

# **New Zealand Household Attitudes towards Savings, Investment and Wealth: A Report on Phase One**

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## **SUMMARY**

This study examines New Zealand household's attitudes to various forms of saving and investment. A specific objective is to better understand the reasons for preferring investment in property over other investment, particularly financial investments. This paper reports on phase one of the project.

The project uses three sources of information – published studies and a review of policy settings, interviews with individuals knowledgeable about investment and savings behaviour and attitudes, and interviews with eight consumers aged between 30-50 years.

Investment and savings attitudes and behaviour are influenced by the structure, complexity, transparency and perceived past and future performance of different kinds of investment options; the general lack of independent financial advice; the recent superior performance of property investment; perceptions and personal tolerance of risk; the often low level of financial literacy about products other than property; the nature of the information people use when making financial decisions; the personal or family experience people have with investment; a general wish to have personal control over the investment and trust in the advice of friends and family over unknown professional advisors.

Consumer decisions on saving are likely to be influenced by new or proposed changes in the investment environment and in particular the inducements to take up Kiwisaver. The application of lower taxes to earnings in managed funds, and forthcoming regulatory changes aimed at improving disclosure and prudential arrangements applying to financial products, providers and advisors are also likely to have an impact. In addition, this phase one report suggests other possible changes to increase investor protection, information and confidence.

Increasing the attractiveness of financial products and decreasing the share of investment held in housing could be assisted by publicly funded and publicly available league tables and/or consumer checks on investment products, providers and advisors; provision for a 7 day 'cooling off period when specified financial products are purchased; mandatory 'plain English' disclosure of fees and investment performance and the fostering of more sophisticated financial literacy through programmes in schools.

Overall, the findings suggest that consumers' current preference for investment in property has been a considered response, made in the light of a variety of factors and experiences.

## **PROJECT OBJECTIVES**

The purpose of this study is to capture and describe New Zealand household's attitudes to various forms of saving and investment. In particular the study focuses on understanding the attitudes of people aged 30-50. It was felt that people in this age group were likely to have already established themselves in their jobs, and possibly in their own homes, and hence were likely to be turning their attention to investment issues. The Reserve Bank is interested in understanding the attitudes of people who are savers, and those who could save, but don't.

Specific objectives are to understand:

- the reasons for preferring property investment over shares
- specific barriers to investing in business, including the assessment of risk and access to opportunities
- information and other influences on the perceptions of savers and non-savers.

The project was designed around two phases. Phase one was designed to provide an overview of:

- (a) what is known about investment attitudes and behaviour in New Zealand and
- (b) the factors that are known to influence savings and investment attitudes and behaviour.

Phase two proposed conducting up to 10 focus groups with people who use a range of different investment/savings options (including not saving or investing). It was agreed that phase two would only take place if the findings from phase one suggested that further information of this nature would increase understanding of the issues.

This report draws together the results of phase one. Interviews were carried out in July and the first half of August, 2007.

## CONTEXT

High levels of household spending have fuelled inflation pressures over recent years and New Zealanders have spent more than they earned, despite relatively high interest rates (Reserve Bank 2007).

Over the thirty years to 2002, net national saving (by households, businesses and government) has trended downwards as a percentage of New Zealand Gross Domestic Product (Claus and Scobie, 2002:32).<sup>1</sup> However, a decline in household saving has been partially offset by an increase in government saving. Statistics New Zealand's household income and outlay account shows a steady decline in the nominal level of household savings since 1993 (NZIER, 2006:23). A downward trend in saving is evident across many OECD economies, though New Zealand's household saving rate has been among the lowest, or the lowest, for much of the last twenty years.

Notwithstanding the downward trend in saving, gross household wealth has risen. This has been due to the rise in real estate values. The rise in house prices has been accompanied by a large rise in household debt, relative to household income.

