Telling KiwiSaver members what they might pay elsewhere 'could drive down fees'

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Body

Anyone hoping that increasing amounts of money in KiwiSaver could lead to a drop in fees is likely to be disappointed, one researcher says. The Financial Markets Authority (FMA) released its latest report on the savings scheme last week.

It showed the average KiwiSaver member paid 13.5 per cent more in the year to March this year than in the previous year.

The average fee paid was $163.53.

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Most funds charge a fixed annual fee and then a percentage of the amount invested, which means that the fees investors pay tracks up with their balance.

FMA director of regulation Liam Mason said the regulator had expected to see economies of scale and increased competition reduce fees over time but that had not happened.

A comparison included with the report showed New Zealand KiwiSaver members paying higher fees than people in comparable British funds.

Mason said providers would be asked to provide more evidence of the value they delivered in return for fees charged.

AUT head of finance Aaron Gilbert and his colleague, Ayesha Scott, have conducted research that indicates there may be little room left for economies of scale to help.

They looked at total fees charged, providers' assets under management and the number of members in each fund.

They found that, between 2013 and 2018, as funds' member numbers grew, total fees would increase at a slower rate.

But fees still grew proportionally with the increase of money being managed.

Gilbert said, with 80 per cent of eligible New Zealanders already in KiwiSaver, there was little room left for funds to grow in terms of member numbers - the only growth that seemed to have an impact on fees.

"If economies of scale were going to be seen, they would be there by now."

There would need to be industry consolidation for that to occur, he said.

Gilbert said Australia's model, with higher fixed fees but lower variable charges would help to reduce what people paid over time as balances got bigger.

Another option for lower fees would be for more providers to move to a passive investment model.

BNZ made that change after it noticed it was delivering average returns at a high cost to members.

Gilbert said it was hard to know what it cost providers to deliver a KiwiSaver scheme.

"If Westpac managed to reduce fees quite markedly on the day the report came out, that suggests there is fat in the system for them to cut."

Providers are now required to tell members what they charge them in dollar terms.

But Gilbert said that could be made more transparent by forcing them to tell members what the average fee for a particular type of fund is, or the lowest fee available.

The FMA report showed some of the biggest funds had significant difference in their fees compared to UK funds.

ANZ's growth fund had a total expense ratio of 1.2 per cent in the period studied, compared to 0.5 per cent for a comparable UK fund.

Its default fund charged 0.66 per cent compared to 0.4 per cent in the UK.

Westpac's balanced KiwiSaver fund had fees of 0.98 per cent compared to 0.37 per cent, although Westpac revealed a reduction in its fees the day the report was released.

ANZ is the biggest KiwiSaver provider.

Spokeswoman Siobhan Enright said it believed it was important to focus on the returns delivered after fees.

"Active managers generally utilise a higher level of decision-making and analytics, and therefore the fees charged will typically be higher than those of a passive manager," she said.

"In 2019, ANZ reduced a number of fees on a range of investments products including KiwiSaver as we shared scale benefits with our customers. These reductions are not reflected in the Financial Market Authority's recent KiwiSaver report. We have reduced the total fund fee for the ANZ KiwiSaver Scheme by approximately 20 per cent since 2009."

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