

The Treasury

Project Korimako - Release of advice

December 2022

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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Date: 6 December 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: None

Kiwi Group Holdings – Kiwibank: Speaking points for Cabinet

You are presenting a paper regarding proposals for Kiwi Group Holdings Limited (KGH) – which includes Kiwibank Limited (Kiwibank) – to the Cabinet Economic Development Committee on Wednesday 8 December 2021 and to Cabinet on Monday 13 December 2021.

To support those meetings we have prepared the following speaking points on your paper and the manner in which it changed since Ministerial consultation began.

Current Situation

- KGH is the parent of Kiwibank and Kiwi Wealth. It is currently owned by New Zealand Post Limited (NZ Post, 53%), the New Zealand Superannuation Fund (NZSF, 25%) and the Accident Compensation Corporation (ACC, 22%).
- The current shareholding arrangement is not sustainable and will not allow group companies to achieve their potential because the shareholders have mixed requirements of their KGH investment. [25] and [37]
- In summary:
 - NZ Post would like to sell so it can concentrate on its core business;
 - ACC would like to sell [25]
 - NZSF considers there is untapped potential in Kiwibank and it would like to take a controlling position to unlock that potential - [25], [37]
 - the two Crown Financial Institutions were locked-in for five years from their initial 2016 investment, but this expired on 31 October 2021; and
 - existing KGH shareholders can transact shares between themselves while the Crown has the first right of refusal over any available shares not acquired by existing KGH shareholders - any shares the Crown does not take up can be offered to third parties.

Ownership Options

- I have shortlisted two ownership options after considering the Crown's key objectives for KGH ownership and a wider set of possible arrangements. The shortlisted options are either NZSF or direct Crown majority ownership.
- A previous version of this paper that was circulated for Ministerial consultation included a more detailed description of an NZSF proposal prepared by NZSF management. This proposal included several high-level parameters so that the Crown's key ownership objectives were assured. Subsequently the NZSF Board has stated that it does not want to commit to any features of a transaction ahead of negotiations. The paper has been amended to reflect the 'blank page' nature of NZSF's proposal.
- A pros and cons table that summarises the merits of the two alternative ownership options is attached to the Cabinet paper as Annex 1.
- Essentially, the advantages of NZSF majority ownership are that:
 - NZSF would be a commercially astute and active owner that supported Kiwibank's commercial performance;
 - NZSF is well placed to support the main operating subsidiary Kiwibank through its planned transformation (Te Ara Hou) which is risky but is required to place the bank in the commercial position to become a more significant disruptor bank; and
 - core Crown debt would decline as NZSF would negotiate to acquire NZ Post's 53% stake in KGH and, if successful, NZ Post would return most of the sales proceeds it receives to the Crown.
- The advantages of direct Crown majority control are that:
 - [25]
 - it is the most secure means of ensuring ongoing Crown majority ownership [33], [37], [38]

Recent NZSF board preference linked to NZSF majority ownership option

- If the NZSF majority ownership option was supported, one key feature would have to be dealt with immediately at the start of negotiations. In her letter to me on 24 November 2021, the NZSF Chair expressed the board's interest in introducing a strategic minority investor in the future (ie. once Kiwibank's Te Ara Hou transformation process is completed). NZSF considers this option will provide commercial benefits. It would, however, make it more difficult for the Government to ensure that Crown majority control of KGH was maintained over time.
- If the NZSF majority ownership option is preferred Ministers are asked to choose whether the Government should indicate to NZSF at the start of negotiations that the introduction of a strategic minority investor is unacceptable or whether the Government is open to considering it.

- The NZSF board's 'open' approach to negotiations for any transaction reflects its commercial investor mandate. However, it means further discussions will be needed to determine whether key Crown objectives for ownership of KGH can be achieved within an NZSF control arrangement. If Cabinet agrees that this option is worth pursuing further, the Crown will seek to determine early in negotiations whether or not acceptable structural arrangements are achievable.

Other operational matters you may wish to cover in your discussion

- In recent months KGH has received unsolicited approaches from parties interested in acquiring Kiwi Wealth. In line with the 'no surprises' convention, KGH advised me that it decided to take a structured approach to the matter and sought an independent valuation of Kiwi Wealth [25] and [38]
In November it appointed a financial advisor to evaluate the credibility of the parties who had approached KGH along with KGH's options for Kiwi Wealth.
- This is an operational matter for KGH and it advises me it does not expect to make any formal decisions regarding Kiwi Wealth until next year.
- Kiwi Wealth is KGH's second-largest operating subsidiary. [25] and funds under management at 30 June 2021 totalled \$8.5 billion.

[33], [37]

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