

NEW ZEALAND

# ASSET

THE MAGAZINE FOR SMART ADVISERS



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**get active?**

**Income protection's  
big problem**

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working?**

**Get set for  
licensing**

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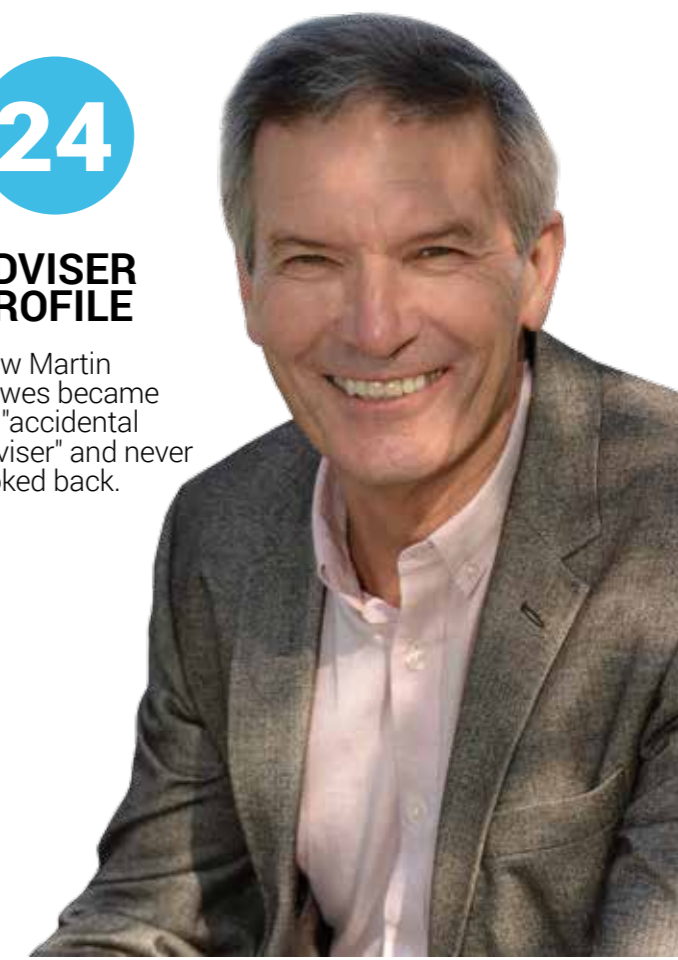
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## ADVISER PROFILE

How Martin Hawes became an "accidental adviser" and never looked back.



# Licensing will mean big change for some



New Zealand's financial advice sector has been talking for years about the need to move from being an "industry" to becoming a "profession".

I've heard many theories about what is likely to be the defining factor that forces the change.

Some argue it would take a degree requirement for all advisers. A level five qualification. A ban on commissions. A client-first requirement.

From what I can see, the thing that could finally cause the change could be entity licensing. And it's just around the corner. Transitional licensing starts later this year.

At the moment, there is a core group of professional, full-time financial advisers who operate businesses with well-kept

records, high client-care standards and strong processes and systems. Many hold several qualifications.

But there is also a significant number of advisers who are working in a much less structured way. They might be part-time, or working in "lifestyle" businesses, fitting a small number of clients around other things, or entering semi-retirement.

Many don't have good business systems in place – sometimes this only becomes evident when a complaint is made and there is no record of the communications with the client to back up the adviser's version of events.

But under licensing, all this will have to change. From what we know so far, it appears that before an adviser business can even get a transitional licence, it will have to show that it has good record-keeping and complaint-handling systems. To proceed in the new regime, advisers will have to show that they are managing well-run businesses as well as giving solid advice.

In the future, for those who want to continue to operate independently, being a competent business operator will be almost as important as having good relationships with clients.

Those who do not want to take on those responsibilities will need to find another FAP to take them over. That will come with obligations for the FAP, and so those advisers can still expect greater scrutiny on their own behaviour to ensure the FAP's requirements are met.

An advice profession has been a goal for years. Now it seems it's coming, whether the entire industry is quite ready for it or not.

*Susan*

Susan Edmunds  
Editor



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# What a 15-year-old can teach us about investing

A few years back a 15-year-old girl, Natalie Clark, got up at the annual general meeting of one of USA's biggest companies.

Others – adults – would have been sure to have been asking BoA's board in depth questions about net interest margin, capital requirements, bad debt ratios. Perhaps because she didn't feel the need to impress her compatriots, her question was a little more simple and pointed:

"What is the bank doing to raise the share price?", Natalie asked the Bank of America board<sup>1</sup>.

She had a vested interest – 5,000 shares she was given as a baby.

The next AGM she got a little more specific, considering whether she should use her shares to pay for her college education, asking the CEO what the bank is doing to improve its cost structure.

The point from Natalie is that she is taking an active interest in how her money is being spent by the company in which she has invested. She has taken being a shareholder seriously, thinking about her own interests – if the BoA shares will pay for college – and then overlaying that with the performance of the company. When she didn't know the answer, or was unhappy with the answer, she asked more questions.

<sup>1</sup>There's a lot of people who own stock ...

but [at the AGM] there's barely enough to fill half a ballroom at a hotel," Natalie said.

All investors would do well to take a leaf out of the then 15-year old's book (or phone, or iPad). Although not all of us want to be activist investors, we can maximise our returns by being active, attentive and interested investors looking at the long term.

According to Benjamin Graham, in the short run the sharemarket is like a voting machine, preferencing popular companies over less popular ones. However, over the long run the sharemarket is more like a weighing machine, measuring how solid a company is – return on equity, growth, dividends – and ranking companies appropriately.


Similarly, we do not look at investment in companies because they may win a short-term popularity contest. We weigh them up over the long term.

Being an active investor means taking a keen interest in how the business model of a company is travelling and how solid it will be moving into the future. It is only in that way

that investing becomes less of a turn of a roulette wheel and more of an intelligent allocation of capital.

Unfortunately, many investors have moved in the opposite direction to Natalie Clark. Rather than taking an active interest in their investments, they have moved to invest in index funds. These index funds themselves do not take an active role in markets, but match market movements through machine trading.

With so much capital now tied up in backward-looking index funds, and liquidity so relatively small because of it, it becomes even more important for human investors to take an active role in the future of their investments. Just like a 15-year old.

**James Walker is the head of marketing at PM Capital. **



# Call to ensure efficient advice licensing

Government has been warned there will need to be systems in place to ensure that financial adviser licensing costs do not blow out to the same extent that some FMCA market licences did.

The Ministry of Business, Innovation and Employment has provided more detail about the new licensing regime.

The cost of a full licence will range from \$612 to \$922, depending on the size and structure of a financial advice provider.

The FMA will also charge an hourly rate when assessing a licence application that is more complex than would normally be the case for a particular business type.

There will also be FMA levies to pay.

In submissions received before the fees were set, the Financial Services Council warned the hourly fee model could be risky.

"We note there is no definition of 'complex'. This leaves open the risk that the licensing fee proposal will fail in its objective of limiting uncertainty to applicants as to the likely total amount of the fees they will be required to pay.

"We understand anecdotally that existing Financial Markets Conduct Act licence-holders were charged materially more than the stated licence fee when hourly rates were included. It is important that fees represent what will actually be charged, so they do not mislead applicants."

Chief executive Richard Klipin said his members wanted it to be possible to proceed straight to full licence application, if a business was ready.

Richard Klipin



Richard Klipin

## AMP advisers break free

Advisers aligned to AMP have finally reached an agreement to break free from their long-standing relationship.

Under a new deal the AMP advisers who formerly were within AMP's QFE are setting up a new financial advice provider (FAP) which will be autonomous from AMP.

The FAP, Wealthpoint, will offer compliance and support services to independent advisers.

AMP no longer writes new life insurance business and it has sold its in-force book to Resolution Life.

AMP's adviser group, which operates under The Association brand, currently has about 58 AMP-aligned member businesses and 52 of them will shift to Wealthpoint. The businesses represent nearly 200 advisers.

The new agreements will see them operating as independents, with distribution agreements with AMP.

Wealthpoint will use an approved products list with suppliers selected by a product committee made up of adviser representatives and supported by independent specialists, when required.

New chairman David Gyde, of Amicus Financial Group, said this was a key part of the Wealthpoint offer.

"Decisions in this area will be driven by advisers and for the best interests of advisers and their clients. Maintaining independence and being able to effectively manage potential conflicts of interest was critical to the group."

## Surge in AFA numbers pre-FSLAA

Authorised financial adviser numbers grew in the last year for which data will be kept on them.

The Financial Markets Authority has released its latest snapshot of the AFA market. It will be the last one published because the Financial Services Legislation Amendment Act removes the AFA designation.

Advisers who were AFAs before the new regime comes into force in June 2020 will be deemed to have met the competence requirements of the new code.

The AFA data shows 140 advisers became AFAs in the year to the end of June 2018, the highest number in the three years the FMA has collected that data.

Ninety allowed their authorisation to lapse, from 110 a year earlier.

The highest concentration per head of population remains around Auckland, Wellington and Otago.

There were 160 AFAs aged over 65 in the latest data, and 497 aged between 56 and 65. Just 187 of the total 1,800 were aged under 35. A third had been providing financial advice on category one products for more than 20 years.

AFAs were predominately dealing in KiwiSaver and "other category one products", although 12% said they were authorised but did not provide financial advice services to clients.

Just under a third were employed by a business that was not a QFE and 22% were shareholder or director of a firm with more than one adviser. Another 14% said they were a sole adviser practice and 8% a sole practitioner. More than 90% said they had received no complaints in the past year.



# Mindful Money wants more ethical investment

The founder of a new responsible investment platform wants to get all KiwiSaver members to think about where their money is invested.

Mindful Money, a new charitable social enterprise that wants to help people invest ethically, launched today.

It is a free platform allowing investors to check what is in their KiwiSaver funds and find one that aligns with their values.

Founder Barry Coates said only 1% of KiwiSaver funds had policies to avoid sectors such as gambling,

pornography and alcohol.

Only 2% avoided fossil fuels.

"The KiwiSaver scheme has been important to help us all save. Now everyone with a KiwiSaver can also ensure their savings aren't being used to harm people or destroy our environment."

When Mindful Money users enter the name of their KiwiSaver fund, they are shown the companies and proportion of their funds that are invested in issues of concern

– fossil fuels, weapons, gambling, alcohol, pornography, tobacco, GMOs, palm



oil, human rights and animal rights.

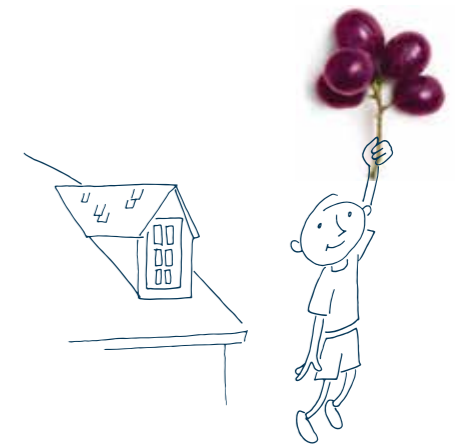
Those highlighted concerns are based on a survey done last year by Mindful Money and the Responsible Investment Association.

"The public has a right to know where their hard-earned savings are invested. Two thirds or more of New Zealand investors have said they want

to avoid issues of concern like fossil fuels, weapons, human rights violations and animal cruelty. Now they can find out which companies are making profits from their savings," Coates said.

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## COMPLAINTS BOSS MOVES ON

FairWay Dispute Resolution Service's client director is moving to a new role.

**Trevor Slater** said he had resigned his position and taken a role as the New Zealand general manager of the Resolution Institute.

He has been with FairWay Dispute Resolution since 2017.

Before that, he was general manager of IDS and, earlier, FSCL.

Resolution Institute describes itself as the largest dispute resolution membership organisation across Australia and New Zealand, promoting the use of EDRs and advocating for the sector.



Trevor Slater

## SALT ADDS TO RESEARCH TEAM

Salt Funds Management has added another senior investment professional to its research team.

**Tristan Joll** has been appointed as a senior analyst/associate portfolio manager, replacing Andrew Bolland who is joining Generate KiwiSaver.

Salt managing director Paul Harrison said it was staking out its position in the research-driven active investment segment of the market.

"We are in a rapidly changing world where the investment landscape is evolving at an exponential pace. More than ever, we believe that active investment will add significant value over time to the financial outcomes of our clients. To deliver this, Salt

is committed to investing in a highly skilled and experienced investment team.