While net household wealth in New Zealand has grown over the last two decades, New Zealand households have lower levels of wealth than households in Australia, Canada, the UK and the US. While New Zealanders invest a similar share of their disposable income in housing, they own less financial wealth (stocks, shares etc) on average. The share of household wealth held in financial assets has fallen - from 112% of disposable income in 1993 to 44% in 2003 (Skilling, 2005).

Wealth is more unevenly distributed than income; in Canada, the US, the UK and Australia 50% or more of wealth is held by 10% of the population and New Zealand data suggests a similar pattern (Scobie et al, 2005).

The focus of this project is on looking at individuals' attitudes to saving and investment. Issues related to saving performance which are outside the scope of this project are: the high level of foreign investment in New Zealand industry, the pros and cons of incentives or compulsion for retirement savings, and changes in the distribution of wealth.

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<sup>1</sup> The term 'saving' as used here is generally taken to be difference between disposable income and consumption, which is a flow measure. The term 'savings' (note the final 's') is often used by analysts to refer to the stock of accumulated wealth.

## METHODOLOGY

Phase one of the project has drawn on three sources of data:

- a review of policy settings and studies on savings, and investment attitudes and behaviour.
- eight key informant interviews with people knowledgeable about savings and investment attitudes and behaviour. The interviewees are listed in appendix 1.<sup>2</sup>
- interviews with eight people aged between 30 and 50, who had chosen a variety of investments other than their own home, to understand the views of these consumers about different investment products and the factors that influence their choices. The interview notes are in appendix 2.<sup>3</sup>

## REPORT STRUCTURE

This report is divided into eight sections under the following headings:

1. Factors impacting on the level of household savings
2. Decline in the share of wealth held as financial assets
3. Financial literacy
4. Complexity of, and information about, investment products
5. Quality of financial institutions, products and the regulatory framework
6. Concluding comments
7. Appendices
8. References

Each section refers to information from the three sources – the studies, the key informants and the consumers.

## FINDINGS

### 1. Factors impacting on the level of household savings

#### The studies

A wide range of factors impact on household savings, spending and debt. Saving has been understood to be mainly motivated by: provision for retirement and bequests; precautionary motives; and target savings. Saving can be undertaken for its own sake and tends to increase with income. The saving constraints on low earners are mirrored in the distribution of wealth, with wealth of Pacific and Maori New Zealanders being substantially lower than that held by

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<sup>2</sup> Interviews with key informants were undertaken in July 2007

<sup>3</sup> Interviews with consumers were undertaken in August 2007

Pakeha and Asian New Zealanders. The proportion of income saved varies with age and is lower for those with children. (Scobie et al, 2005; Skilling and Waldegrave, 2005:7) Cohorts also exhibit different savings patterns due to the differential effects of policy and socio-economic factors (Cook, 2006; Scobie and Gibson, 2003). Holm (2007) argues that a broad view needs to be taken on saving and to take account of activities such as investing in education, investing in a business and paying off debt in our understanding of saving behaviour.

A broad range of factors impact on saving. The provision of universal superannuation at age 65 in New Zealand means that people with low or modest incomes are unlikely to be motivated to save in order to provide for their retirement because the level of National Superannuation will provide an equivalent or better living standard. Scobie et al (2004:1) concluded that for “(many of) the lowest 40% of the income distribution...additional saving for retirement would not be a preferred strategy, assuming they were aiming to smooth their consumption over the lifecycle.”

A worldwide phenomena is that individuals feel wealthier as their homes increase in value, and this, along with the ease of borrowing against revalued homes, leads to increased spending (Economist, 2004). Housing is also costing more; dwelling values, particularly the land component, have increased, and so have expectations of house quality and size. The size of mortgages, and their duration, will have increased as a consequence.

Higher rates of tertiary education, although this could be counted as another form of investment, have also contributed to increasing debt.

It has also become easier for households to accumulate debt through a greater diversity of credit products including flexible mortgages and credit cards. This, along with the rise in the costs of servicing mortgages, unrealised wealth effect of increases in house values and the increase in government saving are all likely to have contributed to the fall in net household savings over recent years (Hodgetts, Briggs and Smith, 2006).

