Submission template: Review of KiwiSaver default provider arrangements

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Section 1: Your details

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Are you requesting that any of this submission be kept confidential? Yes~~/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?**

   We agree in principal with the objective stated in clause 10 being "to enhance the financial well-being of default members". However, we think the focus on members financial well-being "at retirement" is possibly too narrow. There should be a broader view incorporating the members preparedness for their retirement incorporating member education on the types and styles of schemes and funds for post-retirement investment.

   We see the objective of the review being to conclude on whether it is desirable to include more growth assets into Default Member funds, be it through defining broader asset class ranges or adopting life-stage funds.

   We note that there is a trade off between risk of loss (with more risk there is a greater likelihood of incurring larger losses) and opportunity loss (loss of a lower balance at retirement as insufficient allocation to risk assets).

   It is our view any solution developed will not meet the investment needs of all default members, as each individual default KiwiSaver member will have different perspectives on risk, return and when life events will impact them (e.g. incurring and repaying debt).

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

Criterion 1: "Better financial position"

We think this needs clearer definition. Better financial position can mean different things to different people and the specific definition will drive priorities.

MBIE appears to be defining 'better financial position' as a larger balance at retirement resulting from consuming more risk in to default funds which should generate higher returns and by lowering fees.

We think 'better financial position' could be driven by increasing contributions, making employer contributions compulsory, or it could mean enabling members to use their balance to reduce debt or it could be achieved by improving financial literacy (e.g. education on post-retirement options, investment selections, etc.). None of the costs or benefits of these alternatives have been considered, so we are not as confident as MBIE on the efficacy of the criteria.

Criterion 2: Trust and Confidence.

We think we need to separate trust and confidence in "KiwiSaver" from trust and confidence in particular scheme providers, funds and investments. Investor education is critical to achieve this. A lack of knowledge can lead to blind faith and individuals trusting brands and products.

However, we agree that in assessing any change there should be an assessment of the impact on Trust and Confidence for Default Members.

We note KiwiSaver may well be the only investment product a Default Member ever has. The question that needs to considered is whether incurring losses during the term of a Default Members investment will put them at risk of removing themselves from KiwiSaver altogether?

Criterion 3: Low Administration and Compliance Costs.

Under the current regulatory structure of the FMCA, with supervision being delegated to private firms (i.e. supervisors), results in increased costs whenever more supervision is required. Any increase will result in increased costs within funds and to providers. This structure needs to be recognised in the review.

Criterion 4: Support Development for Capital Markets.

While this is a laudable concept we don't think it should drive the determination of default providers.

We believe this criteria should be taken out of scope of the default provider review.

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

We agree that any review should consider the impact on innovation, competition and value for money across KiwiSaver.

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

Overriding any short comings in default schemes and default fund investment mandates is the ability of a Default Member to transfer between KiwiSaver providers.

We believe the fundamental aim expressed in clause 31 is still valid.

We concur with the sentiment of clause 33 that no single specific fund or approach will satisfy all Default Member's. Life's events (e.g. purchasing a home, serious illness, death in families, etc.) will occur at different times in everyone's life, and individual assessments of acceptable risks will differ, so a single investment style solution will not satisfy all investors.

We note that Default Member engagement may be challenging as Default Members may not wish to, or do not see the need to engage with their provider.

We think Default Members staying in default funds is a likely outcome as Default Members are more passive than active members, and do not appreciate that they need to consider their investment needs and risk appetites. It seems to us that Default Members, by there very nature, are likely not to move as they may not be aware of how to change.

The challenge is to educate these members and encourage them to be more deliberate in managing their investment outcomes.

International research shows investors engage when the sums being invested are meaningful, often when the value is the equivalent of the price of a new car.

We are interested to read in clause 39 that there is a report on steps taken by default schemes to address financial literacy. Is this available for review.

We think a "parking space" approach puts the obligation on the investor to spark the move. The lack of education and small balances results in a lack of engagement therefore we consider this strategy flawed.

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?**

How would a default provider know if a Default Member has made an active choice? Default Member's may not confirm their actions or decisions with their provider, for example a Default Member may decide that the fund they are in is acceptable but not notify their default provider. As such it does not make sense for default providers to apply different rules to members within the same default scheme or fund.

However, applying the same rules across all members should ensure the scheme costs are spread across all members within the scheme and all members within the same scheme are treated equitably. It would also make it easier to operate the scheme if members were treated the same.

Furthermore, all KiwiSaver members are able to transfer between schemes. This transferability is key to KiwiSaver, and where a provider or scheme is not meeting a member's needs then the member has the option of transferring to another scheme.

