

Submission to the Productivity Commission

Interim report into boosting productivity in the services sector - July 2013

August 2013

Summary

Fisher Funds Management Limited (Fisher Funds) submission specifically addresses the suggestion of the interim report (See Section 8.4 Stimulating services competition) that a “What’s my number?” type intervention be used to encourage members to switch KiwiSaver providers. We do not support such an initiative and believe there are many significant reasons that such a campaign could be counterproductive to the KiwiSaver member experience.

About Fisher Funds

Fisher Funds manages over \$5.5 billion across a range of investment strategies under the Fisher Funds and TOWER Investments banners including the Fisher Funds KiwiSaver Scheme and the TOWER KiwiSaver Scheme. Fisher Funds is the largest New Zealand owned and operated KiwiSaver Scheme provider with more than 200,000 members and over \$1.5 billion under management.

Submission

Fisher Funds supports a competitive business environment and we believe there is an important role for the government to play in fostering such an environment.

We supported the introduction of the KiwiSaver Periodic Disclosure Regulations 2013 as we felt it was important that all KiwiSaver members were provided a basic level of information on a regular basis about the performance, fees and asset allocation of their KiwiSaver Scheme. Fisher Funds has forged its reputation on being open and upfront with investors so these new requirements, while now prescribed, are not going to change much for our KiwiSaver members as they can already receive much more detailed reporting on their own KiwiSaver account.

The standardised reports will allow people to compare KiwiSaver Funds more easily but the templates are certainly not perfect and a number of suggestions we made in our submission on those regulations to remove ambiguity were not included.

We feel strongly that the KiwiSaver Periodic Disclosure Reporting should not be a catalyst for a national campaign to encourage mass switching of KiwiSaver for the following reasons:

- Power is a commodity so cheaper will always be seen as better. KiwiSaver is not a commodity product like power is. While the rules and regulations of KiwiSaver do not change from one provider to another, the perception of value will. Our experience from the Canstar KiwiSaver Survey which assigns value on the basis of low fees (while ignoring the impact of returns) tells us that people will interpret low fees as good value.

- Low fees do not necessarily translate into better returns for KiwiSaver members. For example, the best performing KiwiSaver Conservative Fund after fees and before tax over 1, 3 and 5 years to 30/6/13¹ was the Aon Russell Lifepoints Conservative Fund. This was despite the Fund having the third highest Total Expense Ratio out of the 13 Fund's assessed in that category.
- The Government has already recognised that KiwiSaver is not a commodity by introducing lot of regulation around who can provide advice, what sort of advice can be given, and how important information (and not just the fee 'number') is to be published to enable the public to make informed decisions.
- We do not believe a campaign can consider transferring members without the support of financial advice. We question whether the government has the expertise or desire to offer financial advice to the public. Such a campaign would ignore investing fundamentals that seek to identify your tolerance for risk and your age and stage in life and is counterproductive to the efforts made in recent years to improve confidence in the financial advice industry and improve investor decision making.
- There are already a large number of transfers taking place in the KiwiSaver market and many people have switched more than once already. You have to question the reasons why people are switching so frequently. We feel that elevating the profile of switching simply creates the potential for more uninformed decision making.
- Fees are only one aspect of someone's choice of KiwiSaver provider and to suggest they are the overriding factor is too simplistic. Returns are an outcome of many variables such as consistency of application of investing strategy, investment capability and market movements. There is significant research available that confirms that asset allocation is the most important decision you can make in achieving appropriate retirement savings outcomes.
- One of the challenges facing the KiwiSaver industry is how to deliver personal financial advice to individual KiwiSaver members. This assumes greater importance as balances grow. Generic switching campaigns increase the risk of more people ending up in inappropriate funds and less than optimal retirement savings outcomes.

In summary, we feel that the "what's my number" approach that has been mooted is not the real education that is required for KiwiSaver members. In contrast, Fisher Funds would support campaigns that focus on more important questions people need to consider such as how much you need to save for retirement or the amount of income required in retirement. These campaigns have a much greater educational element to them and in our view would likely have a greater impact on improving the financial literacy of New Zealanders.

¹ Morningstar KiwiSaver Performance Survey June Quarter 2013 published 30 July 2013