Observation of actual savings behaviour led to Richard Thaler restating the rules that people use to guide their saving and spending as:

- “Live within your means. Do not borrow to increase consumption except during well-defined emergencies (such as unemployment)
- During emergencies cut consumption as much as possible
- Keep a rainy day account equal to some fraction of income. Do not raid the account except in emergencies
- Save for retirement in ways that require little self-control

- Borrow only on the security of a real asset”<sup>4</sup>

Thaler’s findings suggest an explanation as to why we are better at saving where there is a contractual element – paying off the mortgage or contributing to superannuation schemes – and that the lack of strong motivation to save for retirement justifies having a contractual element for these savings (Easton, 2004).

### **Views from key informants**

Key informants differed in their views about whether there was a “savings deficit” in New Zealand. One mentioned that student debt has created a culture of debt acceptance and several mentioned pressures to consume. Another informant said we did not have a savings culture. For Maori and Pacific, the absence of investor role models (outside those investing in land and housing) was mentioned.

On the other hand, several informants drew attention to the difficulties some people had in saving for a house let alone further investments, given their incomes. One informant said that many people saw investment in their children as an important investment in their own future.

Several informants did not consider there was a problem, from an individual point of view, with household savings being too low. Points to back this up included that:

- for many low income people, being on national superannuation was not much different from the living standard they were used to;
- for many people, obtaining a house was a reasonable and achievable investment for retirement and the market in equity withdrawal products was beginning to grow
- that paying off debt was properly a top priority and locking people into too much saving could lead to worse debt and/or lowered living standards, and
- that many people planned to provide for an adequate income in retirement by continuing to work, at least part-time, after 65.

## **2. Decline in the share of wealth held as financial assets**

### **The studies**

The Household Savings Survey (2001/02) found New Zealand households owned \$444 billion worth of assets and had \$68 billion worth of liabilities. The highest percentage of assets were in homes (36%) farms and businesses (18%) superannuation and life insurance (8%) and trusts (6%<sup>5</sup>), shares and funds (4%) and bank deposits (6%). A further 4% of assets were invested in rental properties

<sup>4</sup> Thaler, Richard (1992) *The Winner’s Curse: Paradoxes and Anomalies of Economic Life*, Princeton University Press, cited in Easton, Brian (2004) “Lock into Savings” *NewZealand Listener*, October 23 p54

<sup>5</sup> This is the value of money owed by trusts back to households.

and another 4% in vehicles. Liabilities were overwhelmingly held as mortgages (80%) with another 10% being bank debt, 5% student loan debt and 4% as credit or hire purchase (Scobie et al, 2005).

Several factors contribute to the decline in the share of wealth held as financial assets over recent years.

Firstly, the large increase in the value of housing assets throughout most of the country, and the tendency for the growth in the value of housing assets to outstrip the growth in the value of most other assets means that, if nothing else changes, they become a larger share of total asset value. From 1979 to 2000, housing equity was a relatively constant share (55%) of total net wealth but this rose to 68% in 2004 with the boom in house prices (Van Zijl de Jong and Scobie, 2006:7).

#### **Consumer view**

Interviews with consumers show two views of property – one view is that “rental property is a low risk and low effort option” and the other that rental properties bring unwelcome “responsibility and hassle”. No-one disputed the recent past and current returns on property.

Secondly, people are choosing larger dwellings (on a per head basis). The average number of people per dwelling declined from 2.8 people per household in 1991 to 2.7 people per household in 2001 and is predicted to further decline to 2.4 people by 2021 (Scion and Branz, 2006:15). The average dwelling size is also increasing; the proportion of four, five and six bedroom dwellings has increased from 19.3% in 1991 to 25.8% in 2001 (Statistics New Zealand Census data, cited in Scion and Branz, 2006:16). For new residential dwellings, the average floor area increased from 139 square metres in 1991 to 176 square metres in 2002; in other words, new stand-alone dwellings were approximately 50% larger in 2005 than they were in the early 1990s. At the same time, the proportion of homes that are owner-occupied has dropped so there is a concentration of investment in property in a smaller proportion of the population. Even with the apparent emphasis on housing investments, NZ owner-occupation of housing, though rates have fallen, is not markedly out of line with that of other comparable countries. Private ownership of rental properties have risen substantially, and are now at a similar level to that in Australia (Scobie et al, 2006).