"The addition of Joll, along with our recent hires of Paul Turnbull and Stephanie Mitchell adds significant depth and firepower to our research and reflects Salt's determination to continuously improve our investment capability and add to our strong long-term track record."

Joll has experience in the aviation and telecommunications industries before working for Goldman Sachs, JBWere, UBS and more recently Jarden (First NZ Capital). He is a former winner of the INFINZ Analyst of the Year Award.

He has replaced Andrew Bolland, who recently left Salt for an opportunity at another investment management firm.

## MERCER APPOINTS LOCAL WEALTH

Mercer has appointed a new head of wealth for New Zealand.

It has handed the role to financial services professional **Adam McKenzie**.

Having worked with Mercer for 13 years in Melbourne and the UK, McKenzie was most recently a sales leader for the institutional wealth business across Australia.

He brings to Mercer New Zealand more than 20 years' experience in financial services.

Prior to Mercer, he worked at AMP, National Australia Bank and Aviva.

Mercer New Zealand chief executive Martin Lewington said his expertise would be invaluable for Mercer's clients locally.

"In Australia, Adam has played an important role in partnering with key clients to help them tackle their wealth challenges, and achieve the best outcomes for their investments," Lewington said.

"In his new and expanded role as Head of Wealth, New Zealand, Adam will develop and execute our wealth business strategy, lead our team, work with clients and pursue business development opportunities across Institutional and Consumer Wealth," he said.

McKenzie said Mercer New Zealand's Wealth business was growing, with clients looking to Mercer for its global expertise.

"Our clients are increasingly looking to us for our insights on a global, regional and local level to gain confidence in their investments while we navigate a volatile investment outlook.

"As the largest implemented consulting provider and largest investment consultant in the world, we have the scale and the



Adam McKenzie

know-how to help clients achieve their investment goals while managing risks and resources."

McKenzie joins Mercer on July 1.

## NEW CHIEF OPERATING OFFICER FOR FIDELITY LIFE

A former Sovereign manager, **Katherine Johnson**, has been appointed to the role of chief operating officer at Fidelity Life.

Chief executive Nadine Tereora said Johnson's wealth of experience made her an ideal candidate for the key role.

"Kath's passionate about putting customers first and has proven experience running large, complex operations teams in the financial services industry. I'm delighted to welcome her to the team.

"She'll play a pivotal role as we continue to set the business up for a sustainable and successful future, with the customer at the centre of everything we do."

She will join Fidelity Life in August 2019 from her current role as executive general manager claims at Gallagher Bassett.



Katherine Johnson

Prior to Gallagher Bassett she held various senior operations management roles with Sovereign.

Johnson will report to Nadine and join the executive team.

Johnson will oversee the offer, underwriting, new business, customer services and claims teams, replacing Neale Watling who's retiring after a 17-year stint at Fidelity Life.

"Neale's a legend here and hugely respected throughout the industry," Tereora said.

"I'd like to thank him for all he's done at Fidelity Life, but it won't be goodbye just yet as Neale will continue working in the business, albeit in a part-time capacity for the coming months."

## CONSILIUM APPOINTS NEW AUCKLAND BDM

Independent financial services specialist Consilium has a new Auckland-based BDM, replacing Helen Robertson.

The Christchurch-based firm says it is growing its management and client support resources by appointing **Marc Grigg** as new Auckland-based BDM.

Grigg will work with clients across all

service areas, including Consilium Wrap Platform, Synergy and partner firm services, offering support, guidance and knowledge to help grow their businesses.

"I started working with financial adviser businesses in 2008 and in that time, I've learned what they need to succeed for their clients, and how I can add real value. I'm really looking forward to working exclusively with advisers again with Consilium," said Grigg.

"Consilium's commitment to the growth and support of independent financial adviser clients means finding the right people to fit with our company values is an important part of the recruitment process," managing director Scott Alman said.

"With the considerable growth of our client base, especially in the Auckland market, and ongoing investment in our services, we are excited to bring on new appointments such as Marc, who will enhance Consilium's ability to support the quality, reputation and reach of financial advisers. Our people are the key to our success."

Reporting to Consilium head of partner firm services Ben Brinkerhoff, Grigg joins Consilium with more than 10 years' experience in the financial industry as business development manager with

AMP, and sales director at Proposition, a specialist marketing agency servicing financial advisers.

## CHIEF OPERATING OFFICER FOR CASTLE POINT FUNDS

Fund manager Castle Point has revealed its new chief operating officer.

**Anna Ong** has joined the business.

She was previously with Smartshares, where she was head of risk and compliance.

Before that, she was finance manager with SuperLife.



Anna Ong

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# Orr faces into challenge



**Reserve Bank Governor Adrian Orr sat down with GRTV to discuss the OCR cut, investing, and why New Zealanders are “terrible” savers.**

**GRTV: HOW HARD WAS IT TO COME UP BEFORE THE RESERVE BANK COMMITTEE TO MAKE THE OFFICIAL CASH RATE CUT DECISION?**

Orr: Yeah I have to say it was fun, because it was the first time we've done it through this new committee structure. And dare I say it, a problem shared is a problem halved. Our collective analysis was that lower interest rates were needed for us to be most certain of getting inflation back to the midpoint, 2%, keeping employment around its maximum sustainable level. Once you spent a week thinking about the economy, the decision itself became quite straightforward.

**GRTV: HOW LOW CAN YOU GO WITH THE CASH RATE?**

Orr: Well a nominal rate stops at zero but you can actually have negative interest rates. And many countries around the world have been doing that. That's become quite normal, not extreme around the world. You can also do things other than using the interest rate to stimulate the economy. That's no prediction of ever having to use those, by the way, I mean it's kind of an interesting topic because we're now at low levels of interest.

**GRTV: DO YOU HAVE TO START THAT DISCUSSION NOW TO ENGAGE PEOPLE?**

Orr: I never hope to try and enable people to understand this stuff, it's kind of like me trying to understand how a car works, I'm just confident that I can drive one. But we have to make sure that we are ready for all

possible outcomes.

**GRTV: SO IF WE DID GET A CRISIS, WE'VE STILL GOT ROOM TO MOVE?**

Orr: Absolutely. I mean we don't expect to be doing that but there is the interest rate channel as I mentioned, negative to a point. There's buying assets directly which many central banks, including us, did during the GFC.

**GRTV: THERE'S BEEN TALK OF WHAT A CUT MIGHT DO FOR THE PROPERTY MARKET AND PROPERTY INVESTORS, WHAT'S YOUR TAKE ON THAT? DO YOU THINK IT WILL FUEL THAT MARKET?**

Orr: In part I kind of hope it does. But I don't [think it will] actually. Our projections are that the property market remains incredibly subdued. Our forecasts are based on very low house price growth, positive but in the 1 to 2% range over the projection horizon. A lot of that is because of the starting point of house prices, the level of household debt being very high, net immigration having slowed a lot, the pressure coming off and new building coming along. And then the bright-line test for investors, the investors have got a bit spooked, I mean capital gains is off the table but many other factors are still on the table.

**GRTV: SAVERS AREN'T THAT HAPPY, WHAT'S YOUR ADVICE TO THEM?**

Orr: Well I agree. I mean monetary policy always has a relative impact. It's either debtors versus savers and the idea is lower

interest rates mean that you would be incentivised to save less, spend more and vice versa. I would always say, "Think hard about your form of saving."

**GRTV: SO THEY SHOULD BE THINKING ABOUT OTHER ASSET CLASSES?**

Orr: Absolutely. They should always be, New Zealand[ers] are terrible savers. We save in one form which is leveraging equity in the housing market, more recently we've been kind of semi-coerced into having KiwiSaver funds and so we're starting to see that shift.

**GRTV: IS THAT SHIFT HAPPENING QUICKLY ENOUGH?**

Orr: I'm very impressed how quickly it is happening. I think we've now got \$40 billion to \$50 billion in those type of savings [KiwiSaver]. I'm not as impressed with how effectively those savings are being utilised. There's a lot of passive, simple global investment.

**GRTV: THERE'S NOT A LOT GOING INTO THE NEW ZEALAND ECONOMY.**

Orr: Yeah, so it's about deepening our capital markets, and providing opportunities for investors to be able to plug and play in asset classes here in New Zealand. And that was my continuous challenge at the ANZ super fund, where, if you gave me \$100, where could I allocate it in New Zealand? We need to create those opportunities.

**GRTV: I'D LIKE TO SWITCH TO A DIFFERENT TOPIC NOW, LIFE INSURANCE AND THE CONDUCT REVIEW WHICH YOU DID EARLIER THIS YEAR. THIS CONDUCT THING HAS BECOME A BIT OF A FAD, SUDDENLY IT HAS APPEARED OUT OF NEARLY NOWHERE AND WE'RE HEARING ABOUT IT ALL THE TIME.**

Orr: I think it's correct in terms of if you've been looking at headlines, certainly culture and conduct, but wrong if you think about how we as consumers have confidence and faith in that what we are being delivered is what was on the package. So culture and conduct is a key critical part to having trust in the capital system. And the way it's embedded is really through the boards and the senior management of institutions, and that's why we put a lot of emphasis on self-discipline. The companies themselves, the banks, the insurance companies have the disciplines, have the culture that is necessary to take money, someone's money, and to put it into long tail agreements, which are very complex. So try and drive the snake oil out of it and make sure that what you see is there.

**GRTV: IS THERE A LOT OF SNAKE OIL IN IT THOUGH?**

Orr: Well with the insurance, life insurance area. I mean the banking we didn't find any real sense of widespread misconduct. We did find a real lack of systems in the way of being proactive and making sure that the products and what they're doing are what was written on the packet, and that their staff are incentivised to be selling the right thing to the right people. It was very reactive and piecemeal.

For the insurance companies, the life

insurance, it was worse. The whole concept of frameworks, measures, activities for understanding what an appropriate conduct behaviour was were absent, largely.

**GRTV: IS THAT PARTLY BECAUSE A LOT OF LIFE INSURANCE IS SOLD THROUGH THIRD-PARTY DISTRIBUTION?**

Orr: It's a big part of the problem, or challenge I would say. But you can, what do you say, you can outsource the activity. You can't outsource the responsibility, and this has been a gap. The way that a lot of the third parties have been incentivised is through the volume of sales, the churn. Not through the outcome for the customer through their lifetime.

**GRTV: I THINK THE ADVISERS WOULD DISAGREE WITH YOU IN THE SENSE THAT THEY ARE TRYING TO BUILD A CUSTOMER BASE OF LONG-TERM CUSTOMERS WHICH THEY'RE GOING TO LOOK AFTER THROUGH THE PROCESS, SO THEY'RE NOT GOING TO GO OUT THERE AND NOT LOOK AFTER THEIR BEST INTERESTS.**

Orr: Well they can build customers, but if there's asymmetries of information, if there are new products coming in that may or may not be suited, if your lifestyle is changing or your needs are changing through time, how do you break down that asymmetry of information to say, "Is this the best product? Is this the best time?" How do you do this? And if people are being incentivised to sell the latest, greatest, or different, you can have the same customer but you could've changed their product many, many times throughout their life.

**GRTV: SO YOU'VE TALKED ABOUT LONGER-TERM THINKING AND SOCIETAL CHANGES AND THE WAY THINGS LIKE LIFE INSURANCE ARE DISTRIBUTED. DO YOU HAVE ANY IDEAS OF WHAT IT COULD LOOK LIKE?**

Orr: I mean I think it is a conversation that's happening globally and New Zealand is awakening to it slowly, very similar to the environment challenge that we've had, the climate change challenge. We tend to interview each other. We don't tend to look outside of our little small world that often. Globally, particularly post the GFC, is a fundamental challenge to what I would say is capitalism's traditional behaviour. When you think about capitalism, you know, I'm a huge fan of it, totally dedicated, but it will fail at times. And often it fails through a series of incentive structures that end up defeating itself.

A lot of that is, for example, if I have a 30-year strategic plan to build an amazing, sustainable company I have to provide a five year strategic plan to start implementing, and I have to provide an annual update to show where it's going. I have to do the quarterly reporting. Then I have to do real-time disclosure. I'm looking *here*, and I've been driven *there* by a series of well-meaning interventions all the way through, to the point where I'm *here*. Economic growth is sustainable when it's consistent with cultural inclusion, when it's with environmental

sustainability. It's not economic growth at the cost of it, and it's about getting those virtuous circles growing, and it's simply about thinking the horizon.