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

   We do not have a strong view on what stages should apply and think this should be determined by the fund manager. We note that life events occur at different times for different individuals (e.g. house purchase, serious illness). These events have as much of an implication re the risk profile of a fund for a Default Member portfolio as their age.

   We don’t agree with the ‘proposal’ that the Government set investment mandates. KiwiSaver funds are privately managed and there is no government guarantee, so the government should not be setting mandates. There needs to be some flexibility or differentiation in the market place and investment managers should be responsible for operating their funds.

   Any restrictions or specific fund requirements should not apply to actively selected funds or schemes. Restrictions or prescriptive requirements on all schemes will stifle innovation and is likely to increase the cost of providers offering new investment alternatives. Craigs Investment Partners offers self selected portfolios which were not incorporated into the KS Act, the cost of working through an exemption was considerable. We are wary that any restrictions will result in similar costs.

   Having a ‘nursery’ period appears to us to be the same as using a ‘parking space’.

6. **If a balanced investment mandate is adopted, what range for growth assets should be applied?**

   60% growth assets and 40% income assets, as a standard international portfolio target.

7. **If a growth investment mandate is adopted, what range for growth assets should be applied?**

   80% growth assets and 20% income assets, as a standard international portfolio target.

8. **If a conservative investment mandate is adopted, what range for growth assets should be applied?**

   40% growth assets and 60% income assets, as a standard international portfolio target.

   We think that any guidance or conclusions here should also be applied across industry and throughout KiwiSaver, for example these ranges should be consistent with the current KiwiSaver projection calculations and risk indicator determinations.

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?**

   Research indicates that Default Members become active members prior to making first home withdrawals, as they investigate and prepare for the withdrawal request.

   Currently the only time a default provider knows of the Default Member’s life event is when they receive a withdrawal request, which is generally after the event has occurred.

There needs to be more emphasis on educating Default Members so they understand that they can move between schemes and funds, that they should respond to life events by changing their investment options, and they should make these changes in advance of the event occurring.

10. **What would be the administrative costs to providers of choosing a life-stages option?**

We have no basis for determining whether life-stages fund costs will be lower. However, moving members between stages would likely increase transaction costs (e.g. re-balancing and re-weighting investment portfolios), and possibly using higher risk securities and global products (i.e. more risk asset categories) could be higher custody costs would impact the investment.

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?**

Restricting default providers to offering either a life-stages fund, or a balanced, growth or conservative fund does not appear to fix the core problem, being the perception that the default funds are not always appropriate. Any single solution will not be applicable or appropriate for all Default Member. Using or mandating one option means the same outcome.

We think there are other investment styles and options available (e.g. DGF, absolute return products) which default providers could consider. We don't see life-stages as being innovative, as there are other options for the market to consider which may present similar or better outcomes.

Investment outcomes are dependent on investment style and manager performance, not just asset allocations. Focus on reducing the number of loss-events in a fund, particularly in volatile markets should be a focus for any manager.

We don't agree with the sentiment expressed in clause 64. During the GFC all asset classes lost value. To say there's less chance in a market event is incorrect, it's that there could be a reduced impact. We note the only funds that performed well during GFC were absolute return/DGF funds.

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?**

Clause 77 does not include all the events being covered by KiwiSaver scheme fees. For example, missing from the list are:

- IR B2b messaging costs
- Cash handling and processing costs
- Reconciliation and control process costs
- Member reporting (including QFU's)
- System maintenance and development

- Any R&D costs on funds and product
- Documentation and regulation compliance costs
- Client acquisition costs

We think KiwiSaver scheme fees across the board have decreased. Fixed member fees have been reduced and some schemes have removed them. The asset-based costs (e.g. management fees) have not increased and in some instances have also reduced through competition and new entrants.

In terms of value, it is difficult to judge as we are not aware of the service Default Members are receiving. Comparatively default scheme fees appear to be below active scheme fees, possibly due to scale with default scheme providers having larger books.

It may be that fees have not reduced as providers had costed their schemes correctly when they were established. Costs of KiwiSaver service provision have not reduced, compliance costs continue to grow as successive Governments have amended the scheme, new regulations have been introduced (FMCA) and as now IR is changing the messaging core technology. Each of these changes has an impact on the revenue and cost flowsfor providers.

Also, we need to think through the introduction of more passive funds. The fees for these types of funds look between when the market is rising, but typically these funds underperform in volatility or declining markets.