Thirdly, returns on rental housing have been better than average returns on shares, bonds and cash over the 18 years to 2006 ([www.garethmorgan.co./performance/longterm.asp](http://www.garethmorgan.co./performance/longterm.asp)) A sample survey found that rental stock in New Zealand is overwhelmingly owned by landlords who have one (42% of landlords) or two (20.6% of landlords) rental properties. Only 5.6% of landlords owned 10 or more properties. Three quarters of rental properties are owned as personal assets, 14% within family trusts and only 12.5% within

companies. (Saville-Smith and Fraser, 2004). More recent analysis in Auckland concurs that the small investor is primarily motivated by capital gain and identifies most private rental market investors as couples over 45 and earning more than \$70,000 per year (DTZ and NZIER, 2007)<sup>6</sup>.

By contrast, average returns on financial assets have been unimpressive. *Consumer's* analysis of returns to balanced managed funds between 1994-2004 prompted them to note that “ the big balanced funds gave poorer returns than term deposits...More worryingly, if the decade has been so bad for clients, why are balanced funds still being promoted as good five year savings options?”<sup>7</sup> In all cases, the funds fell short of the Retirement Commission's expectation that balanced products, on average, yield a net return of 2.6% above inflation.<sup>8</sup>

### **Consumer view**

Only one interviewee was currently investing in managed funds and one had a small share portfolio in New Zealand businesses and one had shares in a New Zealand business owned by a friend. For the first this was a low-effort option. For other investors, financial assets were beyond their experience and capacity for personal control.

Two people mentioned the time required to effectively invest in the share market. The market needs to be regularly monitored and this was considered to be extremely personally time consuming. A few people have experience of friends who did well through committing a lot of time to the investment.

The structure and level of fees and the limited disclosure of information about fees is also likely to be a factor in the reduction in assets held in managed funds. *Consumer* notes that fees are almost never shown in dollar terms so it is difficult for investors to understand them, or make simple comparisons across different funds.

Skilling and Waldegrave (2005) comment that the withdrawal of specific supports to savings – for example the fall in employer-based superannuation schemes – are an important part of why financial asset holdings are so low in New Zealand. There is some evidence that workplace superannuation is associated with greater total retirement wealth (Scobie and Le, 2004). Hawke (2006) similarly comments that “we should not be surprised that New Zealand has relatively little private savings in the financial assets as the main vehicle for participation in equities around the OECD world is a pension fund”.

<sup>6</sup> data from a small sample of 35 investors and a regional cut of SoFIE data and therefore indicative only

<sup>7</sup> [www.consumer.org.nz](http://www.consumer.org.nz) Further detail is only available upon subscription

<sup>8</sup> <http://www.sorted.org.nz/home/sorted-sections/investing/different-returns-from-different-product-types>

### **Consumer view**

Superannuation was discussed in all the interviews. One couple would not consider superannuation (including Kiwisaver) based on personal experience of a scheme losing money. Others were positive and a few already had a scheme, and most actively welcomed Kiwisaver. A majority of those interviewed had done some work to understand Kiwisaver and the choice of a provider. Having a financial inducement to join was clearly important. No-one used superannuation as their only means of getting investment income.

Widdowson and Hailwood (2007:39), however, attribute the concentration of household assets in housing, and the growth of household debt levels, to a need for increased financial literacy which would allow householders to choose better options for managing their debt and have a better understanding of the risks associated with concentration of wealth in particular asset categories.