**GRTV: AND SO JUST NOT ENOUGH OF THAT HAS BEEN GOING ON?**

Orr: I would say very little. It's this, again, versus that. I mean, what is it, "Why are diamonds expensive and water is free?" used to be the test. And it was meant to be, "Well diamonds are scarce and water is plentiful." Now, you know, diamonds are controlled by a cartel, and water never had property rights. So the question is the same. The answer has changed.

**GRTV: YOU TOUCHED ON COMMISSIONS AND STUFF LIKE THAT, YOU HAVEN'T BEEN SUPPORTIVE OF UP-FRONT COMMISSIONS, I THINK IS A CORRECT INTERPRETATION FROM THE CONDUCT REVIEW.**

Orr: That was one of the challenges. Again, a global challenge.

**GRTV: YEAH. SO HAVE YOU ANY IDEA OF HOW YOU THINK THAT COULD CHANGE?**

Orr: Well what we're hoping, we've received the reports back from the various insurance companies. We're working through those at the moment. We did banking first, and when I say we, us and the Financial Markets Authority. And what we want to do is hear from them about how they can have better structures or more sustainable structures because we want them to run the business. You know we're talking about ...

**GRTV: YOU DON'T WANT TO DICTATE TO THEM HOW TO ...**

Orr: ... market discipline, self discipline, and then regulatory discipline, that's us. That's the third cousin and the weakest of all. If you get market and self discipline done, say "How can you be more transparent to the public? How do you reduce the asymmetries of information? How do you make people think longer term about what they actually do or don't need? How could you make it far simpler for people to understand what is the value of what you just bought?" The complexity of these products is immense. To pretend that people will read the background material, that they understand the nesting of the different issues is wrong. We know we don't.

**GRTV: IT'S A VERY DIFFICULT ISSUE TO BREAK DOWN FOR A CONSUMER THOUGH, ISN'T IT? SO HOW THEY DO THAT IS GOING TO BE THEIR CHALLENGE.**

Orr: But that's not an excuse for not trying. I mean, a jar of peanut butter just used to say "Peanut Butter" on the front in the 1980s. Now we know on the back of the jar no one was killed in the making. There's certain allergies, and what other sugars, fats, and carbs went into it.

**GRTV: ALL THOSE SORTS OF THINGS ARE ON THERE. YOU SAID THAT THE WEAKEST PART WAS THE REGULATION I GUESS AROUND THE CONDUCT. WHERE SHOULD THAT SIT?**

Orr: I mean weakest in terms of its influence because if you have to just make

people do things, well then that ends up with corner solutions, quantity targeting, quality targeting. Why do you have to play as if it's a kindergarten and kids can only do something in the sandpit? So I meant weakest in that way. I don't mean it's ... it is powerful. We're busy at the moment thinking very hard on the background of this about how to bolster out people on the ground and how to do activities. By the way, you know, CBL collapsed, so how much abuse did we take through that process?

**GRTV: QUITE A BIT.**

Orr: And how much, "Oh, wow. I didn't know all that was happening in the background," have we heard since? None. And so you never get applause from the regulator. You get, "What are you doing in my face?" And then, "Why didn't you do more?" So it's about trying to get that balance.

**GRTV: THE REPORT WHICH YOU DID WITH THE FMA, YOU SORT OF CALLED FOR URGENT CHANGE IN THE LIFE SECTOR. HAS THAT BEEN MOVING QUICKLY ENOUGH?**

Orr: Yes. So we've got a lot of conversations to have ahead. You know a lot of this, you have to remember that we're so heavily Australian dominated that our interviews with banks, the equivalent to that in Australia was a Royal Commission. An up front blamestorming, period. We got there quick because we wanted to have a real conversation to see what was under the hood. Is this necessary or not? In banking we said there are lots of things you need to do better, and they understood. A lot of them had had the panhandle anyway in Australia. In insurance there's a lot more work to be done.

**GRTV: BUT THEY'RE MAKING PROGRESS?**

Orr: I hope so.



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# Moving up, but not moving on



**Grant Hassell says lots of things remain the same as he takes on global role.**

AMP Capital's head of fixed income Grant Hassell is tackling a new, global challenge this year, all without leaving his Wellington office.

At the start of 2019, Hassell moved to the role of global head of fixed income for the fund manager, after three years as managing director of the New Zealand operations.

The switch sees him take on a bigger mandate – the New Zealand business manages about \$20 billion but AMP Capital overall has a global fixed interest portfolio of more than \$50 billion.

His new team of 35 people is based around the world: 30 in Sydney, four in New Zealand, one in Hong Kong and three in Chicago. It's a group of people roughly the same size as that he led as AMP NZ managing director.

Hassell started with AMP in 1987 after finishing a degree at Victoria University and has focused on fixed income throughout his career. Through the years, he's been involved in AMP's demutualisation, mergers and acquisitions including that with AXA. Now there's more change with the sale of the AMP Life insurance portfolio.

In the early 1990s Hassell became a portfolio manager managing fixed income money on behalf of AMP Life. In 1993 he went to the Reserve Bank on secondment for two years; managing international fixed income as part of a push for the bank to get more exposure to private sector expertise. Hassell still rates the experience as a career highlight, working alongside people such as Paul Brownsey and Simon O'Grady.

In 1995, he returned to AMP Capital and worked in senior portfolio manager roles until 2006 when he became the head of the New Zealand fixed income business. "A year and a half from the global financial crisis – it was a fascinating time to manage money ... fascinating because of what we were facing into."

How the business performed through those years was another career highlight, he said. "Our fixed income returns were outstanding through that period."

He only moved out of that role when the top local job beckoned. Feeling a need to "get out of the way" to let others progress through the fixed income ranks, it looked like a chance to further hone his management and leadership skills.

From when he took the managing director position in 2015 until he stepped down at the end of 2018, the business's funds under management grew from \$3 billion to \$10 billion. "That's something I look

back on with pride."

But Hassell says while he enjoyed the experience of leading the business, he was still an investor at heart and loved investment markets. So, when the opportunity came up to go back to fixed income in a global role, he jumped at it.

AMP Capital was rethinking its organisational structure and creating a new public markets business, which its former head of global fixed income went on to lead.

Hassell said the position again looked like a chance to "get out of the way of good people" and progress more candidates through the ranks of the business. Bevan Graham took over as New Zealand managing director.

You might expect that after three decades working for one business, he could have pondered a switch to a different fund manager when the time came to move on.

But Hassell says he has never seriously been tempted to look elsewhere for a role. AMP Capital has proven to be flexible with policy and practice and has been a "fantastic employer" over the years, he says, including allowing him to step up without leaving town.

"I think the business has been very generous to me allowing me to work out of Wellington in a global role."

Not that there haven't been attempts to get him to move – Hassell says one of his few career regrets is not taking up some of the global opportunities he was offered earlier. But the lifestyle offered to him and his family by New Zealand always won out.

Now, while the new role involves some travel, he's committing to staying in New Zealand for at least the next 18 months until his youngest daughter finishes school.

While Hassell says there are probably more existing, volatile or lucrative areas of the investment world that he could dabble in, he is committed to fixed income.

Fixed income needed a broad skill set, he said – an equity analyst might look at one stock and become very intimate with what that company operated. But a fixed income analyst had to do that but also understand the macro factors that might affect the decision to lend money.

"It's very rewarding, stuff I really love. You get to fold in economics, regulatory and fiscal issues, individual company balance sheets and wrap it up to make a decision."

Most people did not even realise how significant a proportion of their own investment portfolio was made up of fixed income, he said.

One of the biggest challenges was how to get a good return when interest rates were so low, he said. "It might encourage people to take a bit more interest in what they are doing with their investments. The days of

relying on high term deposit rates from savings are over."

He said people were more cautious these days than in the lead-up to the GFC, when many tried to get "juicier and juicier returns", taking on more risk.

Hassell said the new role still allowed him to have input into the overall performance of AMP Capital – so anything he thought he might have been giving up by moving out of the managing director role, he had not.

"I'm still involved in the direction of the business."

**“The industry I’m working in is changing dramatically and AMP as a business is changing to adapt to that.”**

Hassell says he aims to act as a sounding board for portfolio managers to bounce their ideas off.

"Protecting them from the noise going on in the industry around them so they can focus on the job they've got to do which is to manage client outcomes. Supporting and protecting them is a key part of what I'm doing."

Compared to when he started in the business, Hassell said the market as a whole had become more transparent and more open about what decisions were made and why. "The industry I'm working in is changing dramatically and AMP as a business is changing to adapt to that."

The way active managers manage money was also changing, he said.

"Active managers need to do two things – take bigger positions in the funds they manage and keep those positions for longer. The reason I say that is there's less volatility and you need to make the most of what there is. To get the same return from active management you will need larger positions away from benchmark. Managers with proven processes and teams will continue to do well in this environment."

Hassell says, while he has no plans to move on yet, he wants to see someone from within the business ready to step up when the time does eventually come.

"One thing I really enjoy is growing people. People are as important as assets under management." **A**

By Daniel Dunkley

# Active and passive: the best of both worlds?



**Rather than taking a one-sided approach, advisers could back both active and passive strategies.**

The global debate between active and passive fund management has raged for years, as traditional active managers make their case against the proponents of newer, passive strategies. As new and old jockey for survival, the debate has polarised opinion in the investment world.

As the average investor becomes savvier with the rise of technology, and investment decisions become more transparent with KiwiSaver and direct investment platforms, more money has begun to flow into low-cost passive funds in recent years. ASB, for example, has built its KiwiSaver offering almost exclusively around index funds, while InvestNow reports significant flows into Vanguard and Smartshares ETFs.

Yet New Zealand is widely regarded as being slower in the uptake of passive funds than investors in bigger markets, such as the US and UK. Active management remains popular in New Zealand despite the higher

costs associated with human stock pickers. As die-hard active managers and passive funds argue their case, investors have been happy to stick to trusted investment strategies that have served them well for decades.

Both active and passive strategies have performed well since the GFC, with equities markets riding high here and overseas. But with another downturn expected in the next few years, active managers say passive strategies might take a significant hit. Defenders of passive funds say there is growing evidence they can outperform when markets dip.

As advisers ponder the mountain of evidence, should they have to pick one side? Or can a core-satellite approach, comprised of both passive and active funds, deliver the right mix of alpha generation, low volatility, and cheap market access? As passive becomes more popular, how can advisers show their value to clients?

Brent Sheather, an adviser who believes strongly in passive funds, says a growing body of evidence suggests they can outperform active managers. "Years ago, people would criticise you and say 'why are you paying for mediocrity?' But it's becoming well known that passive

**“The sooner the proponents of active accept that passive is a good idea and advocate 50-50, the better for everybody.”**

*Brent Sheather*

outperforms active, and the reason they can do that is because of the low fees."

Despite his strong views, Sheather says advisers should take a balanced approach. He allocates 50% of his money to active strategies. He believes investors should back active managers to unearth inefficiencies, particularly in smaller and emerging markets. "Increasingly, people are going all passive, and I think that's wrong because we should all pay for price discovery. Passive funds rely on markets being efficient. If everyone went passive, markets wouldn't be efficient. It's fair



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By Daniel Dunkley

that everybody pays higher fees for some active management, to make markets more efficient."

Sheather said he would not adjust his 50-50 portfolio split even if market conditions changed. "I don't believe active outperforms passive in a downturn. If you look at the SPIVA analysis, in the US, about 90% [92%] of [large] active funds underperformed the index."

He adds: "The sooner the proponents of active accept that passive is a good idea, and advocate 50-50, the better for everybody, I think. The rationale for active is not that you're going to get alpha, you're paying to make the markets more efficient."

Sheather says he could be prompted to buy more active funds if they traded at a discount to net asset value. He prefers investment trusts and closed-end funds for his active exposure.

Clayton Coplestone, director of Heathcote Investment Partners, prefers active to passive strategies. He believes passive investing is a "low-cost, commoditised option to give you exposure to markets that are technically efficient, or where you can't add any meaningful value".

He adds: "The solution in those markets is the cheapest option, so it's a price game."

"I don't have a negative view of passive per se, Coplestone said. "The issue is, it's a matter of perspective. Supporters of passive tell me it is the be-all and end-all, and that usually comes with a chosen data set. It is usually oblivious to the fact the equities market has enjoyed the strongest bull run since 2008.

"To be candid, it was probably best to be overweight in passive and have a low-cost option during that time.



Thom Bentley

Passive performs well in moments of tranquillity, but I'd suggest we are not in a tranquil market now. Active arguably becomes more important now because of its superior risk controls."

