

## KiwiSaver Schemes

Which bank is winning the game?



March 2015

The banks are doing extremely well in the KiwiSaver marketplace. But which bank is doing best? In this article we explore the success experienced by the KiwiSaver schemes of each of the major banks.

We consider the following aspects for each provider:

- Funds under management
- Split of funds by investment option
- Number of members
- Average member balances
- Fees
- Performance.

We have chosen to illustrate two sets of scheme results for ANZ as it has a separate scheme – the OneAnswer scheme, which is marketed to independent financial advisers. It illustrates the differences for a different target market. Also Kiwibank has two schemes. Kiwi Wealth is the old Gareth Morgan scheme, which was purchased and renamed by Kiwibank. The previous Kiwibank scheme, which is closed to new business, is shown as the Old Kiwibank scheme.

### Allowing for a bank's size

Clearly the largest bank should be expected to have the largest KiwiSaver scheme market share. As a measure for this we use the size of their residential mortgage portfolio as at 30 September 2014. These figures were sourced from the banks' latest available disclosure statements.

	Value of residential mortgage portfolio	
	\$ million	Ranking
ANZ	52,717	1
ASB	41,929	2
BNZ	30,603	4
Kiwibank*	14,729	5
Westpac	39,702	3

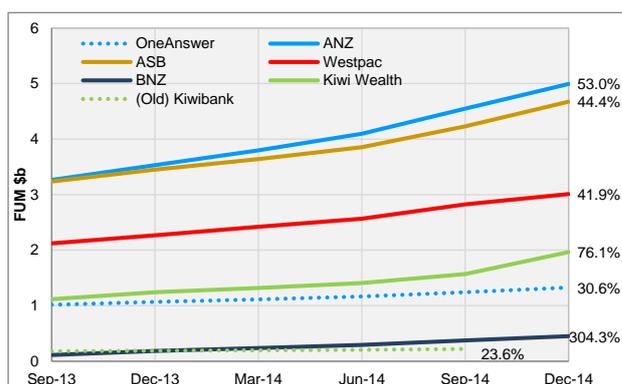
\* All loans - includes non-housing

### Data

The data has been sourced from the Financial Markets Authority (FMA), which requires quarterly disclosure information from each KiwiSaver Scheme. The data goes back to September 2013 and is available on the FMA's website. This version of our newsletter is based on the latest available return: 31 December 2014.

### Funds under management (FUM)

The chart below shows the funds under management for each bank scheme over the last 18 months, along with the percentage change over the period. The figures do not allow for investment performance or net fund flow or mix of funds under management.



The growth was assisted by a strong rise in markets with an average balanced fund up around 15-16%.

The BNZ scheme was only launched in February 2013 and so as expected has experienced the highest FUM growth at 304%.

The Old Kiwibank scheme's figures were amalgamated into the Kiwi Wealth scheme from December 2014 onwards. The impact can clearly be seen in the chart.

ANZ, ASB and Westpac have growth of over 40%, a big increase. Of the three, ANZ has seen the highest growth rate of 53%.

The gap between ANZ and ASB, the two schemes with the largest FUM, is widening. Historically ASB has recognised the importance

of the managed fund sector and set itself up to deliver this effectively through its branch network. The relatively higher growth in the ANZ FUM perhaps reflects that they are now more focused on achieving a market share which reflects the size of the bank itself. Based on the relative size of their mortgage books one might expect ANZ to have FUM approaching \$6 billion.

The lower growth rates for the Old Kiwibank scheme and OneAnswer are due to the Old Kiwibank scheme being closed to new members, while the distribution model used for OneAnswer is very different to that used by the banks.

**Split of assets by investment option**

The table below shows the split of assets between conservative, balanced and growth strategies. Here conservative is defined to be all funds with a target allocation to growth assets of less than 40%; balanced is from 40% to 65%; and growth is 65% and above.

