



Cabinet

CAB Min (13) 27/6

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Minute of Decision

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Future KiwiSaver Default Provider Arrangements

Portfolios: Finance / Commerce

On 12 August 2013, following reference from the Cabinet Economic Growth and Infrastructure Committee (EGI), Cabinet:

Background

- 1 **noted that:**
 - 1.1 the auto-enrolment feature of KiwiSaver means that a "default" arrangement must be provided for employees who do not actively select a KiwiSaver provider;
 - 1.2 the existing default providers were appointed for a term of seven years, which will expire on 30 June 2014;
- 2 **noted** that on 12 November 2012, Cabinet agreed to the release of a discussion document which sought feedback on the current design of the KiwiSaver default product and possible options for change [CAB Min (12) 40/10];
- 3 **noted** that it will be more efficient for decisions on key policy and operational details in relation to the implementation of the future default provider arrangements to be made from time to time by a smaller group of approving Ministers;
- 4 **agreed** that the group of approving Ministers be those with responsibility for aspects of KiwiSaver or who have a key interest in the default provider arrangements, being the Minister of Finance, the Minister for Economic Development, the Minister of Commerce and the Minister of Revenue (the approving Ministers);
- 5 **invited** the approving Ministers to co-opt other Ministers as appropriate, where any significant issues relating to other portfolios arise;
- 6 **invited** the approving Ministers to report back to EGI on any significant policy and operational decisions taken under this authorisation;

Key decision 1: Investment approach for default funds

- 7 **noted** that under their existing terms of appointment, the current default providers are required to deliver a fund that has a conservative investment approach;

- 8 **agreed** that the purpose of the default funds is to provide stable returns and build public confidence in KiwiSaver, which preserves members' capital while they consider the best fund type to suit their particular circumstances, rather than seek to maximise outcomes in retirement;
- 9 **agreed** that the investment approach for KiwiSaver default funds should remain conservative, including a 15-25 percent allocation to growth assets;

Key decision 2: Criteria for selection of default providers

- 10 **noted** that the 2006 tender requirements for default providers have served default members well in ensuring the provision of well-governed, competitively priced funds;
- 11 **agreed** to the following high-level criteria as the basis of the criteria for the assessment of a KiwiSaver provider's suitability to offer a default fund:
- 11.1 investment capability:
 - 11.1.1 a proven track record in investment capability and delivering funds management performance;
 - 11.1.2 the ability to deliver the government's specification for the default investment option and meet the standards required;
 - 11.1.3 an ability to provide a full suite of KiwiSaver funds in addition to the default fund;
 - 11.2 corporate strength: the provider is a reputable organisation which has the financial capacity and infrastructure to maintain and enhance the proposition, while pursuing ethical standards that will not bring the KiwiSaver provider into disrepute;
 - 11.3 administrative capability:
 - 11.3.1 the systems and process to undertake a large volume of transactions accurately and in a timely fashion;
 - 11.3.2 administration systems that are both scalable and flexible enough to adapt to frequent changes in legislation and provider features;
 - 11.4 track record and stability: a commitment from the organisation to the New Zealand market to accept the mandate, and to carry it out to the best of its ability and at the fees negotiated or agreed;
 - 11.5 investor education and advice: the ability and commitment to provide investor education and impartial financial advice, including to proactively contact default enrolled members to ensure they are invested appropriately;
- 12 **agreed** that the detailed criteria and any other additional criteria and requirements may be set by the approving Ministers;
- 13 **agreed** that providers be required to price their proposals on charging a percentage-based fee plus a fixed administration fee that is aligned with the fund fees and membership fees as defined in the KiwiSaver (Period Disclosure) Regulations 2013;

- 14 **noted** that there is insufficient information at present to set a maximum number of providers;
- 15 **authorised** the approving Ministers to decide the maximum number of default providers, consistent with the policy objectives outlined in the paper under CAB (13) 450;

Key decision 3: Transitioning between existing and new providers;

- 16 **agreed in principle** that default members are to be reallocated in the event that their default provider is not reappointed, **subject to** providing those members with an opportunity to elect to remain with that provider;
- 17 **authorised** the approving Ministers to determine how default members referred to in paragraph 16 above would be reallocated to the default providers;
- 18 **authorised** the approving Ministers to determine whether default members enrolled with a reappointed default provider should remain with that provider, or whether and how those members should be reallocated amongst default providers;
- 19 **noted** that the process for transferring current default members is set out in the current instruments of appointment, and that the Financial Markets Conduct Bill, once passed, will provide for regulations to be made to clarify this process in some circumstances;

Next steps: Tender process

- 20 **agreed** that a competitive tender process consistent with government procurement policies and practices be undertaken to appoint default providers from 1 July 2014;
- 21 **agreed** that all prospective default providers be required to undergo a due diligence process;
- 22 **agreed** that the new default providers be appointed for a term of seven years, expiring on 30 June 2021;
- 23 **authorised** the approving Ministers to approve the new default providers following the tender;

Publicity

- 24 **noted** that:
- 24.1 the Minister of Finance and the Minister of Commerce will issue a media statement announcing Cabinet's decisions on these matters;
- 24.2 the Ministry of Business, Innovation and Employment will publish a copy of the paper under CAB (13) 450 on its website.