We agree that fixed dollar fees disadvantage lower balance clients. We would be supportive of discontinuing these fees.

We think performance fees are counterintuitive to client outcomes and members lack of understanding about how they work. We would be supportive of removing these from retail funds.

We think entry and exit should be regulated (or eliminated) to facilitate members transferring. A key feature of KiwiSaver is the transferability of members. There should be no impediments to these transfers. Some scheme charge exit fees, which discourage transfer activities.

13. **Is it a problem that fees disproportionately affect those on low income and under 18s? Why/why not?**

Yes, as noted above fixed fees impact smaller balances. We would be supportive of removing flat fee structures and minimum fees on Default Members.

We also think performance fees on default funds are not appropriate. Default Members have not elected to accept the performance fee and are likely not to understand them.

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?**

We do not agree with the Government setting scheme fees. The Government setting fees could limit the investment choices, competition, innovation and encourages a general rise to

the top of fee scale. Furthermore, if fees are too low providers will not enter the market and/or will not innovate and develop the services they offer.

We note there was a cap placed on superannuation schemes in the Australian market. These caps are in line with NZ KiwiSaver scheme costs. We also think New Zealand scheme fees are reasonable when compared to those charged in other international markets.

We would be supportive of removing fixed fees and fee minimums.

High fees in NZ are usually driven by performance 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?**

Removal of flat fee

Removal of entry and exit fees

Option 5: low income earners have low balances as they have less they can save. There is no issue with engagement of members aged less than 18. They will have low balances as they're only starting their investment journey.

We observe the focus on scheme fees appears to come from the press, not necessarily from investors and certainly not from Default Member.

We believe members need to focus on a range of factors rather than simply what the fees are. Members should consider returns on a risk adjusted basis and then determine whether they are getting value for money. We note everyone wants to pay less for any service, but the fees need to be sufficient to ensure the provider is able to supply the service.

Our view is fees should be the same for the service that is provided. The service is the same regardless of a Default Member balance therefore the structure of the fees should be consistent.

Fees should be simple and easy to implement. Providers should be looking for ways to deliver at the lowest costs. By having multi-tiered or different structures by age group complicates this and would likely increases costs to members.

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?**

We do not believe the number of default providers as had any impact on innovation within the default market place, nor has it encouraged competition.

We believe the appointment of default providers has reduced competition in the market place, placing restrictions on who the default providers are means there are barriers to entry (or to achieving scale) into market resulting in less competition.

We do think default schemes charges have impacted fees generally, default schemes have achieved some economies of scale. However, having multiple default providers results in duplicate costs being borne by the market, for example there are 9 default providers so there are 9 IR B2B system interfaces that have been developed, 9 supervisor relationships are being maintained. These costs would likely be reduced if there had been a single default provider, but a single default provider has other implications (no competition, no drive for efficiencies).

We don't have a view on value for money as we are not aware of the service (value) being provided.

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 do not agree with all the benefits listed:

- A small number of providers will not necessarily result in lower fees for Default Members. As noted in the paper there has been no overall reduction in member fees. It might be that we have reached a lower limit on fees. Further there is less competitive pressure so there may be less pressure on fees, despite there being economies of scale.
- We are not sure how more providers will make easier for new entrants to enter the market. It depends upon the number of Default Member. We understand there are fewer Default Member being assigned each year.

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

We believe there are problems and costs associated with changing default providers, for example if Default Members are transferred when a provider loses their default status then there will be additional costs borne by the industry.

Under the proposed approach default providers could change every year. This could be confusing for Default Member, as they may not know who their provider is, therefore, we think the period should be longer than 1 year.

19. **Are there higher investment costs for responsible investing? If so, how likely are these costs to contribute to lower net returns?**

There is no widely accepted taxonomy as to the definitions of RI, therefore to come up with a standard is not currently possible.

Costs of ESG investing are not materially higher than implementing other investment strategies. Logically any increase in cost will result in either a reduced return or higher fees.

We note that there are no government guarantee of returns or member balances so it seems incongruous that the government should be defining how investments are made. That said, where there are investments that are unacceptable from a societal perspective (e.g. WMD and cluster bombs) then there is an argument for a general prohibition.

We believe as Default Member KiwiSaver balances rise and investor education levels increase there will likely be commercial pressure for providers to implement RI solutions.

20. **How does responsible investment affect returns? Does it increase or decrease returns, and to what extent?**

There is no single answer here. Some RI approaches can increase returns while others may reduce returns, it depends on what an investment manager does and how they select securities (e.g. do they exclude companies with direct connections or indirect connections with say fossil fuels).