### **Views from key informants**

Key informants generally concurred that property has been an attractive investment proposition over the last two decades. The steady growth in house values, with no price crashes in recent history, was an obvious counterpoint to the more chequered performance of shares.

One informant said:

“If (someone) buys 2-3 rental properties, and these increase in value by an average of 5% pa and they pay interest only.. no other investment can match these returns”

Other factors cited as making property investment attractive, and reflected in the experiences and view of consumers interviewed, included:

- the opportunity for leverage against the value of one’s own house to buy a second property
- the possibility that small players in the rental housing market avoid tax on capital gain, and
- the relatively low cost of entry into the rental property market.

Informants saw tax advantages in property investment, both through the option of setting up a Loss Attributing Qualifying Company and through untaxed capital gains. One informant noted that while some property investors focus on the income stream, others are focused on capital gain. There was also a view that many people who trade in property in a small scale way, for example buying apartments from plans and then selling when built, should, but may not, be paying tax on capital gains.

**Consumer view**

Most consumers were either aware or somewhat aware of both the current tax advantage of property versus others investments and had read of possible changes to the tax treatment of investment property. However, this information did not figure large in decision making.

Several informants drew attention to our history and the close relationship with land and property, particularly for Maori, but also other New Zealanders. Moreover, government policies, including initial European settlement, capitalization of Family Benefit, State Advances loans, tax rebates for first home buyers, have reinforced and supported home and land ownership. Until recently, we have had higher home ownership rates than comparable countries. Several informants mentioned that home ownership was still a strongly internalized goal for New Zealanders, including Maori and Pacific people.

**Consumer view**

The importance of the experience of family and friends was a theme throughout the interviews. People's 'cultural' approach to investment was very much influenced by these experiences. As well as influencing the range of 'comfort' with different investments, family and friends were consistently used as key sources of trusted advice. The approach of two informants who immigrated to New Zealand was different – particularly in relation to home ownership.

The concept of investment itself is likely to have some cultural specificity. Two informants spoke of the difference between cultural and financial investments – some land for Maori is a cultural rather than a financial investment. The ability for some New Zealanders to have access to money for family purposes is also important.

**Consumer view**

A Maori consumer favoured “having some money available to provide informal loans to her family”.

Provisions that enable owners to evict tenants swiftly in order to sell a property make rental properties a more fungible and hence desirable asset and, in addition, strengthen the desirability of home ownership. Other factors cited as reinforcing the attractiveness of property investments included the DIY culture and the familiarity people had with property through homeownership.

One informant raised the absence of any compulsory retirement saving, and the relatively low level of employment based superannuation as possibly having led to investment in housing being higher than it otherwise would be. Kiwisaver was seen as having the potential to shift the balance towards financial assets.

On the other hand, another informant commented that most people had taken on board the strong messages about paying off their mortgage and student loans and it may therefore be difficult to get people to buy into Kiwisaver or any message about diversifying investments. This point mirrors the behavioural economists' view discussed later that, in the light of complexity, people are likely to operate on the basis of simple "rules of thumb".

#### **Consumer view**

All consumers appeared to be taking a responsible and considered approach to their investments. Consideration of paying down debt was discussed. None of them appeared to be going into rash or unsustainable investments.

Informants identified a number of barriers to investing in financial assets:

- the sharp falls in 1987 and 2002 in the values in stocks and shares, and the perceptions of lower returns and greater risks across these products. "people don't trust shares and business investment – everyone knows of failures"
- The size of, and fall out from, the 1987 share market crash, including a loss of trust arising from subsequent trials and prosecutions.
- People who were stung in managed funds around 2001-2004 have been hard to attract back to these investments
- The recent increases in the value of the New Zealand dollar means a drop in returns from overseas investments, particularly in the US
- The complexity of products and people's uncertainty about the products.
- The knowledge that managed funds involve "lots of people taking cuts along the way"
- The fact that managed funds can take up a week or longer to cash up, and that this is a risk factor during a down turn
- The 33% tax rate on earnings in funds (this will be set at an individual's tax rate from October 2007 and reduce to a maximum of 30% from April 2008).