Coplestone said advisers faced a "big challenge" to identify the top best active managers among tens of thousands of candidates. "The [adviser] industry tries to figure out which funds are going to outperform, but selecting the correct asset

**“I'd be thinking very carefully about what I could defend.”**

*Damon O'Brien*

class is probably going to be tenfold more productive than choosing active or passive. Advisers need a screening mechanism to take the volume down to a more workable number."

He warned against the "complacency" of going all-in on passive strategies and abandoning active altogether. "If you're seeking a beta of 1, in other words, top 100 US stocks, that is largely a price argument.

Find the cheapest way to access that universe. But use your fee budget in other areas of the portfolio where you might need some help. To carte blanche and put everything in passive, you'll end up with mediocrity, and in the environment we are heading into, clients could be challenging the role their adviser plays."

Despite his strong views in favour of active, Coplestone believed passive and active could coexist as part of a strong portfolio. He says advisers need to identify strong active funds to sit alongside their passive investments. "We advocate that if you're seeking beta, it's a price option. We will have a core position in low-cost beta positions, and active funds around the edge that cost a bit more, and have a different risk profile."

For advisers looking to build out their passive portfolio, which products offer broad market access here and overseas?

NZX Smartshares operates ETFs that provide access to international and domestic markets.

Its NZX-listed US 500 ETF, for example, provides access to Vanguard's flagship US 500 ETF. It allows investors to access the Vanguard fund and avoid costly currency and brokerage costs, ownership fees, and administration costs.

Thom Bentley, client director at Smartshares, said it was significantly cheaper to invest and hold Smartshares ETFs than invest directly in an overseas listed ETF. "Many investors and advisers don't do the calculations when deciding whether to invest in Smartshares or through an offshore ETF provider."

With an emphasis on low-cost international and domestic funds, Smartshares ETFs can be accessed online, on market via advisers, and through direct retail channels such as InvestNow. Smartshares' funds under management have risen from about \$500 million in April 2012 to more than \$3 billion, according to a recent presentation.

Rather than spreading allocation across an entire index, Smartshares funds are customised to be weighted to different segments of the market. Its NZ Dividend fund, for example, covers the 25 highest yielding NZ shares in the top 50, while its NZ Mid Cap fund is weighted to the 40 stocks below the top 10. Its NZ Top 50 fund meanwhile has a 5% cap on individual stocks. Smartshares is launching eight new ETFs in June, including five ESG equity funds, two "megatrends" funds and a low-cost passive global aggregate bond fund.

Bentley admits New Zealand has been slower to adopt ETFs than other countries, but predicts rapid growth from investors allocating their savings and pension fund investments. "Uptake is growing quickly as more people become aware of the global adoption of passive strategies."

Bentley said New Zealand's perceptions about passive investing were starting to change. "New Zealand is seen as a market that has favoured active managers, it is a small and inefficient market, so there's a perception that active managers have a better chance of outperforming here. To an extent, that has been true in the past. But now, with the range of funds we have, we can provide cheap access to specific parts of the market that have performed better than the index and active managers."

He downplays the idea that passive is not suited to more volatile markets. "What we provide is pure access to the markets, and you take the ups and downs," Bentley added. "But Q4 last year was the first significant downturn in the equities market for some time. The NZ market was down 6% in Q4. Only two of 19 NZ active equity funds beat the market [according to Morningstar], but all of our funds did. So the fears about passive funds didn't play out."

Another major player in passive-style strategies is Christchurch-based platform business Consilium. The firm offers New Zealand advisers and clients access to passive-style funds from US investment giant Dimensional Fund Advisors. Dimensional's co-founder David Booth is said to be one of the pioneers of passive investing, and is credited with working on the very first index fund in 1971.

Dimensional funds are designed with the help of leading economists and academics. Damon O'Brien, chief investment officer at Consilium, says the funds "lean on academic evidence". He added: "We like to lean towards sources of higher long term expected return that meet three criteria; they have been debated and academically proven, we can see them in the data in markets today, and we can implement them in a cost-effective way."

O'Brien said: "Dimensional had their genesis from academia, and they are in the business of designing funds which are highly consumer-friendly, low cost, widely-diversified, and have clear mandates, so as an investor, you know what to expect in any market conditions. These are very valuable when you're building portfolios for retail clients."

Consilium provides access to several

Dimensional products, including its core funds, style-specific funds geared towards value companies, and regional funds. "They encompass the full suite of portfolio options. [Dimensional's] business has been driven by academia, and they build funds that make sense. We are looking to access the best vehicles to deliver robust returns to our clients. These funds tend to tick a lot of those boxes."

O'Brien favoured the "systematic, analytical, measured approach" demonstrated by the likes of Dimensional, "rather than a forecasting approach". Overall, Consilium likes to "blend some aspects of active and passive".

He said well-researched, widely-diversified funds with a value factor were sound investments for long-term success: "If I was looking to plot a course over a 20 or 30 year period, and to deliver that with reliability, I would be looking at the sorts of strategies we recommend.

We have a reasonable basis for our expected returns.

"The ability to continually out-guess or out-forecast the

world of investment management capability that exists is a pretty tall order ... You can access the market reliably and cheaply with well-specified funds that target risk factor exposure," he said.

Advisers faced a challenge picking the right active manager that could justify their fee: "I wouldn't want to take the risk of appointing the wrong manager but still paying a high fee for the pleasure. If I were an adviser, I'd be thinking very carefully about what I could defend." **A**



Damon O'Brien

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By Susan Edmunds

# Licensing looms

**As the new licensing regime comes into play some advisers will step up and thrive while others may hang up their hats.**

Advisers who are currently working as RFAs are being told to think about their business processes as licensing approaches.

Transitional licensing will open later this year for those who want to operate as a financial advice provider (FAP) under the new advice regime.

All financial advisers will need to work for a FAP as an adviser or a nominated representative by the time the new regime starts mid next year.

Adviser coach Tony Vidler said licensing would not be a major hurdle for AFAs but could be a significant step up for some RFAs who did not have the business processes in place.

He said people would need to think about their strategic objectives for their businesses and the degree of control they wanted to have in terms of such business decisions as branding and products.

**“There’s a fair amount of RFAs out there who have a heck of a lot to do.”**

*Tony Vidler*

Those who had been part of a QFE or were AFAs would have appropriate systems already, he said. But that was not true for everyone, particularly people who had been operating as a “lifestyle practice” or part-time.

“There’s a fair amount of RFAs out there who have a heck of a lot to do.”

The FMA said it would ask transitional licence applicants for information about the types of services and products they dealt with and who was providing advice.

It would consider whether directors and senior managers were fit and proper for their roles, whether there was any reason to believe obligations would not be met and whether the business was registered on the FSPR.

“Transitional licensing provides us with a better sense of who is operating in the market – enabling us to anticipate the number of full licence applications and resources needed for ongoing monitoring and supervision.”

Full licensing would be more robust. Conditions of licensing would be imposed by the legislation or the FMA. Some would

be standard to all and others specific to a particular business.

The FMA is considering two standard conditions for transitional licensing: Requiring adequate written records and an internal process for resolving complaints. These are two aspects of a financial advice business that are currently covered by the code of conduct for authorised financial advisers but will not be in the new code.

It is likely there will be additional standard conditions for full licences.

The record-keeping standard would require businesses to demonstrate how they gave regulated financial advice to retail clients, had complied with the FMC Act, the Financial Markets Conduct Regulations and the new code.

Records would have to be kept for seven years.

“This is to ensure licence-holders (and any authorised bodies) continue to meet the requirements assessed at licensing and so we can effectively monitor compliance with their obligations. In addition, this requirement will ensure adequate information is available for retail clients about the financial advice services provided to them,” the FMA said.

The complaints process standard would require an internal process for resolving complaints from clients.

FMA said this would mean a process that meant complaints were acknowledged as soon as practicable; retail clients were given information about the process and how it worked; complaints were resolved and a response provided as soon as possible; and a written record kept of all complaints.

“This will ensure client complaints are adequately dealt with and there is a record of any issues arising in relation to the financial advice service. It will also enable us to effectively monitor whether licence holders and authorised bodies are complying with their obligations. Having this as a licence condition (even though external dispute resolution schemes may also require it) means we can take appropriate regulatory action against the licence holder and any authorised body if they do not comply,” the FMA said.

“An internal process for resolving client complaints does not have to be complex or expensive. However, it must meet the four requirements in the proposed condition. How you comply with this condition will depend on your personal preferences and the nature and scale of your business.”

The Ministry of Business, Innovation and Employment expects 900 RFAs and AFAs to drop out as part of the transition to the new regime. Vidler said that number could be too low.

Many older advisers would decide it was

not worth going through years of change only to want to scale down their businesses, anyway, Vidler said.

Application fees for full licences will range from \$612 to \$922 plus an hourly rate for complex applications.

“The FMA will be required to consider a wider range of factors, including whether an applicant is capable of effectively providing financial advice services,” MBIE said.

“In addition, the application process will vary depending on the business model adopted by the applicant. For example, the Amendment Act introduces additional requirements on financial advice providers that engage financial advisers or nominated representatives, so those firms will need to go through additional assessment during the licensing process. While the process will be more robust than that used during transitional licensing, applicants will still use a streamlined licensing system, leading to an efficient process and relatively low estimated average processing times.”

MBIE said the model of a flat application fee and hourly rate would be most cost-effective for the FMA. If the hourly rate was not an option, the flat fee would have to be higher.


The FMA receives an annual appropriation of \$36 million, the majority of which is funded through a levy charged to financial service providers.

MBIE said all financial service providers would continue to pay \$460 plus GST on initial registration under the new regime.

Financial advisers would be levied independently.

Its preferred option is then to introduce a base annual levy for FAPs with an additional amount for every nominated representative, or when the FAP gave advice on its own accord.

That would start at \$225 a year then \$137 per nominated representative, or \$737 if the FAP gave its own advice.

Advisers would pay \$265. 



*Tony Vidler*

By Susan Edmunds

# Insurers' 'MORAL DILEMMA'

**Income protection policies have to strike a balance between helping those who need it and not turning them into expensive, long-term beneficiaries.**



New Zealand's income protection market may not have the challenges experienced by insurers on the other side of the Tasman, but providers say there are still issues that need to be addressed here.

The Australian Prudential Regulatory Authority last month called for that country's life insurance industry to urgently tackle concerns about the sustainability of individual disability income insurance.

The industry has collectively lost A\$2.5 billion (\$2.64 billion) through the product over the past five years.

"In a highly competitive environment, life companies have focused on attracting

policyholders through pricing and product features that are not sustainable. The result has been ongoing losses and a failure to deliver a satisfactory customer experience," APRA executive board member Geoff Summerhayes said.

"Unless these adverse trends are reversed, there is a risk some life companies will ultimately exit the market for DII, worsening consumer outcomes through reduced competition, accessibility and affordability."

Insurers were individually given specific actions required from them within set timeframes.

"APRA will assess the adequacy of each life company's response, and monitor the progress in executing the planned actions," Summerhayes said.

"If APRA considers the action plan proposed by the life company to be

inappropriate, or the life company's progress in implementing that action plan to be inadequate, APRA will increase its supervisory intensity of that life company and may impose an entity-specific capital charge."

In New Zealand, some insurance companies have expressed off-the-record concern about how much money is being made from income protection policies.

Financial Services Council statistics show there was \$36.9 million paid in replacement income benefits in the March quarter of this year, up from \$29.3 million a year ago.

Industry commentator Russell Hutchinson said, if the industry was not happy with how much money was being made, it "had control of the price lever". He said, while it was an issue being discussed, it was not something that was concerning

insurance companies in New Zealand to the point where the product would have to be dumped.

"We do see a situation where income protection products have in the last 20 years become more and more generous," he said.

Reinsurers were initially excited by a market focus on mortgage repayment cover designed to cover the bottom proportion of income, he said, and not off-setting things such as ACC. But over time those products have bowed to competitive pressure and now look more like mini-income protection policies with associated benefits. "Income protection, more than any other product, has suffered benefit creep."

Naomi Ballantyne, managing director of Partners Life, agreed advisers were selling more mortgage repayment products. The fact there was no ACC offset affected the claims experience for insurers because it made them the first port-of-call.

## INCENTIVE NOT TO WORK

The biggest problem comes for insurers when people remain on claims for a long time.

Hutchinson and Ballantyne said there was an in-built risk with the product "creating beneficiaries".

"If you insure someone for 75% of their income, during the first few months there's a very strong incentive to return to work," Hutchinson said. "After that, the incentive to re-enter the workforce and their ability to re-enter decline. Their skills become out-of-date, they lose confidence. All this diminishing incentive to return to work increases the likelihood of being on claim for a long time. It's really a very few clients who claim for a long period of time that account for most of the claims."