	Conservative %	Balanced %	Growth %	Total %
ANZ	38	19	43	100
ASB	60	28	12	100
BNZ	69	18	13	100
Kiwibank*	20	45	35	100
OneAnswer	34	24	42	100
Westpac	58	25	18	100

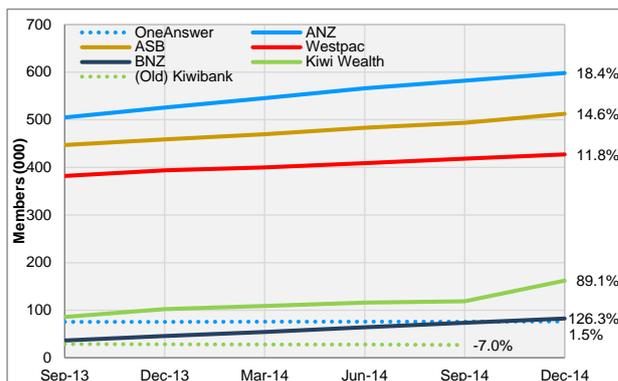
\* Kiwi Wealth & Old Kiwibank

ASB, BNZ and Westpac have similar splits, with a high allocation to the conservative investment options.

ANZ and OneAnswer are different with a much higher allocation to growth investment options. The differences must lie in each bank’s marketing strategies. Perhaps ANZ have been more active in moving members of their default fund into a more appropriate investment strategy. The Kiwibank results are an amalgam of their 2 schemes and so it is not clear what the possible split going forward is.

**Number of members**

The following chart shows the number of members in each bank’s scheme along with the percentage change over the period.



All schemes have shown an increase in membership over the period, with the exception of the Old Kiwibank scheme.

The top three banks in terms of scheme member numbers are the same as for FUM, with ANZ leading, followed by ASB then Westpac. Growth rates for ASB and Westpac are similar, with the higher growth for ANZ reflecting their drive to increase KiwiSaver clients.

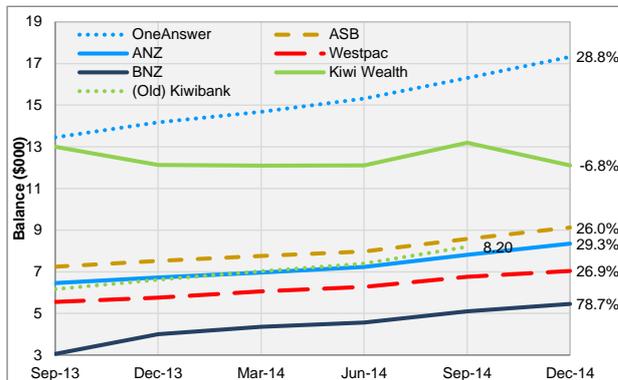
As expected, the relatively new BNZ has experienced rapid growth, with membership doubling over the period.

The Old Kiwibank scheme has lost members due to the fund being closed to new members; however there has been an offsetting rise in the Kiwi Wealth scheme membership.

The OneAnswer membership has gained just 1.5%, again reflecting how different this scheme is compared to the other bank schemes.

**Average member balance**

The chart below shows the average size of a member’s balance for each bank’s scheme along with the percentage change over the period.



We would expect to see an increase in the average balance per member due to further contributions and because investment returns have been positive over the period. However, if a scheme has managed to attract many new members, this could decrease the average member balance due to those new members



having low initial balances. This might explain the Kiwi Wealth scheme results.

BNZ has shown the largest increase in average member balance, up 78.7%, due to the recent launch of the scheme.

OneAnswer has the highest average member balance, which can be explained by the different membership profile of the scheme – mainly clients of financial advisers and so regular contributions are likely to be higher and large one off amounts may also be invested.

The table below shows the average member balance for each scheme but now split by the investment option members have selected.

	Conservative \$000s	Balanced \$000s	Growth \$000s	Total \$000s
ANZ	9.62	11.62	5.49	8.35
ASB	9.00	10.72	9.17	9.13
BNZ	5.48	5.77	4.97	5.46
Kiwibank*	8.94	13.81	15.27	12.11
OneAnswer	10.83	25.30	17.43	17.32
Westpac	7.12	8.51	6.90	7.04

\* Kiwi Wealth / Old Kiwibank

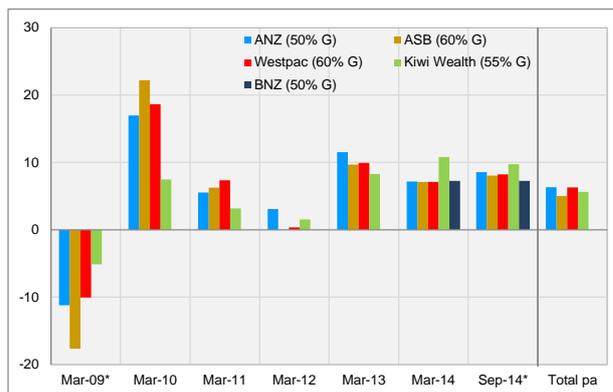
The relationship between the balance sizes for ASB, BNZ and Westpac is similar. However the result for ANZ is different with its low average growth fund balance. This result is interesting when considered together with the high allocation of funds to the growth option at ANZ. It maybe reinforces the comment that ANZ has been active in moving default members to a more appropriate investment options.