ESG filters can result in reduced risk and increased returns.

21. **Should the default provider arrangements be used to achieve objectives in relation to responsible investment?**

As noted in clause 125 and 126 publicity, investor demand and legislation has changed market practices with regards to some RI. However, we do not believe that it is appropriate for the Government to mandate additional RI for default providers and default funds. If the Government wishes to motivate investment managers then they have other tools to use, if they believe public interest are best served by prohibiting specific types of investments.

We also believe that RI as an issue should encompass the entire market and not be focused on default schemes and funds.

We also struggle to be clear about a definition of RI, which will make mandating requirements difficult, moral and ethical calls are personal and will vary from manager to manager.

If there were more default providers then there is likely to be greater competition and more adaptability re meeting consumer demand.

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?**

We do not believe default members would be looking at whether their investments are invested responsibly. Default members do not generally read offer documents, they are quite probably unaware and not inclined to consider RI.

A clearer definition of RI and better/more investor education would more likely move the market.

RI can be much more than simply applying a range of exclusion on investment options.

We also observe that responses to surveys may not accurately reflect real intentions. It is easy to suggest that RI is important, but the market and actions of investors show their real perspective. We think the survey responses may be overstating general demand.

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?**

We believe Default Members are not actively engaged or aware of the investment philosophy adopted by the default provider and they are less likely to be financially literate. We think they are less likely to read offer documents therefore, it is unlikely Default Member feel they do not have information on the providers RI.

We note all providers are required to publish a list of all holdings every 6 months.

We do not believe more disclosure would result in different behaviours of Default Members, but more disclosures will increase the costs of operating a scheme.

More general disclosures would impact the market and possibly lead to more RI options.

We also believe that there needs to be clearer definition of RI and better/more investor education would be more likely move to move the market.

24. **Do providers' current responsible investment exclusions meet what default members would expect?**

We do not believe Default Members would have any expectations of RI exclusions. RI is generally something that more educated investors consider.

More general investor education is required to make more investors aware of RI.

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?**

We do not believe that it is appropriate for the Government to mandate additional RI requirements for default providers and default funds.

If the Government wishes to prohibit particular investments then they have other tools to use.

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?**

We note that the current disclosure regulations would ensure RI filters are described.

More disclosure would be helpful, but we believe that Default Members generally do not read offer documents, or if they do, they do not understand the material or the implications of the material.

We do not believe that a list of excluded companies makes sense. Managers are already required to publish lists of investments.

Any additional disclosure will increase the costs of providing the scheme or fund.

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?**

We would prefer the status quo but believe more emphasis on investor education will lead to greater adoption of RI.

RI will not necessarily impact outcomes; RI funds may perform better or worse the other funds and RI funds may or may not result in increased fees, there are no guarantees. Re clause 151 – requiring default providers to meet specific certification or disclosure requirements could lead to higher costs, however the scale of any increase may not be material. Re clause 152 – RI filters may improve returns and reduce risk if ESG is implemented, depending on the style and nature of the RI filters.

We do not believe RI funds will have any impact on trust and confidence in KiwiSaver.

We do not believe RI would have any material on the development of NZ capital markets.

We do not believe RI would have any material impact innovation, competition or value for money.

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?**

We believe this section should be excluded from the default review.

NZCM is broader than Default KiwiSaver schemes. We do not believe it is a good idea to prescribe an NZ bias. This will significantly impact managers ability to risk weight their fund, NZ slants shifts the risk outlook without necessarily adding or improving returns.

Looking at NZ investment is based on current market conditions – managers will follow where money is to be made and should do.

We feel that the narrative reflects sovereign investments, not private pension investments. Funds identified in the narrative are on a larger scale which allows them to meet minimum infrastructure fund investment. NZ and KiwiSaver is too small. There may also be issues around liquidity.

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?**

We believe this section should be excluded from the default review.

NZCM is broader than Default KiwiSaver schemes. We do not believe it is a good idea to prescribe an NZ bias. This will significantly impact and managers ability to risk weight their fund, NZ slants shifts the risk outlook without necessarily adding or improving returns.

Looking at NZ investment is based on current market conditions – managers will follow where money is to be made and should do.

We feel that the narrative reflects sovereign investments, not private pension investments. Funds identified in the narrative are on a larger scale which allows them to meet minimum infrastructure fund investment. NZ and KiwiSaver is too small. There may also the issues around liquidity.

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?**

    Default providers are part of the NZ capital markets. As KiwiSaver grows there will be increased demand for NZ investment opportunities.

