

# Submission template: Review of KiwiSaver default provider arrangements

## Capital Markets 2029

### Section 1: Your details

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**Are you requesting that any of this submission be kept confidential?** No

*If yes, please let us know why the information should be kept confidential in accordance with the Official Information Act. Please also send us a redacted version of your submission for publication.*

Reasons for withholding:

### Section 2: Feedback on discussion paper

- 1. What is your feedback on the proposed objective for the review?**
- 2. What is your feedback on the proposed criteria for the review? How should the criteria be weighted?**

We broadly agree with the criteria although note the overlap of Criterion 3 and Criterion 1. We suggest the priority of criteria from highest to lowest be:

Criterion 2: Trust and confidence in KiwiSaver

Criterion 1: Better financial position for KiwiSaver default members, particularly at retirement

Criterion 5: Promote innovation, competition, and value-for-money across KiwiSaver

Criterion 3: Low administration and compliance costs

Criterion 4: Support development of New Zealand's capital markets that contribute to individuals' well-being

3. **What is your feedback on the problem definition for the investment mandate? Is a move away from a “parking space” purpose justified?**

We believe a review of the default settings as a transitional “parking space” is justified, but would suggest analysis be undertaken on the contribution rates of default members vs other members and the age profile of default members vs other members to better understand the issues and quantify the extent of the situation.

4. **Should the investment mandate options (and other options, for example in relation to fees) apply only to default members who have not made an active choice, or should they also apply to members who have made an active choice to stay in the default fund? Why or why not?**

We believe those who have actively chosen to remain in a default fund should not be changed

5. **If a life-stages option is adopted, what “stages” should apply and to which age groups? Should there be a “nursery” period?**

Re the “nursery period”, yes, to allow education of the member and more informed choices by the member. We note that a life stages product would necessitate a range of default funds within each default provider.

6. **If a balanced investment mandate is adopted, what range for growth assets should be applied?**
7. **If a growth investment mandate is adopted, what range for growth assets should be applied?**
8. **If a conservative investment mandate is adopted, what range for growth assets should be applied?**
9. **If a life-stages, growth, or balanced option was adopted, how should we mitigate the potential issue in relation to first-home buyers and other people making early withdrawals?**

Education/provision of information at the time of entry

10. **What would be the administrative costs to providers of choosing a life-stages option?**
11. **What is your feedback on the different options? Do you agree with our assessment of the costs and benefits of the option? Which option do you think is best and why? Is there another option that we have not considered that would be better than the options discussed?**

Consider an option whereby the default fund remains conservative, but after a fixed period if the member has not made an active choice then future contributions are directed a balanced fund.

12. **What is your feedback on the level of value that KiwiSaver default members get for their fees? What are the costs that are within and outside a provider’s control? To what extent are fees too high?**

13. **Is it a problem that fees disproportionately affect those on low income and under 18s? Why/why not?**
14. **If the government sets a fee, what should the fee be set at for the different investment mandate options? What considerations, methods or models could be used to determine the fee? What should be the balance between fixed and percentage fees?**
15. **What fee arrangements would best promote the objectives of the review? What is your feedback on the fee options? Do you agree with the costs and benefits identified? Which option (or the status quo) do you prefer and why? What other approaches or models could be used to reduce fees?**
16. **How has the number of providers in the default market affected innovation, competition and value-for-money in the default market and in KiwiSaver more generally?**
17. **Do you agree with our assessment of the costs and benefits of the different approaches for the number of providers? Can you provide us with evidence that might help us quantify the size of the costs and benefits? What option do you prefer and why?**

We prefer appointing a larger number of providers, each of whom must meet minimum standards. That said we note that the rate of default members joining has slowed significantly.

18. **If a “minimum requirements” approach is taken should this be on a period-based or rolling system, and why?**

We prefer a period-based system to incentivise all default providers to remain in compliance with their terms and to minimise disruption to default members

19. **Are there higher investment costs for responsible investing? If so, how likely are these costs to contribute to lower net returns?**
20. **How does responsible investment affect returns? Does it increase or decrease returns, and to what extent?**
21. **Should the default provider arrangements be used to achieve objectives in relation to responsible investment?**
22. **Would default members want their funds to be invested more responsibly? If yes, is the same true if responsible investment means potentially limiting future returns?**
23. **To what extent is it a problem that default members do not have information about whether their investments are made responsibly? Would having more information make a difference to the behaviour of default members? What alternatives might there be to more/standardised information to address responsible investment concerns?**
24. **Do providers’ current responsible investment exclusions meet what default members would expect?**
25. **If this option is adopted, what industries or sectors should be excluded? Should the government instead adopt an international exclusion standard or certification regime? What would be the costs associated with an exclusion or certification regime?**

26. **If this option is adopted, what form should standard disclosure take? For example, should all providers be required to provide a statement listing all excluded companies by sector?**
27. **What is your feedback on our assessment of the costs and benefits of the responsible investment options identified? Which option (or the status quo) do you prefer and why?**
28. **What limitations or problems exist in relation to New Zealand's capital markets? How could the settings for KiwiSaver default providers be amended to support the development of New Zealand's capital markets? How do the liquidity and pricing rules affect default provider investment in alternative New Zealand investments?**

As stated in the Capital Markets 2029 report (page 27), we would rather market development objectives be achieved via commercial means and investor choice. Pages 25 and 26 of the report discuss the broader topics of liquidity and pricing.

29. **How could the default settings be used to develop New Zealand's capital markets? What parts of New Zealand's capital markets are most in need of development?**

See answer 28

30. **Should default funds take an active role in helping develop the New Zealand capital markets? Would this support the purpose of the KiwiSaver Act and the accumulation of retirement savings by default members?**

See answer 28

31. **To what extent is the management of default funds currently located in New Zealand or carried out by New Zealand entities?**
32. **What is your feedback on a New Zealand-based management option? If this option is adopted, which part of the investment process do you think should be based in New Zealand to help develop New Zealand's capital markets? What type of mechanism would best give effect to this requirement?**
33. **What is your feedback on a targeted investment requirement? If the option is adopted, what market should be targeted by an investment requirement (eg early stage companies)?**

See answer 28

34. **What is your feedback on our assessment of the costs and benefits of the options to develop New Zealand's capital markets? Which option (or the status quo) is best and why? Is there another option that would be better than the options discussed?**
35. **What is your feedback on the problem definition for the transfer of members? What other problems are there in relation to the transfer of members?**
36. **If default members are transferred from providers with more members to providers with fewer members, how should we decide which members are transferred?**
37. **If transfer option 1 or 2 were adopted, how should default members be given a choice to remain with their current provider for this option?**

38. **What is your feedback on the transfer options and the costs and benefits of the options? Which option (or not transferring at all) do you prefer and why? Is there another better option we have not considered?**
39. **What factors should the review consider in deciding transition timeframes?**
40. **Should active defaults be considered default members for the purposes of transfers? How should active defaults be treated and notified of any changes to default provider settings?**
41. **What is your feedback on the member education requirements that default providers should have in relation to default members, and how these should be enforced in the instruments of appointment?**
42. **What is your feedback on the other requirements that should apply to default members?**
43. **Any other feedback?**

Where we have not answered a question, it is either because the CM29 committee has not formed a view, felt it was outside our scope, or believed there are specific parties better placed to answer these questions.