Ballantyne said insurers faced a "moral risk" of turning people into long-term beneficiaries who lost their confidence, readjusted to life on the insurance pay-out and then fought for it to continue.

It was not like being on a government benefit, because an insurance pay-out would usually allow people to have the same lifestyle they had before they had



Naomi Ballantyne

to claim. "That's the point of the product ... the more long-term claims you have, the more you have to reserve for long-term claims and the higher the price."

## PRODUCT INNOVATION

Hutchinson said there was some innovation in products happening, such as insurers offering a specified injury benefit – so that if someone hurt their shoulder the insurer would pay out an amount of money designed to cover the average amount of time that someone would be off work for such an injury. At the end of that period, the client could make a claim if they were still not able to go back to work.

Another option was specified conditions so that if someone became disabled through a major trauma diagnosis they would be given a lump sum of money to cover a few months off work, after which they could return to the insurer to discuss a plan for the future.

"The ones that require intensive supervision are for bad backs and mental health problems. We don't know how long they last."

Ballantyne said the advent of long-term disability products had already made income protection unaffordable for a lot of people.

Insurers might need to look instead to products that provided good support to people for a shorter space of time, with a clear expectation that the client would return to work – and a higher bar to still cater for those who could clearly never go back to work due to serious physical injury.

It was possible that there could be a new product to replace the current

policies on sale, she said. Without the potential for expensive, long-term claims with associated administration costs, it would be possible to deliver something "really good" at a more affordable price and potentially cover more events that would otherwise be excluded by insurers trying to stop long-term claims at the underwriting stage.

**“The more long-term claims you have, the more you have to reserve for long-term claims and the higher the price.”**

Naomi Ballantyne

## DIFFERENCE TO AUSTRALIA

AIA and Sovereign chief executive Nick Stanhope said New Zealand and Australia were "structurally different" because a lot of the income protection in Australia was driven by large super schemes. But in New Zealand, the products were almost always issued with personalised underwriting, which gave the insurer a chance to understand the client in more detail.

"Something we are seeing that's the same as Australia is an increase in claims. Globally it's an issue that reinsurers raise with us."

He said the New Zealand market had not priced in the future cost of claims in the same way that Australia had but insurers were watching it closely.

Ballantyne said, despite the growth in no-offset products, the existence of ACC was still another significant difference.

There were a large number of accidental claims made to Australian insurers that New Zealand counterparts would not have to deal with.

"Another difference is the Australian legal structure. Litigious lawyers there are trying to find groups of clients they can process claims for. In the group space there have been TPD claims discovered years later because these lawyers have brought them to light ... insurers thought their claims experience was good and repriced to make it cheaper, then lawyers went looking for other clients. It's a very different market. Lots of people came through group schemes and never had any advice." 



Russell Hutchinson

By Michael Littlewood and Michael Chamberlain



# Time for a KiwiSaver rethink

**Michael Littlewood and Michael Chamberlain have updated their response to the Retirement Commissioner's 2016 review, and say little has changed – including the lack of evidence that our superannuation scheme works.**

KiwiSaver started on July 1, 2007. At the time, the government suggested that the aim of the new KiwiSaver Act 2006 was: "To encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.

The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits."

Since then, KiwiSaver has been through a number of major changes and through three reviews by the Retirement Commissioner.

At March 31, 2019, the total assets in KiwiSaver were \$56.7 billion.

The underlying theme of the Retirement Commissioner's main recommendations for change in 2016, was that New Zealanders weren't saving enough for retirement. They needed to be forced, tripped or encouraged

into saving more than at present and KiwiSaver should be a vehicle to promote that needed change in behaviour. The Retirement Commissioner gave us no evidence to support the recommendations on that account.

We have incomplete information on what New Zealanders are actually doing about their retirement income preparations but here is a summary of what we knew before the Retirement Commissioner started the 2016 review:

- New Zealanders were probably slightly over-saving for retirement before KiwiSaver started in 2007.

- Of KiwiSaver contributions, about one-third was "new" savings, the rest being effectively transferred from other financial assets.
- KiwiSaver members seemed to have accumulated less net wealth than non-members.
- Poverty levels amongst the over-65s are the lowest of any of the groups in New Zealand society and are among the lowest of over-65s in any country.
- The overall cost to taxpayers of retirement income policies (public and private) is amongst the lowest in the developed world.

From this, we could have deduced before the Retirement Commissioner's 2016 review that New Zealand's overall retirement income framework was "working": people seemed to be saving "enough"; limiting "poverty" in old age; favourable international comparisons, all at probably the lowest overall cost to taxpayers of all developed countries.

The Retirement Commissioner's review did not discuss or question any of what we already knew but we must assume the Retirement Commissioner thought New Zealanders aren't saving enough for retirement, given the 2016 review's recommendations. But do we know that? Where is the evidence?

## “ Can we even say that KiwiSaver members are saving more for retirement than their non-KiwiSaver peers? ”

Can we even say that KiwiSaver members are saving more for retirement than their non-KiwiSaver peers? We just don't know but logic suggests they won't be saving that much more, if any. Given the predictable reduction of occupational superannuation schemes at KiwiSaver's hands, some may even be saving less in total than previously, but we don't know.

Since 2007, taxpayers have spent about \$10.1 billion on direct tax incentives for KiwiSaver.

Of total KiwiSaver balances in 2018, as much as 21% came from taxpayers. About \$801 million will be spent in the current financial year and another \$840 million in 2020.

Where is the evidence that these large sums have actually changed New Zealanders' overall financial behaviour? Citing the number

of members or the amount now invested in KiwiSaver doesn't answer that question. Encouraging those numbers to grow won't answer it either. Asking New Zealanders whether they think KiwiSaver is a good idea or whether they think they should be saving more is even less helpful.

Finding out what New Zealanders are actually doing about their financial preparation for retirement is the only way to understand whether KiwiSaver actually helps; even, whether New Zealand needs KiwiSaver. That requires a longitudinal survey of household financial behaviour of the kind New Zealand trialled in 2002-2010 with the Survey of Family Income and Employment (SoFIE).

International evidence suggests that governments are relatively powerless to change savers' decisions to save more or save more in a particular way or for a particular purpose, no matter what kind of intervention has been used (tax incentives, compulsion or soft compulsion). KiwiSaver might be an exception to that general observation but we need evidence of that.

What little we do know about New Zealanders' financial behaviour cannot justify the Retirement Commissioner's 2016 recommendations to "strengthen" KiwiSaver, many of which have since been enacted.

### QUESTIONS NEW ZEALAND NEEDS TO DISCUSS ON KIWISAVER:

Is KiwiSaver working? Subsidiary related questions include: are KiwiSaver members saving more for retirement than their non-KiwiSaver peers? Are the total net financial assets of KiwiSaver members greater than the totals of non-KiwiSaver peers? In other words, is so-called "behavioural economics"

working in the KiwiSaver environment? Are New Zealanders saving enough for retirement whether or not they belong to KiwiSaver?

If they are, that would undermine the case for "strengthening" KiwiSaver.

What effect has KiwiSaver had on housing ownership patterns and housing debt as between members and non-member peers?

What effect has KiwiSaver had on remuneration patterns as between employers with/without "total remuneration" policies and as between employers with preferred KiwiSaver schemes and those without. What proportion of employers have a "total remuneration" policy? Has KiwiSaver affected that pattern?

What effect has KiwiSaver had on occupational superannuation schemes? What is the overall impact of KiwiSaver on workplace-related retirement saving schemes (including KiwiSaver)?

Who specifically benefits from the current tax subsidies to KiwiSaver (members' occupation types; remuneration bands; distribution by age, sex, work status, etc.)?

What effect has KiwiSaver had on the financial services industry in the last ten years and who benefits? Should New Zealand be concerned about the aggregation of KiwiSaver savings in the hands of a small number of providers, mainly the major trading banks?

If the government has no role in forcing or incentivising particular types of financial provision for retirement, what might be KiwiSaver's role in a more rational policy environment? Here are some suggestions that require analysis and debate:

- Remove auto-enrolment
- Remove "Member Tax Credits"
- Re-install the 'kick start' government grant for new members
- Remove default providers (if no auto-enrolment) or open up default status to all qualifying schemes (if auto-enrolment retained)
- Remove all rules about member contributions
- Remove compulsory employer contributions
- Allow access to benefits at any age and for any reason.

Questions 1 and 2 cannot be answered without a proper longitudinal study of household assets, liabilities and incomes. **A**

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# Accidental adviser

**One of the country's highest-profile financial advisers started his career trying to sell share market seminars during the 1980s market crash.**

Financial adviser Martin Hawes says he has a business model that might seem a little bit unusual to other advisers.

He charges all his clients a lump-sum fee at the outset.

For that money, the clients are given a report and some help with execution of the recommendations contained within it. But Hawes does not manage any money for them.

It's a model he admits does not repeat very well because it means he had to keep finding a lot of new clients, while other advisers focus on growing a book of business to provide an ongoing passive income.

But Hawes said he had never had much interest in managing people's money.

"They are different skills. I'm a good adviser. I'm not sure I would be terribly good at managing money ... I make sure I give advice and help clients find someone who will manage their money well, better than I would. I'm strong strategically – I can sit back and work out fairly quickly what a client should be doing, how they should be investing, but I don't particularly want to do that investing for them."

Still, most clients come to him – he has a website that might attract some but most

**“If I was advising a young person on what they might do vocationally with their life I think financial advice is a really good job.”**

know him through his media profile.

Many have read his books – he's written 22 over the past 25 years – or met him at seminars he runs around the country. He has also been on television as presenter of *Financial Secrets* and was one of the experts on reality show *The School of Home Truths*.

Many clients liked his independent business model, he said, because once he had showed up to a client meeting, there was nothing else for him to sell.

Hawes said he did not have a "huge number" of clients but his is only a one-person business with an adviser assistant working for him from Surrey in the United Kingdom, so it did not need large client numbers.

As well as advising, Hawes has two

governance positions – as the chair of the investment committee for Forsyth Barr's Summer KiwiSaver scheme, and on the board of Lifetime Income, which provides a variable annuity product. The Summer scheme is named after Hawes' book *Twenty Good Summers*.

The Summer role means a significant amount of client-facing work, communicating with members at least monthly, and running seminars for members and those thinking about joining.

"That does take up a fairly large amount of my time."

#### UNUSUAL START

Hawes said he got into the financial advice industry "not in a way that a careers adviser would suggest".

He responded to an advertisement for an accounting firm wanting someone to present seminars on shares and property investment in the mid-1980s.

Interested in investments, and having always done a lot of public speaking, including as head boy at his high school in Oamaru and president of Teachers College in Dunedin, Hawes was confident he could present well.

Then the share market crashed and it became suddenly very difficult to sell a seminar on either shares or property.

But the accountants wanted someone to become a business adviser and Hawes said

he took to the advisory role "like a duck to water" and was soon advising clients on investment, personal finance and family trust issues.

Until regulation came in to force almost 10 years ago, Hawes had no formal training in finance whatsoever.

When the rules took hold in 2011, Hawes had the option of a level five certificate or a degree – but if he had done the degree he would have ended up studying his own books. "I almost did the course so I could do an essay saying 'on page 44, I say ...' that would have been a fun thing to do."

**“I almost did the course so I could do an essay saying 'on page 44, I say ...' that would have been a fun thing to do.”**

Hawes said he was committed to financial advice and the difference it could make. Everyone should have a financial adviser in their network, he said.

"As advisers we must never forget that it's our job to give people better lives. So that people make the most out of their money and can live better. It's not about numbers."

A challenge was how advisers could get to the people without large amounts of money, he said.

Most clients he dealt with had significant sums, or were going to through having sold an asset or having high incomes. "The really difficult group are those in the middle who might have \$100,000 or \$200,000 and tend to default to term deposits."

KiwiSaver had a role to play there, he said. Some schemes, with advisers attached, could offer their funds as a vehicle for retirees to manage their money through their retirement years.

Hawes said regulation had been good for advisers. He is on the existing code committee, which will be replaced by the code working group when the new code takes effect.

"I thought in 2011 that the industry needed regulation. Now we have regulation and we can't quite yet call it a profession but it's getting near to that. The industry is in such a better place today than it was 10 years ago."

He said he was still optimistic about the future of financial advice as a whole and there were not enough of the small independent AFA-type businesses to cater

for growing need. Sole-adviser businesses' days were probably numbered, he said, but the idea of three or four advisers banding together should be encouraged. "I'm very optimistic about it. There's a huge need for financial advice."

