

The Treasury

Project Korimako - Release of advice

December 2022

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- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
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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
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [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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Treasury Report: Update on Kiwi Wealth

Date:	3 February 2022	Report No:	T2022/53
		File Number:	SE-2-12-4-2-3

Action sought

	Action sought	Deadline
Minister of Finance Hon Grant Robertson	Note the contents of the report and indicate your preferences	10 February 2022
Acting Minister for State Owned Enterprises Hon Dr Megan Woods	None	N/A
Associate Minister of Finance Hon David Parker	None	N/A

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact	
Alex Ng	Senior Analyst, Commercial Performance	[39]	N/A (mob)	✓
Shelley Hollingsworth	Manager, Commercial Performance	[35]		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Update on Kiwi Wealth

Purpose of Report

1. This report provides further information on the exploratory sales process for Kiwi Wealth Management Limited (Kiwi Wealth) signalled by Kiwi Group Holdings Limited (KGH) and concludes that it is an operational matter that we do not expect will impinge on progress towards new ownership arrangements for KGH.

Background

2. KGH provided you with a “no surprises” notice on 17 November 2021 informing you that KGH is exploring a sales process for its subsidiary Kiwi Wealth and has appointed a financial adviser to assist, but that as yet no formal decision had been made on whether or not to proceed. We have sought further information on KGH’s intentions and provide additional context regarding any potential Kiwi Wealth transaction below.

Kiwi Wealth

[25]

3. Kiwi Wealth provides KiwiSaver and other managed funds investment products, including private portfolio services and a superannuation scheme. Kiwi Wealth contributed approximately 11% of KGH’s overall revenue in FY2021 and [25] and our understanding from KGH of a separate independent valuation it commissioned and received in the last quarter of 2021.

Kiwi Wealth’s KiwiSaver business is growing but the marketplace is fragmented and competitive

4. In May 2021, Kiwi Wealth was confirmed as one of six¹ default KiwiSaver fund providers. Kiwi Wealth’s KiwiSaver funds grew 118%, from \$2.9 billion in December 2016 to \$6.2 billion as at September 2021 (total system KiwiSaver funds grew 134% during the same period, from \$39 billion to \$91 billion²). Kiwi Wealth has a KiwiSaver market share of approximately 7%.
5. The KiwiSaver market is relatively fragmented. According to Morningstar, there were twenty KiwiSaver providers at the end of September 2021. The six largest providers accounted for 72% of KiwiSaver assets as at September 2021. The largest bank in New Zealand, ANZ, has KiwiSaver funds of approximately \$19 billion (21% market share) under its management as of September 2021. ASB has about \$14 billion, a 17% market share. The other key players (in the order of total KiwiSaver assets under management) are Westpac, Fisher Funds, AMP and Kiwi Wealth³.

¹ Bank of New Zealand, Booster, BT Funds Management (Westpac), Kiwi Wealth, Simplicity and Smartshares (NZX)

² Kiwisaver - <https://www.rbnz.govt.nz/statistics/t43>

³ Morningstar KiwiSaver Survey September Quarter 2021: [KiwiSaver Reports \(morningstar.com.au\)](https://www.morningstar.com.au)

Australian commercial banks are divesting their wealth management businesses in response to regulatory controls

6. Following the Royal Commission inquiry into the banking industry in Australia, the big 4 Australian banks have either disposed of or are in the process of disposing of their wealth management arms. ANZ was the first to move, signing a deal with IOOF in Oct 2017 to sell its Australian financial advice, superannuation and funds management assets. IOOF also took control of NAB's 130-year-old wealth management business MLC Wealth in May 2021. Commonwealth Bank listed its wealth business Colonial First State on the Australian Securities Exchange in 2019. Westpac transferred its wealth assets to a new "specialist businesses" unit in 2020, potentially putting it up for sale. These sales may be in response to increased regulatory controls and structural changes in fees.

Similar pressure on fee structures may have impacts in the New Zealand market

7. In New Zealand in April 2021, the Financial Market Authority (FMA) provided guidance to KiwiSaver providers on their responsibility to review their fees with their schemes' supervisor annually, and to make sure the fees represent value for money and are not unreasonable. It said that "as scale and balances increase, we see little justification for schemes to charge both a fixed membership fee and a base management fee." ANZ (NZ), Westpac (NZ), ASB and BNZ have recently removed their annual membership fee and reduced their management fees.
8. Furthermore, as fund balances increase, some of the providers are changing their fees structure and only charge their customers on a fixed percentage of their fund balances. For example, AMP has introduced a flat fund charge of 0.79%. This industry trend affects KiwiSaver providers' revenues and leaves providers with lower fund balances vulnerable.