A couple of informants commented that they wished they had gone into property instead of managed funds, on the basis of the respective yields on these investments.

Another informant said that if the Reserve Bank or government wanted more investment in the productive sector then they needed to look at the incentives to invest in businesses and drew attention to the negative impact of high interest rates on investments and profit.

### 3. Financial literacy

#### The studies

Financial knowledge contributes to skills in budgeting, money and investment management, and financial planning. Financial literacy has been defined as “the ability to make informed judgments and to take effective actions regarding the current and future use and management of money” which Widdowson and Hailwood (2007) break down into:

- basic numeracy skills
- an understanding of the benefits and risks associated with particular financial decisions including spending, borrowing, leveraging and investing
- the ability to understand the trade off between risk and return the attributes of different types of investments, the benefits of diversification and the time value of money
- the capacity to know when to seek professional advice and to know what to ask and be able to understand the advice given.

The ANZ-Retirement Commission survey found that financial knowledge varied widely in New Zealand (Colmar Brunton 2006). It found the population split into three equal-sized groups of low financial knowledge, medium knowledge and high knowledge. As a general pattern, the higher the financial knowledge group, the higher the proportion of people having higher education, higher incomes, and owning homes, although the medium knowledge group was diverse and more representative of the New Zealand population. Around 15% of the population had advanced knowledge, in that they understood basic and advanced financial concepts, were in control of their borrowing and debt and were financially confident, and over half of all respondents saved money on a regular basis.

#### Consumer view

Almost all the consumers interviewed have a relatively high personal or family income. However, most people appeared to have undergone a sharp learning curve in relation to making their investment decisions. As well as discussion with trusted and experienced family and friends, people used the web or professional advisors who they either knew of or had targeted because of their particular investment expertise. In most cases it appears that people ask for advice once they have made up their mind on their investment preference.

One said that she “had always used friends and family for advice and chooses those to ask based on their own ability to manage money.” She also commented that she was not sure how she would go about choosing a good advisor.

The ANZ-Retirement Commission survey also found that 75% said having a variety of investments was a way to reduce risk, but 20% considered investing only in property was a way to reduce investment risk. In addition, around a half of respondents indicated that they would invest lightly in an investment offering

above normal returns and, if nothing adverse occurred, would commit themselves more fully without any further investigation. Sixty percent of respondents had a current will, and one third had an enduring power of attorney. (Colmar Brunton, 2006).

Widdowson and Hailwood (2007:43) report that a poll commissioned by the Reserve Bank of New Zealand found that 60% of respondents (87% of those under 30) expected the government or Reserve Bank to bail out a collapsing bank, and that over 80% of those surveyed were either not aware of mandatory disclosure by bank and non-bank deposit takers, or do not use disclosures for decision-making. They also draw attention to the importance of financial literacy in New Zealand in the deregulated financial environment where debt, in particular, has become much easier to obtain.

At this stage, there is no definitive, comparative data from which to judge whether New Zealander's levels of financial literacy are similar to those in comparable countries. There is also no data to indicate how literacy has changed over time although the Retirement Commission intends to replicate the 2006 survey of Financial Knowledge. The Commission's on-line surveys of its Money Management website [www.sorted.org.nz](http://www.sorted.org.nz) suggest that frequent users progress in literacy and money management.

#### **Consumer view**

One interviewee said that in spite of having done as much research as they could before buying their investment property, it was all well beyond their or their immediate family's experience – and to some extent they “were flying blind”.

#### **Views from key informants**

Key Informants generally thought there was scope to improve financial literacy in New Zealand. A useful distinction made was that while basic budgeting skills are vital, and within the grasp of most people, being able to read and vet investment statements is likely to always be a less common, specialised skill.