31. **To what extent is the management of default funds currently located in New Zealand or carried out by New Zealand entities?**

    We do not know whether the investment management of default member funds is located in NZ.

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?**

    Investment funds operate under a portfolio mandate prepared by the investment manager and approved by the scheme or fund issuer. We do not believe that there is any impact on the investment style or selections that is derived from the location of the manager or that mandates would change materially if the investment manager was based in NZ.

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)?**

    We do not agree with any targeted investment requirements.

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?**

    We would prefer the status quo as we do not believe the default scheme provider review would be used to develop NZ capital markets.

    We do not believe there would be improved default member outcomes if default schemes were required to develop the NZ capital markets – the risk profile of the default funds would likely be skewed, which could impact returns.

    We do not believe making default scheme providers focus on developing NZ capital markets will have any impact on trust and confidence on KiwiSaver.

    We do not believe making default scheme providers focus on developing NZ capital markets will have any material effect on the development of NZ capital markets.

    We do not believe making default scheme providers focus on developing NZ capital markets will have any material impact on innovation, competition or value for money.

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?**

We agree with the proposition that a default scheme should lose default members should they lose their default status. However, there are costs and service impacts arising from transferring default members. We also note that providers have had the opportunities to become default members and have elected not to.

We think forced transfers will mean default schemes will try more vigorously to contact and engage with default members.

We understand that default providers have a number of uncontactable default members (no address details).

We do note that default providers have put some effort (cost and capital) into having an infrastructure and business processes surrounding the receipt and management of default members; we do not entirely accept clause 203.

36. **If default members are transferred from providers with more members to providers with fewer members, how should we decide which members are transferred?**

Any reallocation of default members should be done on the same basis as the initial default member allocation, and there shouldn't be any priority or preference to a default provider based on time as a default provider or number of default members.

It seems anti competitive to penalise a provider for having a large number of existing default members. Providers have had the opportunity to be default schemes and have elected not to be, so they shouldn't have preference over an encumbent.

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?**

All members of a default scheme that losses it default status should be re-allocated. Default members are able to stay with their current provider simply by transferring back to their original provider. They have the choice now.

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?**

We think that default members should be re-allocated should a default scheme lose its status.

We do not think that transferring members to a new default scheme will have any material impact on the financial outcomes of default members, they will remain in a default fund it will be administered by a different manager.

We do not think that transferring members to a new default scheme will have any material impact on the trust and confidence of KiwiSaver.

We think that transferring members will add to the costs of providing default scheme, but this is not likely to be material.

We do not think that transferring members will impact the development of NZ capital markets.

We do not think that transferring members to a new default scheme will have any material impact on innovation, competition or value of KiwiSaver.

39. **What factors should the review consider in deciding transition timeframes?**

There is insufficient information to make an assessment. This will likely be a function on how many default providers lose their status. If no current participants leave or lose their default member status then the transition timeframes may be irrelevant.

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?**

Logically if a member is no longer a default member then they should not be included in the transfer process, however, how would a provider know if a default member has made a choice?

If a default member wishes to stay with a current default provider then they can transfer back to the original provider by completing an application form and using the KiwiSaver transfer process.

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?**

We believe there needs to be much more financial education generally, in schools and across all KiwiSaver investors, and should be focused on all KiwiSaver members not just Default Members.

We agree that default providers have an opportunity to support any education, but default members are often dis-engaged and not necessarily responsive to communications from their provider.

Defining an approach which would include some monitoring could be helpful, but expensive.

If an education approach is adopted we think there needs to be a clearly defined base, with some clearly defined objectives, which we think must include a focus on outcomes.

42. **What is your feedback on the other requirements that should apply to default members?**

We think the current FMCA MIS offer document requirements should be sufficient.

43. **Any other feedback?**

We note Default Members are individuals who, for whatever reason, have not pro-actively elected to be a member of KiwiSaver, to select a scheme provider or investment fund. These members are not fully engaged with KiwiSaver or investing generally. They often will be less financially sophisticated, which means they will less likely understand or appreciate the linkage between risk and return, the roles and functions of a scheme provider as opposed to an investment or fund manager or what the role of the government is in KiwiSaver. They may even believe that KiwiSaver is government guaranteed.

We believe any default provider mechanism needs to be simple for Default Member's to understand and the providers to implement.

KiwiSaver was designed to enable easy transfer between providers. Default members have this process available to them. If they are dissatisfied with their scheme or fund then they have the ability to transfer. This will require them taking some positive steps.

We think it is important to note that member education is quite different to member engagement.