Many Baby Boomers were discovering it was almost as hard to turn their wealth into retirement income as it was to accumulate it in the first place.

"If I was advising a young person on what they might do vocationally with their life I think financial advice is a really good job."

He said that did not mean that every financial adviser would always be perfect – any profession would have the occasional "bad egg" but that advisers would be no worse than any other profession.

"That's a wonderful thing. It will take a long time for the public to build up trust. They'll look at David Ross and advisers who recommended finance companies. It will take time to follow through."

Hawes is one of the country's most prominent advisers with columns in a range of newspapers and magazines over the years.

He said most of that stemmed from the books he had written, although he had always been comfortable talking to the media. "I have a deep need to tell people what I

think is going on ... When I write articles people might not need to know what I think but they need to understand what's going on."

When he is not working, Hawes enjoys rock climbing, mountaineering – he attempted Mt Everest in 1995 – skiing, fly fishing and cycling.

But he said he had no desire to turn his attention to those pursuits full-time, even after many decades in the industry. "I never plan to retire. I will eventually wind down. Even today I'm doing less financial advice and more governance and that's probably an ongoing trend. I'm eyeing up licensing

and wondering how I will do that, whether I will do that. But I don't want to retire. I enjoy helping people." **A**



Martin Hawes

By Kevin Bennett (Head of Research), Andrew Bascand (Managing Director),  
Shane Solly (Portfolio Manager)

# 5G to enable new technology platforms

**The advent of 5G in NZ will have impacts for many, not least investors in listed telecoms.**



Investors need to factor in the opportunity and potential disruption of new technology and changing consumer preferences for mobile and fixed broadband communication. One upcoming development, fifth generation mobile networks (5G), will provide a transformational shift in the telecommunications landscape.

The introduction of 5G may have significant implications for investors in the

listed telecommunications sector, as well as knock-on effects for companies which could harness this technology. As a result, over the last year, Harbour's research analysts have been considering overseas trends in 5G and discussing these observations with local companies to draw together the issues we need to explore in a New Zealand context.

## WHAT IS 5G?

3G and earlier offered a signal for telephone calls, and 4G/4.5G provided sufficient data capability for Facebook and Instagram updates. These levels of service are no longer enough.

5G is the next mobile technology platform evolution. Many countries are transitioning now to 5G. In its current development 5G is

reaching speeds that are between 20x and 100x faster than 4G (depending on which 4G service you are referring to).

5G is seen by many as having the potential to significantly lift productivity and open up new business investment opportunities. In contrast, the step from 3G to 4G largely seemed to benefit consumers wanting to upload video content and share photos.

5G is more than just an evolution to higher speeds and more capacity. It is the precursor to supporting a range of new industries and the enabler of new technologies.

Samsung has called 5G "wireless fibre", promising a super-fast low latency network everywhere. For instance, at 10GB per second, the average two-hour movie could



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be downloaded in 3.6 seconds, compared to just over six minutes on 4G. The latency on 5G is claimed to be four milliseconds (0.004 of a second) as opposed to 20 milliseconds on 4G LTE today. This has major implications for practical uses for mobility in industries such as transport, gaming, education and healthcare.

The intent of the 5G evolution is to provide a network of networks; providing speed that far outstrips the home broadband network of today, leveraging common approaches and existing infrastructure. The proposed architecture of the 5G proposition is radically different from its predecessors reflecting innovations in technology.

Many commentators believe that 5G mobile connections will increasingly replace fixed line (fibre) networks in many instances. One of the consistent demands by consumers has been for mobility and the ever-increasing data usage which has seen mobile operators introduce two generations of mobile technology (3G and 4G) within a ten-year period.

## WHAT DOES IT MEAN FOR NEW ZEALAND?

Many 5G deployments are being justified by the need to cater to exploding data demand. This imperative is not an immediate concern for New Zealand. A constraining factor for 5G deployment in New Zealand is that the C-Band spectrum is currently not due to be released until 2022. The government is looking to auction this spectrum in early 2020 but unless they accelerate access by buying out existing spectrum owners, meaningful deployment in NZ seems unlikely prior to 2022.

The New Zealand Commerce Commission's study of the mobile telecommunications market released in August 2018 noted "several proof-of-concept trials pointing to the first stage of commercial development around 2020". Spark has initiated a trial associated with the America's Cup (the boats will rely on 5G technology) and has a 5G "lab" in Wynyard Quarter.

The Commerce Commission policy document highlighted the importance of spectrum (particularly in 3.4-3.7GHz range) and disappointingly left unanswered how this spectrum will be auctioned off. Arguably this factor is the biggest issue as to how and when 5G networks will be introduced into New Zealand.

From the mobile operators' perspective, the proposition to move to 5G is enhanced by "cutting the fibre loop" to consumers (and thereby bypassing Chorus' network). The two main carriers – Spark and Vodafone – have indicated the potential for infrastructure sharing, with the recent takeover of Vodafone by Infratil and Brookfield providing another opportunity for both carriers to make the case for the Commerce Commission to press ahead with spectrum launches. Both Vodafone and Spark expect significant fixed to mobile substitution and the more rapid deployment of 5G-enabled new technologies.

While the Commerce Commission considers the possibility of up to four mobile network operators (MNOs), in our opinion any 5G deployment, at least in the short term, will be limited to Spark and Vodafone. Comments by both Spark and Vodafone suggest 5G lite rollouts in densely populated areas within the next two years is very likely, depending on spectrum allocation and handset availability. Spark has also downplayed the issue of the current suspension on deploying Huawei 5G equipment, although privately we suspect that Spark is disappointed with this decision as they see Huawei as currently leading some components of 5G technology deployment globally.


Despite a significant amount of global news on 5G, with some 60 operators globally announcing roll-outs this year we do not envisage a full 5G

deployment in New Zealand before 2022. Both Spark and Vodafone are highlighting the approaching 2020-21 America's Cup as an international showcase opportunity to emphasise to government the importance of spectrum allocation as soon as possible.

In terms of investment implications, consumer uptake of 5G is a key consideration.

It seems clear that pricing, coverage, handset availability, speed, latency and applications will be key factors in 5G take-up and substitution from fixed line broadband.

Those within the mobile industry see a much higher take-up of 5G. Many analysts expect wireless broadband to take between 15% to 20% of the market over the next five years. Already 18% of Spark's customers are on wireless broadband plans. Both Vodafone and Spark expect a much larger take-up of 5G relative to fixed-line offerings over the next five years. It is far too early to mark the ground on this key issue; however, this measure remains a key value driver for

both mobile operators and Chorus so the issue of 5G deployment in New Zealand will be closely watched. 

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# Hubbris

**The guiding factor, it would seem for many of the controllers and managers in the financial services business.**

Sometimes one has to look back over the last 50 years and wonder what happened to the guiding forces of many financial businesses.

All started out with the best of intentions and a significant number have been wiped from the scene through a combination of lack of leadership and hubbris.

It is well worth the effort to look up the definition of hubbris.

I guess a current example would have to be the AMP. Originally founded as the Australian Mutual Provident Society, it is at the stage that it is none of these things. Not just Australian, not mutual and not

provident. Its history is fantastic, its future uncertain. You have to wonder how that could be, given that not that many years ago it was a dominant force both in Australia and New Zealand in a number of sectors. But then it lost its way. Its advisers went variously from being full-time branded agents then morphed into "sort of" brokers then back into a salaried staff member. What they found was that the original model with self-reliant and strong advisers, proud of their company had always been the best.

I have recently been in Australia and am always interested in the financial pages over there.

There was a lovely photograph of the chief executive of the AMP guaranteeing to all concerned (who would listen) that the AMP would reverse the substantial outflow of

funds from its wealth division.

The implication was you could trust the AMP to look after your money.

Having recently decided to sell their life business, to a company that appears to specialise in winding them up and squeezing the value of it for the benefit of the purchaser, I am not sure that they can be serious about being trustworthy and credible.

It is the actual customer who has had confidence in that organisation who should own the money, but it seems through a combination of demutualisation and subsequent bad management decisions, most of that value has gone down the drain.

We are entering a new era, but it will be at your peril if you forget the underlying issues of giving financial advice. It should always

be for the benefit of the client. They also expect you to be competent, professional and have that most important value. That advice without action is worthless.

For a time, it appeared that the words sales professional were almost a curse. It seems in the new environment no one wants to have sales skills, just academic research.

If confronted with thoughtful, objective and accurate advice they will not take any action on it unless they are persuaded that you are the best person to give it and that it will benefit them.

That has not changed over hundreds of years.

So how are you going to grow your business? Firstly, you have to find and qualify a potential prospect and turn them into a suspect and then to a client. This involves gaining some trust and also identifying what their issues are from their point of view.

No matter what your pathway for growth, if you are in the advice business and you are not getting new clients then some component is missing. Going back to the fundamentals, if you cannot find people who give you trust, appreciate your input and act on it, then you are doomed to fail.

However, the manner in which you get to see these people is changing. A combination of purchases, social media and building your profile are all key parts of a new strategy. Each of you is in a different phase of your life as an adviser and will have to act accordingly. The reality is that if you saw two quality people for four days a week, had the opportunity to explain what you do and why and then ask them if you could assist them in a manner that convinces them that this is your only interest then you may be equally sure you will succeed.

Many advisers have found one pathway to expansion is through the purchase of other people's client relationships. It is never perfect, like a marriage, but at least it gives them opportunities to talk to clients in a realistic way about their future. It also means that the client gets the benefit of a fresh face and a fresh perspective to review the work they have done in the past and see if it is still appropriate for the future.

It is pleasing to note that now we have some clarity around the legislation and regulation of our businesses, commercial activity has really started to pick up. A number of advisers who are not happy with the past and gloomy about the future are starting to hand over the baton to their younger and more energetic peers. As a result, the sellers are receiving a fair value for their life's work and the buyers are receiving excellent opportunities to further obtain quality clients and achieve economies of scale.

It is significant to note that one equation has not changed much. Many buyers worry that many clients will depart, and the value of their investment will diminish. Obviously, some will and may have been waiting for

**“No matter what your pathway for growth, if you are in the advice business and you are not getting new clients then some component is missing.”**

the opportunity. Against that the nature of our business and the process of working with a client new to you almost always results in a significant amount of additional business. We have confidently been saying to buyers for years that there is a natural rule of thumb, if they do a quality job, at the very least they will lose some clients but the growth from the remaining will more than compensate.

Let us return to the core of our topic. It is blatantly obvious that many companies no longer with us went down the wrong path. They failed to win the hearts and minds of their advisers and then by natural progression the advisers in turn have failed to win the hearts and minds of clients. It does not matter if you describe yourself

as an independent, or whether you are aligned to a provider, that does not change anything in the mind of a client. If they are not confident in you then you are pushing it up hill.

The best way for you to go forward is, in my opinion, to take a set time out every year to reflect on where you have been and whether you have taken your clients with you. I am speaking philosophically of course.

I wonder how many of your clients if surveyed would indicate a high level of satisfaction with their confidence in you. It may be worth finding out?

The old times have gone, and the new times are here. The old boys are going, and you are growing. We really enjoy being part of that process and can see a bright future for the new advisers. They will look quite different from the hardy and gnarled advisers of the past and will require quite different skills and attitudes. But they are in a happy space if they realise that the number of people who need their services is growing and proves that they earn their share of the pie, a bright future awaits.

There, end of lesson.

**Mike Moore is the principal of Mike Moore Marketing Limited. They specialise in giving advice and consultancy services to professional financial advisers. Those services cover advice on sale, purchase and improvement of client bases. [www.mikemoore.co.nz](http://www.mikemoore.co.nz)**



# The challenge of getting a team to agree on advice progress

Key challenges and concepts for advice strategy development.

Defining what you do is hard – because it always entails choices, and we don't like choices because while choosing what we want we must let go of something else.

It is the same in every business. It leads strategy experts to say: "strategy is as much about what you don't do, as what you do". Letting go of the mass market for family hatchbacks allowed some firms to prosper in sports cars, off-road, or premium vehicles. Even within a segment, there is differentiation: cheapest, most reliable, best value, lowest emissions, economy, and so on.

But choosing is so hard. Because each choice entails loss, sometimes people hang on to the "chance" of each option so long they lose the benefits of all of them. People don't choose to be average, we just end up that way because we don't make the sacrifices necessary to be exceptional. Of course, we can't all be exceptional, in every department. I am as average as it comes in choice of haircuts and I use Microsoft services, like most businesses.

