwiSaver market has passed the toddler stage but it’s still not a grown-up.

Nonetheless, in its relatively short life to date KiwiSaver has experienced more than its fair share of ‘character-building’ moments: a raft of regulatory changes; volatile investment markets; and a scandal or two to boot.

In a market sense, however, on the surface little appears to have changed since KiwiSaver’s launch in 2007. This study, which is built on data stretching back five years, reviews the annual results of 41 KiwiSaver providers: in the scheme’s inaugural year the same research encompassed 42 providers.

But the numerical similarity masks a reasonably high level of activity over that five-year period. Several providers have exited the industry as new players entered.

Despite a number of high-profile scheme mergers, though, the much-mooted KiwiSaver consolidation process hasn’t as yet begun in earnest.

That all may change in the year ahead. At least two providers including in this study won’t appear next year: the Credit Union scheme which sold out to Fisher Funds in April, and; the Gareth Morgan KiwiSaver scheme will be officially merged with the KiwiBank scheme (although final branding has not been revealed) soon.

Presumably, too, with the disappearance of the National Bank brand, its KiwiSaver scheme will also be reabsorbed by its ANZ parent. Whether AMP and Axa, now with a single owner, continue to operate as dual schemes has not yet been clarified.

As well, the introduction of new governance rules in October 2012, requiring all public-offer KiwiSaver schemes to appoint an independent corporate trustee, and tough new reporting standards due to take effect next year may force the issue for some marginal providers. (For example, the tiny MSF scheme, which at its peak recorded only about 10 members, is understood to be winding up).

Only one new provider, Iwiinvestor, is known to be officially joining the fray in the 2012/13 reporting season. However, BNZ is also widely understood to be launching its new scheme early in the new year – the last of the Australian-owned banks to do so.

This report will briefly summarise the trends revealed in data mainly compiled from the annual reports of 40 KiwiSaver providers (plus interim results from one scheme) in the 12 months to March 31, 2012.

It is intended to be referenced in conjunction with the data itself, available in an excel spreadsheet at this address.

This analysis will cover:

- Funds under management (FUM);
- Membership;
- Transfers between providers;
- Fees and expenses;
- Annual performance; and for the first time,
- An overview of trustee KiwiSaver market share.

FUM times: why the banks are laughing

As per previous years, Australian-owned banks have collected by far the largest chunk of KiwiSaver funds under management.

Of the roughly $12.8 billion in total measured in this survey, the three Australian banks – ASB, Westpac and ANZ – through their various schemes managed about $6.5 billion.

ASB, with the added bonus of its default status, continues to run the single largest scheme with just over $2.3 billion under management. ANZ, meanwhile, via its four schemes – ANZ, National, SIL and OnePath – remains the largest overall provider with about $2.7 billion.

As the table below shows, with the addition of AMP/Axa, the top four providers control about 65 per cent of KiwiSaver funds.

ANZ (four schemes)	$2.7 bn
ASB (including FirstChoice)	$2.4 bn
AMP/Axa	$2.0 bn
Westpac	$1.3 bn
Total	**$8.4 bn**

The remaining default providers, Tower and Mercer, with $764 million and $624 million under management respectively, are tracking as expected, with growth fueled mainly by auto-enrolment. Comparing their FUM with the OnePath scheme (at $563 million), which is probably the most ‘pure’ default operation, gives a sense of how much money Tower and Mercer (and the other defaults) have added above and beyond that provided by auto-enrollees.

Outside the above-mentioned schemes only the Gareth Morgan KiwiSaver fund ($715 million) and Fisher Funds ($523 million) have cracked the half a billion mark. The next largest scheme, Fidelity, is less than half the size of Fisher with $244 million under management.

But it’s the year-on-year FUM growth rates that clearly demonstrate the control banks exert on the KiwiSaver market.

Firstly, the outliers in this category must be explained. NZ Funds with a whopping 1099 per cent annual FUM growth, KiwiBank (up 186 per cent) and Milford (111 per cent) – all locally-owned operations – were reporting their first full year in business and so were coming off a low base. The MSF growth rate of 56 per cent, meanwhile, can be dismissed as a statistical blip given its paltry FUM of $40,000.

Notably, all the Australian bank-owned schemes – already the largest – recorded annual FUM growth rates above 50 per cent with Westpac (54.4 per cent) the outright winner.

The only other institutions to grow FUM above 50 per cent over the year were the now-defunct Credit Union scheme and Forsyth Barr – both at the smaller end of the market.

Interestingly, the NZ-owned SBS Bank scheme, which trades under the Lifestages brand, also grew at a respectable 44.7 per cent over the 12 month-period. Only the Craigs Defined KiwiSaver scheme also grew above 40 per cent during the year.

At the other end of the scale, Smartshares, AonSaver (AMT) and the NZ Maritime Officers (at 4.7 per cent the lowest in this survey) schemes all recorded growth rates below 20 per cent.

Joining the dots: membership picture emerges

In absolute terms membership numbers, as expected, closely match the FUM trends. ASB with more than 330,000 members leading the bunch followed by Westpac (about 261,000) and the remaining Australian banks and default providers.

Fisher Funds, boasting over 113,000 members, is the single non-bank, non-default provider in the top 10 by membership.

The year-on-year member growth trends also closely track the FUM growth findings with NZ Funds, Fisher, KiwiBank and Milford all expanding membership by more than 50 per cent over the period.

NZ Funds (up by 543 per cent) topped the category followed by Fisher Funds (almost 444 per cent), a result mainly attributable to its takeover of 87,000 former Huljich KiwiSaver scheme members during the year.