While one informant considered that financial literacy here is likely to be similar to that in the UK, USA and Australia, most thought literacy was likely to be lower in New Zealand than in comparable countries, or indicated that they could not generalise.

Several informants saw current low literacy as a product of the relatively simple financial world of recent past, with one commenting that older people, the “mum and dad” investors, had grown up with a much smaller range of products than exist now. Another drew attention to the relatively small New Zealand share market as an example of the small role of these assets in our investments.

Literacy was seen as particularly important to ensuring people could manage and consolidate debt. Several informants saw it as likely that products that provided an opportunity for hands-on involvement such as on-line banking, on-line options for buying shares, and the introduction of Kiwisaver, are likely to lead to improved financial literacy. The website Sorted was also referred to positively as an education tool. Getting basic financial literacy established at school was seen as being key to higher overall literacy standards by several informants. This was seen as particularly important for children in households where there is low income and/or no savings/investment experience.

A couple of informants raised the fact that the financial industry itself makes, and presents, products as more complex and opaque than they need to be. This point is returned to in the discussion in the next section.

#### **4. Complexity of, and information about, investment products**

##### **The studies**

At the best of times, investment products are complex and returns are uncertain. It is difficult for consumers to ascertain the quality of the alternatives. As discussed earlier, most people, when faced with lots of information they aren't sure how to process, come up with "rules of thumb" on how to proceed.

Literature on behavioural economics points to many investors being backward looking – something that may explain continued optimism about property investments – and that consumer investment decisions are influenced by swings between optimism and caution, by a bias towards the status quo (the investments they already have), and that investors are influenced by the way investments are framed or described (Grimes, 2005:15,16).

##### **Consumer view**

The interviews support the view that lower 'risk' is more likely to be associated with investment products that people feel familiar with in some way.

Thaler and Cronqvist found that, when Sweden partially privatised its social security scheme, Swedes who actively invested their own pensions chose more expensive, less diversified funds than those picked by the default plan. To quote Richard Thaler, ".there's no reason to think that markets always drive people to what's good for them. Markets also drive people to what's good for the people selling."(Stewart, 2005).

The complexity of the market and products, as well as the costs of switching products, set up demand side limitations that mitigate competition in the investment market, and this is reinforced where providers maintain a competitive advantage by getting away with providing misleading information about their

products. Grimes concludes that “the New Zealand market appears particularly susceptible to the marketing of complex, high-fee products that may be inappropriate for consumer’s needs” and that “..if this pattern of savings behaviour (New Zealanders holding a small proportion of their net wealth in financial products) is to alter, New Zealand investors need to be able to place greater trust in the range of investment products on offer, and particularly on the investment advisers who help direct investors into available products “(Grimes, 2005:18,20).

A gap in the New Zealand market is the provision of independent and expert financial advice and comparisons of investment products and performance. Consumer produced some Managed Fund surveys for its paying clients in 2004 and 2005, and the Retirement Commission is in the process of producing a comparison of fees, and the impact of fees on earnings, for the different Kiwisaver providers. One factor in this gap is likely to be the absence of effective demand, that is the willingness of people to pay for advice, given that no advice can eradicate risk. Independent advice based on comparisons is expensive to produce and update and, unless undertaken with considerable care, could risk litigation.

#### **Consumer view**

Only one consumer had paid for independent financial advice.

Litigation risks also limit the role of the media in the case of a poor performing company (Hargreaves, 2007). The Securities Commission is also constrained in its ability to act; for example as evidenced in the case of the recent Bridgecorp receivership, a firm first has to inform the Commission that it is in default and then be given the chance to comment on the proposed canceling of prospectuses, before the Commission can cancel any prospectus (Securities Commission, 2007).