The idea of helping "everyone" is often in sharp contrast to reality. Look through the last 100 files and you find a lot in common. Territory, households, incomes, and so on. Before choosing new directions, it is best to get a clear view of what you do now. Then move on to the hard part: choosing. Aim to come up with four rough categories.

Primary market: the people you are best placed to help. You have exactly the right skills and experience, a desire to grow this segment, and you know how to connect and win in this area.

Secondary market: people you have good skills and experience to serve, and can do a good job, but aren't quite the gold. This may be bread and butter work for you.

Tertiary market: some services that you may provide only because important clients ask for them, or because they are a useful way to support your broader brand, but you do not necessarily seek more of them – you would conserve that effort for winning more of your primary target market.

Excluded: what we don't do. You can refer clients that need this service elsewhere, but you try to direct them appropriately.

Defining who we are, and are not, best placed to help is a rare activity that pays double dividends. It helps equally to achieve your marketing goals and your compliance requirements. The process above feeds directly to working out the skills and resources that are required to serve preferred markets. In my business it helps me focus on the kinds of skills I need to bring in to support my team, and what kinds of information I am searching for to help build our understanding of the market. Being clear about the things I do not do leaves

resources, and most importantly time, free for the rest. I don't do any analysis of the general insurance sector – so I refer those calls.

It is, of course, both much harder to achieve, and much more important to do, as soon as you have more than one adviser to think about. With me, the change had to happen as soon as I started engaging staff. With staff come supervision issues. In advice you do too: are your staff also meeting their commitments to provide excellent advice? How do you know that their process is good? Have they observed the required standards? Record-keeping becomes a bigger focus, because you cannot be in the room with them every time they give advice.

Services are renowned for being challenging to ensure consistency in quality, because they rely on humans to repeatedly perform to a high standard, often under time pressure. That's why we get TV shows with chefs shouting at their staff, but no reality shows for engineering companies. Professional services, although lacking the time pressure of the restaurant trade, share the reliance on people. Those companies that wish to run as financial advice providers with nominated representatives, and perhaps, a high level of digital advice, are trying to move more towards the engineering model of business. Lots of automation, and highly replicable services – but not much flair or personalisation.

Most of the advisers I know want to develop along the professional services line. But that doesn't mean the absence of process and procedure. Step into the modern law firm, architects, or graphic design business. They have plenty of process. Yet "don't turn me into a robot" is a common refrain when we meet with teams to define a common vision for advice.

People think differently. We have Jane who believes one product / company combination is the best, George who thinks of another, and Hone who thinks a different approach is ideal. Years of custom, and working alone, have sharpened some skills, but also given us a golfing team mentality. Prickly defence of personal freedom is common. Let's face it, most advisers did not enter the business because of a love of taking orders.

Forms are treated as more fixed things, early attempts to impose a process that were observed largely in the breach. The refrain "oh, we never fill that part in" can still often be heard. Yet this is the heart of advice, the pulse of your business.

But later when you are working through a file you often find yourself trying to forensically recreate the missing link. In archaeology it may be okay to muse on when humans first domesticated cattle. Our regulator will have less patience with puzzling over the leap from client meeting date to recommendation with no good records.

A theory of advice, a shared view of "what's good for the client" can help a lot. There are different approaches to documenting these that you can take. Examples include: client personae, decision trees, boundaries to watch out for, and the early warning signs of advice challenges (like obvious relationship tensions, reticence about health issues, and so on). Many rules and checking reduce risk, and the need for more training and review – but also creativity. More flexibility means you need more training and review. Although the choices are often framed as being made based on costs and compliance, I think you should consider personality too. Building a system that manages and compensates for the beliefs and skills in your team is far better than squeezing every square peg into a round hole.

You can define this positively too – what about sharing your good ideas? Why not challenge each other to adopt the best practices of each member of the team? Why not challenge us to bring new ideas to the table every week, or month? Why not have the advice team integral to the process of pushing through changes to record-keeping systems?

Change is constant, so creating a process to identify desirable change, learn from environmental change, and respond to changes in team performance make us resilient. Like everyone, I have a love-hate relationship with change. But change is a core driver for my business for both Chatswood and Quality Product Research. So, we have lists, dashboards of key metrics, planning schedules for revisions and updates. We watch trend lines and track significance in changes in last quarter, and last month. We track news, consultations, debates, and try to keep an open mind when new things appear.

Within your advice business, constantly challenging what information is collected, what is considered in the review, and the rationale for each recommendation, is essential, now more than ever. Ideally to enable you to treat the advice process as a science – one that can be repeated, tested, and improved, with new data. If that sounds too much like you are becoming a robot, then look at it another way: we must often make decisions in life with incomplete information, intuitive leaps are necessary. But you don't make the leap further than you must, using good process to make the gap smaller helps a lot.

The goal is to provide your team members with freedom within a framework. The framework keeps everyone safe and compliant. The freedom keeps us responsive to customer needs, innovative, and happy. The management skill is building a framework everyone agrees on. <sup>1</sup>

**Russell Hutchinson is director of Chatswood Consulting and Quality Product Research, which operates Quotemonster.**



For more information call 0800 888 361

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size \$M	Morningstar Rating Overall
<b>NZ Fund Miscellaneous</b>						
AMP ARS-UK Cash	0.7383	1.55	-4.48	-0.88	7.53	--
NTAM NZ Australian Long Short Equity	1.48052	--	--	--	23.05	--
Nikko AM Income	1.2333	5.13	4.06	5.63	13.66	--
NZ Funds Core Inflation	1.4842	7.00	5.38	4.21	101.96	--
NZAM Alpha Fund	1.09	-1.42	-2.45	0.43	6.96	--
NZAM Global Growth	1.4228	-1.00	-0.37	1.15	25.51	--
Pathfinder Commodity Plus Fund	0.9502	-8.92	-0.42	0.31	7.54	--
Salt Long Short Fund	1.4186	-6.77	1.30	--	122.58	--
<b>NZ Insurance Cash</b>						
AMP KiwiSaver Cash Fund	1.5347	1.60	1.61	2.12	81.68	--
AMP NZRT Cash Fund	1.52686	0.56	0.59	1.11	95.11	--
AMP Prem PSS OnePath NZ Cash	1.6241	1.73	1.87	2.32	3.18	--
AMP PSS Select Cash	1.52515	1.53	1.67	2.12	0.76	--
ANZ Default KiwiSaver Scheme-Cash	1.4662	2.32	2.29	2.66	9.32	--
Aon KiwiSaver ANZ Cash	15.64021	1.78	1.84	2.22	4.59	--
Aon KiwiSaver Nikko AM Cash	14.68565	1.90	2.13	2.56	1.86	--
ASB KiwiSaver Scheme's NZ Cash	1.4954	2.03	2.08	2.58	458.45	--
BNZ KiwiSaver Cash Fund	1.185	2.35	2.44	2.64	158.87	--
Booster KiwiSaver Enhanced Income	1.5421	1.92	1.92	2.41	17.93	--
Fidelity Life Super-Super Cash Portfolio	2.8344	1.36	1.34	1.50	4.88	--
Fisher TWO KiwiSaver Scheme-Presv	2958.4724	2.29	2.32	2.66	27.37	--
Kiwi Wealth KiwiSaver Scheme Cash	--	2.64	2.70	3.04	194.52	--
Mercer KiwiSaver Cash	--	2.02	2.06	2.55	18.00	--
NZ Defence Force KiwiSaver Cash	--	1.83	1.89	--	0.79	--
OneAnswer KiwiSaver-Cash Fund	1.4151	2.17	2.16	2.57	43.56	--
SIL 60s + Sup Cash Fund	2.2609	2.23	2.15	2.39	1.38	--
Westpac KiwiSaver-Cash Fund	1.4268	2.12	2.20	2.62	358.42	--
<b>NZ Insurance Equity Region Australasia</b>						
Booster KiwiSaver Trans-Tasman Share	1.8099	14.18	12.24	10.15	8.16	3
OneAnswer KiwiSaver-Australasian Share	2.2575	15.46	11.39	13.00	35.51	4
AMP KiwiSaver Australasian Shares	1.3533	12.99	--	--	2.72	--
<b>NZ Insurance Equity Region NZ</b>						
AMP Prem PSS ACI NZ Shares	3.17275	14.39	11.05	13.96	8.13	2
AMP Prem PSS ACI NZ Shares Index	2.93018	17.51	13.22	14.86	7.94	3
Fidelity Life NZ Shares Portfolio	7.8926	2.98	10.46	11.63	1.40	1
Fidelity Life Super-Super NZ Share	--	13.76	11.76	12.08	8.75	2
<b>NZ Insurance Equity Region World</b>						
AMP Prem PSS ACI Global Shares Index	2.52122	7.36	10.14	11.35	8.38	3
AMP Prem PSS Fd Int Share Index 1 Value	1.47074	5.07	8.58	8.74	10.32	2
Mercer KiwiSaver Shares	--	4.14	10.10	--	24.46	4
NZ Defence Force KiwiSaver Shares	--	3.96	9.90	--	9.55	3
OneAnswer KiwiSaver-Intl Share	2.1746	7.48	11.00	12.19	52.18	4
OneAnswer KiwiSaver-Sustainable Int Shr	2.0263	6.55	8.77	9.84	8.74	3
SIL 60s + Sup International Share Fund	4.1429	7.57	11.00	11.97	15.19	4
<b>NZ Insurance Equity Region World - Hedged</b>						
AMP KiwiSaver International Shares	1.3451	1.17	--	--	4.09	--
AMP KiwiSaver Passive International	1.371	3.62	--	--	3.98	--
AMP Prem PSS ACI Global Shares Index Hdg	2.48364	-1.59	9.94	7.08	9.14	2
Booster KiwiSaver International Share	2.1358	3.08	9.46	8.97	13.39	3
FANZ Lifestages KiwiSaver High Growth	1.32036	6.42	8.80	--	136.20	3
Fidelity Life Aggressive	4.0171	1.95	6.82	8.72	0.51	3
Fidelity Life International	2.7955	0.62	7.72	7.04	0.43	2
Fidelity Life Super-Sup Int	--	2.72	9.57	8.09	21.37	3
Fidelity Life Super-Super Aggressive	--	5.25	8.43	9.50	23.02	3
Fisher FuturePlan - Intl Coms	3.4517	2.45	8.39	6.18	25.60	2
Fisher TWO KiwiSaver Scheme-Eq	5117.2654	8.12	10.36	9.65	138.63	4
<b>NZ Insurance Equity Sector Global - Real Estate</b>						
AMP KiwiSaver Property	1.2172	15.38	--	--	3.01	--
OneAnswer KiwiSaver-Intl Property	1.5499	10.72	5.33	7.33	9.00	3
<b>NZ Insurance Equity Sector NZ - Real Estate</b>						
MFL Property Fund	4.6571	10.24	5.83	9.65	497.90	2
OneAnswer KiwiSaver-Australasian Prpty	2.3173	21.07	9.25	12.82	25.22	4
<b>NZ Insurance Fund Miscellaneous</b>						
Booster KiwiSaver Capital Guaranteed	1.1347	2.25	2.37	--	53.22	--
Kiwi Wealth KiwiSaver Scheme CashPlus	--	3.54	2.89	3.28	138.94	--
NZ Funds KiwiSaver Growth Strategy	1.7882	-1.89	6.71	6.28	164.96	--
NZ Funds KiwiSaver Income Strategy	1.4092	5.57	3.69	3.75	30.94	--
NZ Funds KiwiSaver Inflation Strategy	1.4946	3.88	4.66	4.37	47.81	--
Westpac KiwiSaver-Capital Protect Plan 2	2.478	4.79	9.30	10.49	10.16	--
Westpac KiwiSaver-Capital Protect Plan 3	2.2752	4.78	9.29	10.49	16.03	--
Westpac KiwiSaver-Capital Protect Plan 4	2.4538	4.79	9.30	10.49	23.14	--
Westpac KiwiSaver-Capital Protect Plan 5	2.1336	4.79	9.30	10.50	18.95	--
<b>NZ Insurance Global Bond</b>						

