

2 July 2007

David Benison  
Insurance & Superannuation Unit  
Ministry of Economic Development  
PO Box 10-867  
Wellington

Dear David,

**RE: PROPOSAL FOR AN UNREASONABLE FEES GUIDELINE**

Thank you for the opportunity to comment on initial proposals.

ASFONZ is very supportive of the GA's office issuing a Guideline relating to unreasonable, and reasonable, fees and offers the following observations:

1. ASFONZ is clearly of the view that the GA's Fees Guideline, while setting the framework for reasonable fees, should also be used to deliver guidance (if not prescription) to providers on open disclosure, transparency and comparability for individual investors.
2. Furthermore while we agree that the Government objective for KiwiSaver has been to establish a low cost work-based savings scheme we are concerned that this seems to have been interpreted as requiring fees to be indiscriminately driven down without any regard for possible options in services being made available:
  - 2.1. We strongly believe that it is not so much the level of the fee (within reason) that is important but that the investor is made aware of what all of the fees on a particular product are, of the potential impact in general terms of each type of fee, and what services the investor is to receive for each fee. Adequate disclosure should then enable the investor to decide on the suitability of a product to their circumstances and to compare products. We do not believe that it is in investors' interests for parliament to imply that fees should be the overriding determining factor in their decision.
  - 2.2. We therefore believe that the setting of unreasonable fees should be in the context of allowing for a reasonable fee for particular services. We do not see this as being in conflict with parliament's intentions when considering the wording for the KiwiSaver Act.
  - 2.3. We understand that similar intentions regarding fees were a feature of the UK's "Stakeholder" pension schemes of a few years ago and that the relative initial failure of these schemes was at least partially attributed to the unrealistic expectations of the legislators. We are not suggesting that the take up of KiwiSaver in NZ might be similarly affected but are concerned that service levels surrounding KiwiSaver schemes may eventually prove to be at too low a level, and a lower level than is desirable for investors .
  - 2.4. Providers have obligations to shareholders as well as investors and it is unreasonable to anticipate that their costs can be incurred for any length of time at a level which is unsustainable. Unfortunately, for investors, it will be some time before they realize that they have invested in a product whose only positive feature is its low fees.
3. With reference to the specific proposals, we strongly believe that common descriptions and grouping of fees type should be prescribed to facilitate investor understanding of what all the various possible fees are and what would be covered by any particular fee.
  - 3.1. The proposal makes the point that you now have a clearer picture of KiwiSaver fee structures.
  - 3.2. The proposal then refers to (and it is appreciated that these are only examples);
    - 3.2.1. a (dollar) member charge;
    - 3.2.2. a management (% of funds under management) charge;
    - 3.2.3. an investment charge;

- 3.2.4. an administration charge;
  - 3.2.5. trustee fees;
  - 3.2.6. other specific charges.
- 3.3. ASFONZ clearly believes that different providers will have differing ideas of what services might be included under any of these headings.
4. Only once there is a common understanding on possible fees and what they cover, we believe, would it be possible to come to some conclusions on reasonable fees. We also think that it would be preferable to concentrate on determining what fee might be reasonable for a particular service in the first instance. By definition, anything over what is thought to be reasonable then becomes unreasonable unless it can be shown that some additional value is being provided.
5. Similarly, we think that it is very difficult to consider the question of a cap to be applied in respect of some "other specified charges" until the questions discussed above have been answered.
6. The examples quoted in the proposal do, we feel, indicate the nature of the problem:
- 6.1. The example quotes a maximum management fee for three funds (investment options?) as 0.8%, 1.0% and 1.15% (presumably % of FUM) but gives no indication of what the management charge in the example includes or whether or not this is comparable with other providers' funds of a similar nature.
  - 6.2. Bearing in mind the potential impact on long term savings outcomes of, say, a 1% investing charge when compared to the fee of around 0.1% for "other specific charges", ASFONZ would expect consideration of the 1% charge to be considerably more rigorous than the 0.1% charge.

We would be happy to discuss any of the issues raised above with you in more detail.

Yours sincerely



John Melville  
**Chairman**