Balanced funds have the highest average balance for all schemes except Kiwibank.

The results for the Kiwi Wealth and the Old Kiwibank schemes have been combined. Interestingly for the combined schemes the growth fund has the highest average balance. This suggests that the profile for the average Gareth Morgan scheme investor was very different to an average bank member.

### Performance – net of tax and fees

The results shown here are just for the balanced investment option. The target allocation to growth assets varies for each of the funds and is between 50% and 60%. The target allocation is shown in brackets next to the scheme name. With the recent strong growth in share prices the higher the allocation to growth assets the better the expected performance.



\* Note that the period ending March 2009 is six months and the period ending December 2014 is nine months.

The table below shows the annualised returns for the past 21 months (the period since the BNZ scheme's inception) and 6.25 year periods. The latter period is the furthest back the FMA numbers will allow us to go.

	Balanced fund returns to 31 December 2014	
	21 months % pa	6.25 years % pa
ANZ	9.0	6.3
ASB	8.7	5.0
BNZ	8.3	n.a
Kiwi Wealth	11.8	5.6
Westpac	8.8	6.3

The schemes that have performed consistently well over the past five years are ANZ and Westpac.

The results for Kiwi Wealth, previously the Gareth Morgan scheme, have arguably been the most variable. The differences in the results for each scheme are reasonably significant albeit we are considering a relatively short period.

### Fees

The table below shows the fees paid in the 12 months to 31 March 2014 for each bank's scheme by investment option.

	Inv mgmt fee % pa	Other fees % pa	Total fund fees % pa	Member-ship fee \$ pa	Fee for \$10k fund % pa
<b>Conservative</b>					
ANZ	0.85	0.10	0.95	24	1.19
ASB	0.38	0.00	0.38	30	0.68
BNZ	0.65	0.00	0.65	24	0.89
Kiwi Wealth	1.06	0.04	1.10	0	1.10
Westpac	0.54	0.18	0.72	31	1.03
<b>Balanced</b>					
ANZ	0.90	0.09	0.99	24	1.23
ASB	0.61	0.00	0.61	30	0.91
BNZ	0.93	0.00	0.93	24	1.17
Kiwi Wealth	1.05	0.06	1.11	0	1.11
Westpac	0.64	0.19	0.83	31	1.14
<b>Growth</b>					
ANZ	1.00	0.09	1.09	24	1.33
ASB	0.66	0.00	0.66	30	0.96
BNZ	1.01	0.00	1.01	24	1.25
Kiwi Wealth	1.05	0.09	1.14	0	1.14
Westpac	0.69	0.20	0.89	31	1.20

As expected, the conservative investment options have lower fees than the other options. The difference varies between the banks, with ASB having the greatest variation. This arises from their indexed investment management approach.

The membership fees are all similar, ranging from \$24 to \$31 per annum, with the exception of Kiwi Wealth, which has no per member fee. The highest overall fees for each investment option are ANZ. Westpac’s and BNZ’s fees are set at similar overall levels.

The relative fee position of the Kiwi Wealth scheme will vary depending on the funds under management. It will be cheaper for lower balances and higher as the value of the balances increase. For a balance of \$10,000 the Kiwi Wealth fees are in the middle of the pack.

**Verdict**

The rankings for each of FUM, fees and performance are summarised in the table below. Note that as we have looked at the results from the perspective of a bank we have given a top rating where the bank’s fees are highest! We have just looked at the performance over the period since the BNZ scheme was launched which has been beneficial to Kiwi Wealth and soft for BNZ. Equal weighting has been given to each section to arrive at an overall ranking.

**And the winner is...ANZ.**

	FUM	Ranking			Overall Total ranking
		Fees	Performance		
ANZ	1	1	2	1.3	1
ASB	2	5	4	3.7	4
BNZ	5	4	5	4.7	5
Kiwi Wealth	4	3	1	2.7	2
Westpac	3	2	3	2.7	2

From the perspective of a member clearly the low ASB fee is highly important.

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