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size \$M	Morningstar Rating Overall
AMP KiwiSaver International Fxd Intr	1.062	4.41	--	--	0.57	--
AMP Prem PSS FMCO Global Fixed Interest	2.45169	4.32	3.30	4.39	3.65	5
AMP Prem PSS SSGA Global Fixed Int Index	2.06197	4.79	1.76	3.96	7.00	2
OneAnswer KiwiSaver-Intl Fxd Intr	1.7861	5.48	2.52	4.16	2.64	3
<b>NZ Insurance Multisector - Aggressive</b>						
AMP KiwiSaver LS Aggressive Fund	1.7477	5.87	9.33	7.67	320.54	4
AMP NZRT AMP Aggressive	3.58677	4.87	8.31	6.77	274.78	2
AMP PSS Select Growth	2.00544	5.19	8.67	7.12	38.47	3
Booster KiwiSaver Asset Class Growth	9.3154	1.06	7.65	--	68.97	1
Booster KiwiSaver Geared Growth	2.4377	7.22	11.55	10.97	41.12	5
Booster KiwiSaver High Growth	1.7282	5.78	8.84	8.69	331.93	3
Booster KiwiSaver Socially Rsp Inv Gr	2.0008	7.09	8.90	9.17	54.29	4
Fisher FuturePlan - Growth	3.35431	6.89	7.69	7.70	80.75	4
Generate KiwiSaver Focused Growth Fund	1.7881	4.62	9.57	10.81	631.51	5
Kiwi Wealth KiwiSaver Scheme Growth	--	1.61	8.77	7.92	1414.15	3
Mercer KiwiSaver High Growth	--	4.64	9.20	9.44	176.67	5
NZ Defence Force KiwiSaver High Growth	--	4.48	8.99	--	20.33	4
<b>NZ Insurance Multisector - Balanced</b>						
AMP KiwiSaver AMP Global Multi-Asset	1.1195	1.10	--	--	14.38	--
AMP KiwiSaver AMP Responsible Invmt Bal	1.2099	5.30	--	--	8.35	--
AMP KiwiSaver ASB Balanced	1.2304	6.31	--	--	13.52	--
AMP KiwiSaver LS Balanced Fund	1.8492	5.65	7.04	6.26	952.69	3
AMP KiwiSaver LS Moderate Balanced Fund	1.8083	5.55	6.17	5.74	684.06	2
AMP KiwiSaver Mercer Balanced	1.9924	5.24	6.24	7.04	47.27	3
AMP NZRT AMP Balanced Fund	3.28244	4.47	5.99	5.32	879.87	2
AMP NZRT AMP Global Multi-Asset	1.11614	1.48	--	--	3.50	--
AMP NZRT AMP Moderate Balanced	2.37399	4.50	5.14	4.80	299.40	1
AMP NZRT ASB Balanced Fund	2.30541	5.32	6.43	7.03	88.60	3
AMP NZRT Mercer Balanced	2.68061	4.13	5.20	6.10	156.67	2
AMP NZRT Nikko AM Balanced	2.96619	4.04	6.12	7.82	173.25	3
AMP NZRT Responsible Investment Bal	1.21647	5.82	--	--	4.11	--
AMP PSS Lifesteps Consolidation	1.95909	4.77	5.41	5.15	6.46	1
AMP PSS Lifesteps Progression	2.08817	4.85	6.29	5.56	2.26	2
AMP PSS Select Balanced	2.00955	4.92	6.34	5.64	48.57	2
ANZ Default KiwiSaver Scheme-Balanced	1.8916	5.38	6.00	7.17	152.12	4
ANZ KiwiSaver-Balanced	1.9752	5.40	6.03	7.12	2348.48	4
Aon KiwiSaver ANZ Balanced	27.21316	4.73	6.00	6.99	31.27	4
Aon KiwiSaver Russell LifePoints 2025	9.61953	5.26	6.13	7.25	21.31	--
Aon KiwiSaver Russell LifePoints 2035	9.7624	5.43	7.53	8.54	20.83	--
Aon KiwiSaver Russell LifePoints Bal	10.07512	5.60	7.73	8.66	163.65	5
ASB KiwiSaver Scheme's Balanced	2.0096	6.74	7.97	8.42	1735.70	5
BNZ KiwiSaver Balanced Fund	1.5946	5.82	7.70	7.63	390.57	4
Booster KiwiSaver Balanced	1.9123	6.19	6.81	7.12	475.18	3
Booster KiwiSaver Socially Rsp Inv Bal	1.4685	6.96	6.88	--	48.23	3
Fidelity Life Balanced	4.9905	4.90	6.25	6.49	4.47	3
Fidelity Life Super-Super Balanced	--	5.80	6.64	--	269.00	3
Fisher FuturePlan - Balanced	4.49614	6.00	6.38	6.68	126.29	3
Fisher TWO KiwiSaver Scheme-Bal	5489.9535	7.73	7.39	7.57	812.01	4
Kiwi Wealth KiwiSaver Scheme Balanced	--	2.88	6.68	6.57	1602.51	3
Mercer KiwiSaver Balanced	--	4.82	6.79	7.36	383.24	4
Milford KiwiSaver Balanced Fund	2.3545	5.63	8.12	9.56	299.94	5
NZ Defence Force KiwiSaver Balanced	--	4.63	6.58	--	50.03	3
OneAnswer KiwiSaver-Balanced	2.0029	5.41	6.06	7.20	588.19	4
Westpac KiwiSaver-Balanced Fund	1.9377	5.50	6.87	7.73	1528.04	4
Westpac Retirement Plan - Balanced Port	3.9517	4.31	5.72	6.57	96.60	3
<b>NZ Insurance Multisector - Conservative</b>						
AMP KiwiSaver ANZ Conservative	1.1213	4.38	--	--	6.24	--
AMP KiwiSaver Default (Default)	1.7437	4.50	4.56	4.94	1349.57	3
AMP PSS Select Income	1.87113	4.50	2.57	3.58	1.10	2
ANZ Default KiwiSaver Scheme Cnsv(Dflt)	1.8282	5.20	4.21	5.45	1099.17	4
Aon KiwiSaver Russell LifePoints 2015	9.68598	5.05	4.86	6.04	4.84	--
Aon KiwiSaver Russell LifePoints Cnsv	10.12462	5.07	4.87	5.99	73.63	5
ASB KiwiSaver Scheme's Cnsv (Default)	1.8716	6.11	5.07	5.66	3796.64	4
BNZ KiwiSaver Conservative (Default)	1.3717	4.36	4.87	5.30	677.33	3
BNZ KiwiSaver First Home Buyer Fund	1.1632	3.47	4.08	--	131.98	3
Booster KiwiSaver Default Saver	1.3007	5.20	4.52	--	74.24	3
FANZ Lifestages KiwiSaver Income	1.11124	4.19	2.38	--	81.10	1
Fisher Funds Conservative KiwiSaver Fund	1.7045	6.72	4.99	5.67	758.08	4
Fisher FuturePlan - Capital Prot	1.24784	1.50	1.50	1.80	1.07	1
Fisher TWO KiwiSaver Cash Enhanced(Dflt)	1.84571	5.82	4.88	5.80	653.27	4
Kiwi Wealth KiwiSaver Scheme Cnsv	--	4.09	4.36	4.95	727.45	3
Kiwi Wealth KiwiSaver Scheme Default	--	4.56	4.99	--	215.62	4
Mercer KiwiSaver Conservative (Default)	--	5.05	4.65	5.54	1092.04	4

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size \$M	Morningstar Rating Overall
Milford KiwiSaver Conservative Fund	1.7842	5.91	6.05	7.61	94.62	5
NZ Defence Force KiwiSaver Conservative	--	4.68	4.24	--	4.21	3
OneAnswer KiwiSaver-Conservative	1.7964	4.91	3.93	5.12	443.79	3
Westpac KiwiSaver Default	1.2894	5.22	4.50	--	215.52	3
<b>NZ Insurance Multisector - Growth</b>						
AMP KiwiSaver ANZ Balanced Plus	2.2543	5.26	6.81	7.84	261.62	3
AMP KiwiSaver ANZ Growth	1.2657	5.18	--	--	15.30	--
AMP KiwiSaver ASB Growth	1.2858	6.32	--	--	11.82	--
AMP KiwiSaver LS Growth Fund	1.7824	5.91	8.82	7.18	735.02	2
AMP KiwiSaver Nikko AM Balanced	2.0263	5.07	7.11	8.68	71.32	3
AMP KiwiSaver Nikko AM Growth	1.2732	4.14	--	--	15.22	--
AMP NZRT AMP Growth	2.51201	4.88	7.60	6.30	232.54	1
AMP NZRT ANZ Balanced						



KIWISAVER

By Michael Lang

# Time to exit unnecessary fees

One of the things that has made KiwiSaver successful is that it is refreshingly free from the hooks and barbs of hidden charges that have traditionally bedevilled the investment industry. Or so one would hope. Unfortunately, old practices die hard.

All schemes must follow the same set of modern, competitive rules. Fees are regulated and transparent, and disclosed in a way that enables easy comparison. Right? Wrong!

In *Asset* magazine's April issue, we revealed that one KiwiSaver manager was using a publicly issued income fund to provide a related party loan in order to leverage its KiwiSaver fund. This month we raise the curtain on exit fees.

## WHAT IS AN EXIT FEE?

An exit fee or redemption fee is a charge imposed on an investor who wants to switch KiwiSaver schemes. In the old unit trusts' world this was called a back-end loaded fund. Regardless of the terminology, the effect of an exit fee is that it reduces the value of your KiwiSaver if you wish to withdraw or switch.

## WHO RECEIVES THE EXIT FEES?

Exit fees come in different shapes and sizes. They can be paid to the scheme to compensate the remaining members for the transaction costs incurred in funding the member's withdrawal. So long as these charges are disclosed before an investor enters the fund, they are usually in line with investors' sense of fairness. This is the case with the Nikko AM KiwiSaver Scheme that charges a modest entry and exit spread.

Unfortunately, this is not the case in all KiwiSaver schemes. Of the four KiwiSaver schemes that have chosen to charge exit fees, three of the scheme managers or administrators pocket the fee instead of paying it back into the fund. As KiwiSaver members already pay an annual member fee (deducted monthly) to cover the cost

of administering their account, it is difficult to understand what the justification for the fee is.

## ARE EXIT FEES DISCLOSED?

Exit fees are not taken into account by Sorted when ranking KiwiSaver schemes by cost on its KiwiSaver fund finder or in its KiwiSaver fees calculator.

A scheme's product disclosure statement (PDS) is the defining legal document for a scheme and must set out all fees and charges. Those managers who choose to charge an exit fee must disclose it here.

However, even within the PDS, the regulatory required section "Example of how fees apply to an investor" focuses on the costs incurred on entering and being a member of the scheme. Nowhere in the PDS is there an example of the costs associated with exiting the scheme.

## WHO CHARGES EXIT FEES, BROKERAGE AND SPREADS?

The Aon KiwiSaver Scheme charges \$35 to transfer to another scheme, while the Booster KiwiSaver Scheme charges \$30 to close a non-default KiwiSaver account, which occurs whenever you transfer to another scheme.

The Craigs KiwiSaver Scheme charges up to 1.25% brokerage on both exit and entry, in addition to its 1.25% management fee. The Nikko AM KiwiSaver Scheme charges entry and exit spreads but, as discussed, these amounts are paid back to the scheme. To the best of NZ Funds' knowledge, no other schemes charge these one-off fees.

Interestingly, there are no exit fees in default schemes. However, the current regulatory regime allows the same manager to impose exit fees on its non-default KiwiSaver scheme members.

## HOW TO AVOID PAYING EXIT FEES

The easiest way to avoid paying exit fees is to not invest in a scheme which charges them. Simply ask your adviser what the costs are of transferring to another scheme. You will find that most KiwiSaver schemes have no additional costs. Alternatively, if you are a DIY investor, the PDS is the best place to go.



### 4 out of 29

KiwiSaver  
schemes charge  
exit fees

## THE VERDICT ON EXIT FEES

Exit fees may appear small in isolation, at around \$30 per scheme transfer, however they are just another fee investors need to worry about. In the year ended March 2018, 117,274 KiwiSaver members transferred from one active scheme to another. This has the potential of adding an unnecessary friction cost of \$3.5 million a year to a concept that is otherwise doing wonders for New Zealanders.

*NZ Funds KiwiSaver Scheme is designed for use by AFAs and RFAs and charges neither an entry fee nor an exit fee. NZ Funds pays advisers both planning incentives and an ongoing commission for advice. 96% of NZ Funds' KiwiSaver members have a financial adviser. The average balance of members of the Scheme is \$27,194 (approximately one and a half times the national average of \$17,834).*

*Michael Lang is Chief Executive at NZ Funds and a member of the NZ Funds KiwiSaver Scheme. New Zealand Funds Management is the issuer of the NZ Funds KiwiSaver Scheme. A copy of the latest Product Disclosure Statement for the scheme is available on request and at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).*

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