Of the remaining providers, Westpac recorded annual member growth of 28.5 per cent, compared to the next best scheme, National Bank, which grew membership by 19.6 per cent in the 12 months to March 31, 2012.

Overall, growth rates slowed compared to the previous year – a sign that, with almost 2 million members as at the time of this report, the ‘low hanging fruit’ of the KiwiSaver market has already been plucked.

This year the number of providers reporting net member losses also increased markedly with seven in this category, compared to only one in the previous period.

While the member losses have typically been tiny and from some of the smallest schemes, AonSaver (AMT) and Smartshares – dropping 28 and 8 members respectively – have been stagnant over the last couple of years.

But the most surprising statistic in the above category is Fidelity’s net loss of 2,292 members over the period, equivalent to 3.2 per cent of its total membership.

Fidelity with an average FUM per member of $3,565 is also at the bottom of the pack in the metric. (The Exclusive Brethren-run BCF scheme with average FUM per member of $1,968 is absolute last, however, this is its first year of operation.)

After Fidelity, most of the banks and Fisher Funds recorded the lowest average FUM per member, ranging from $4,240 for ANZ to $5,109 for Westpac. ASB was the only major bank to break the range, averaging FUM of $7,005 per member.

Fisher’s result in this category ($4,625) was noteworthy as it represented a significant drop on last year when average FUM per member stood at $10,700. The fall can reasonably be attributed to Fisher’s digestion of the low average balance Huljich scheme.

While the sea-based union schemes and Brook Asset Management have the highest average FUM per member, their small membership base probably skews the result somewhat. Of the reasonably-sized schemes, Milford showed the best average FUM of about $15,000 per member.

The Gareth Morgan Scheme was the best-rated largish scheme in this category with an average FUM per member of $12,410.

On the transfer market

Transfers between KiwiSaver providers serve as a good proxy measure of their relative marketing success. As the easy flows from new join-ups inevitably eases, providers will increasingly target rivals in order to grow.

According to the 2012 figures, 19 providers experienced a net loss in the transfer market while 21 gained as a result of transfers.

Tellingly, the top five losers – AMP, Axa, Tower, Mercer and OnePath – are all default providers. Only ASB, gaining almost $30 million in net transfers, escaped the default curse.

For the first time too, the Gareth Morgan scheme suffered net loss of FUM via transfers, bleeding over $5 million in the process.

Not surprisingly given it topped both the member and FUM growth rates, Westpac again proved it had a stellar KiwiSaver year, adding almost $90 million in net inflows as a result of transfers, almost double that of its nearest bank rival, National.

Fisher Funds topped the transfer tables, gaining almost $200 million over the period. The result, however, was chiefly due to the Huljich transfer and is likely to be a one-off.

Bottom lines: fees and expenses

The costs of KiwiSaver are naturally a focus of media and regulator and while aggregate figures are reported there is no official breakdown across providers.

This report consolidates the total fees and expenses, where they can be identified, of all providers into a single figure. As yet there is no consistent fee and expense-reporting standard for providers – a problem that should be remedied under new Financial Markets Authority (FMA) rules next year.

In this year’s survey a total of about $135 million fees and expenses were recorded across 40 providers (one small scheme has yet to report).

The cost per funds under management of each scheme was calculated by dividing the reported fees and expenses by the average FUM over the year (March 2011 FUM plus March 2012 FUM/2).

According to this metric, the fee/expense ratio ranged from 0.8 per cent to 4 per cent (although, not too much should probably be read into this figure for the start-up BCF scheme).

Of the major schemes, Fisher was the most expensive, showing a total cost ratio of 2.4 per cent

The data also shows the average cost per member, which probably has less statistical value than the per FUM measure but has been presented nonetheless. This year the figure has been calculated by dividing the costs over the average member numbers during the period (March 2011 membership plus March 2012 membership/2) – a departure from previous reports where the year-end membership figure only was used.

Notes on the performance

Scheme performance figures have been calculated by dividing the reported returns by the average FUM (see above) over the period.

As such, the statistics represent the aggregate performance of each scheme rather than a direct comparison of the success, or not, of the many different investment strategies pursued by various providers.

The returns are reported before tax and fees.

Importantly, the results refer only to the 12-month period covered by scheme annual reports (most of which end on March 31) and should be seen in that, short-term, light.

Nevertheless, it’s clear there was a wide disparity of investment returns over the period ranging from an 11.6 per cent loss for the Law Retirement scheme to an 8.3 per cent gain for Milford.

Seven of the 40 schemes with reported results recorded a loss over the year.

Just over half of the scheme's surveyed managed a return above the official cash rate of 2.5 per cent that prevailed for the period in question.

Presenting the trustees

As at October 2012, all KiwiSaver schemes were required to appoint an independent corporate trustee, whereas prior to this date the rule only applied to default schemes.

If schemes met the FMA definition of a 'restricted scheme', however, they could be exempted from this new requirement.

Following the regulatory reshuffle in October the KiwiSaver trustee market was structured as below:

	No. of schemes	Funds under advice *
Guardian Trust:	12	$6.5 bn
Public Trust:	8	$3.8 bn
Trustees Executors:	9	$2.2 bn
Perpetual:	1	$16.7 m
Restricted:	9	$261 m

The funds under advice figure is somewhat notional as it refers to the March 31 figures, which is before many of the trustees were appointed. However, as a measure of market share it serves as a decent proxy.

Of the nine KiwiSaver providers in this survey who have elected to be restricted the most significant is the 11,000-member, $166 million Medical Assurance scheme. By opting for restricted status, the schemes in question can only market to a very limit audience, making future growth questionable.