These industry changes may put Kiwi Wealth in a vulnerable position

9. Given the reduction in default KiwiSaver providers to six, increases in regulatory activities and rationalisation of fees, it is inevitable that the KiwiSaver industry will go through a period of consolidation.
10. As Kiwi Wealth is a relatively small player, structural changes in fees would have significant impacts on its revenue and profitability. Consistent with recent industry developments, it removed the annual membership fee in 2021 and only charges an annual management fee (fixed percentages based on the average fund balance and the type of funds). To remain sustainable, Kiwi Wealth would need to gain scale quickly, most likely through acquisition which would require significant capital investment from the owners. [25] and [38]

Therefore, the scale of Kiwi Wealth appears set to remain relatively small in the short-term, making it a prime target for acquisition. The recent confirmation that it is one of six default KiwiSaver providers makes it an even more attractive target for consolidators in the sector.

11. [25] and [38]

Broader Implications of a Potential Kiwi Wealth Transaction

We do not consider there to be policy implications from a Kiwi Wealth transaction

12. We have considered whether there are any policy implications if KGH was to dispose of Kiwi Wealth. At this time, we are not aware of any policy issues for which government ownership of a commercial fund manager is likely to be the preferred solution. In general, our view is that the Government can best achieve its objectives for the funds management industry, including KiwiSaver, via regulation (e.g. for conduct issues) or contracting for services (e.g. KiwiSaver default provider arrangements). Ownership of a commercial funds manager, particularly indirect ownership of a relatively small market participant amongst many other providers, is unlikely to be an effective or efficient way of achieving most given policy objectives.

There is no indication that a Kiwi Wealth disposal hampers KGH ownership rearrangements

13. [25] and [38]

A Kiwi Wealth disposal is an operational decision for KGH shareholders

14. As the sale of Kiwi Wealth is a Key Reserved Matter under the KGH shareholders agreement, it is not an operational matter for KGH's board to decide upon. Rather, it requires the approval of each KGH shareholder holding 20% or more of the shares in KGH.
15. However, any decision to dispose of Kiwi Wealth will be an operational matter from the perspective of each KGH shareholder's board and it does not require direct Government involvement. The Government does not have the authority to direct KGH shareholders to undertake any particular action with respect to Kiwi Wealth.
16. If you did wish to exert influence on the ownership of Kiwi Wealth, the option available would be for shareholding Ministers to express an expectation to New Zealand Post (NZ Post), the 53% owner of KGH, that any material business in KGH (such as Kiwi Wealth) should not be sold until the ongoing ownership arrangements for KGH are resolved. This would be an expansion on the current expectation from shareholding Ministers relating to NZ Post's ownership of KGH as a whole.
17. We can prepare such a letter for the shareholding Ministers to send to the Chair of NZ Post, however we do not recommend this approach as it is an operational matter for the NZ Post board and we do not expect it to impinge on progress towards new ownership arrangements for KGH. In addition, in our view ownership of a commercial fund manager, particularly indirect ownership of a relatively small market participant amongst many other providers, is unlikely to be an effective or efficient way of achieving any given policy objective.

Recommended Action

We recommend that you:

- a **note** the Treasury considers any decision regarding the ownership of Kiwi Wealth to be an operational decision
- b **note** the Treasury does not expect the Kiwi Wealth exploratory process to impinge on progress towards new ownership arrangements for KGH
- c **indicate** if you would like Treasury officials to meet with you regarding Kiwi Wealth

Yes / No

Minister of Finance

- d **indicate** if you want the Treasury to provide the shareholding Ministers of NZ Post with a draft letter expanding on their current expectation that NZ Post should not sell its interest in KGH, by including an expectation that any material business in KGH (such as Kiwi Wealth) should also not be sold until the ongoing ownership arrangements for KGH are resolved

Yes / No

Minister of Finance

Shelley Hollingsworth
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Acting Minister for State Owned Enterprises

Hon David Parker
Associate Minister of Finance