#### **View from key informants**

Informants considered information about financial products could be improved, and the lack of good information contributed to a low trust environment. Key informants were generally keen on better disclosure about products, particularly fees, charges, and what terminology means. Examples that informants had come across included people who:

- thought that an A credit rating is the top rating, not realizing there is a triple A rating
- thought that secured debenture stock is completely secure and without risk
- only trusted people they knew, or who were from the same cultural background, even if this mean paying more charges

Several informants expressed a lack of confidence that the industry would willingly disclose information in a simple form, with the prevalent practice of producing unduly complex financial statements, and the difficulty in comparing

fees across different Kiwisaver options. A couple of informants raised the fact that some finance companies have actually reduced the interest rate they pay on their relatively risky investments because they believe people have worked out that high interest rates mean high risk. They saw this as an act of deception.

One informant considered that a campaign to simplify information, associated with awards for simple investment statements, might assist. Another view was that there could be a standard disclosure statement developed that all products needed to comply with.

Most informants pointed to commission selling of products as leading to a conflict of interest for advisers where they are acting for both the buyer and the seller, and the incentives are to promote products with the best commissions. It was noted that commissions or incentives such as bonuses existed right across the sector, including in the large financial institutions and banks. One informant identified the way forward as being the growth of fee for service advice – advice independent of any relationship to particular financial products. Another informant considered that most New Zealanders would not be prepared to pay for advice directly so the commission selling was likely to remain.

Several informants identified current disclosure provisions as being inadequate with one saying you needed to know the questions to ask. Two noted there was no “cool off” period when purchasing investment products.

In contrast to information about fees and charges, the quality of investment management in funds was identified as one area where it was very difficult to have adequate disclosure and information due to ongoing changes in the mix of investments and recruitment of investment personnel. One informant said careful investment in managed funds would work fine if you are a sizeable player and can play close attention to the decisions of fund managers. This was not, however, feasible for individual investors.

A further issue raised was the lack of commitment by government officials to simple information systems and that, in desiring to cover all bases, their requirements on financial statements may also reinforce their complexity.

## **5. Quality of financial institutions, products and the regulatory framework**

### **The studies and policy settings**

Government’s regulatory interest stems from the complex nature of financial products, the size and significance of investments for households, and the importance of products working well for businesses.

While New Zealand has a wide mix of financial products, New Zealand’s small size means there are likely to be more challenges in achieving economies of

scale. New Zealand has a small share market which means it is difficult to get a well balanced portfolio just from New Zealand shares.

New Zealand is in the process of introducing a more robust regulatory framework for a financial sector that has come in for criticism both within New Zealand and internationally<sup>9</sup>. *Consumer*, for example, in its analysis of managed funds raised the issue of how fees are managed and communicated.<sup>10</sup>

Kiwisaver, a new voluntary retirement savings regime that is subsidised by government now, and in future by compulsory employer contributions which will be phased in between 2008 and 2011, has the potential to significantly alter the quantity and nature of financial investments.

Major reforms have addressed disclosure, insider trading and the powers of the Securities Commission to take action in the case of breaches of the law. (Diplock, 2007).

Recent reviews covering financial products and providers, and the regulation of financial intermediaries (advisers) in New Zealand have been completed. These aim to ensure New Zealand meets its international obligations and achieves a more effective and consistent regulatory environment that improves consumer confidence and keeps compliance costs to a minimum.

The Taskforce on the Regulation of Financial Intermediaries (2005) found that, in comparison with the comparable jurisdictions of Australia, the United Kingdom (UK), Ontario, British Columbia, Hong Kong, Singapore and Ireland, New Zealand has the lowest level of regulation of financial intermediaries, the least state involvement in regulation and the least state involvement in sanctions and remedies. New Zealand regulations are product/sector specific and therefore variable, in contrast to the UK, Australia and Ireland which have regulation covering all investment activity.

Government has announced that legislation will implement the following recommendations on financial products, providers and intermediaries:

- registration of all financial institutions;
- improved supervision of corporate trustees;
- improved prudential supervision of non-bank deposit takers (to be advised on and monitored by a single prudential regulator – the Reserve Bank);
- providing for a comprehensive approach to consumer dispute resolution and redress.

By November 2007, further government decisions will be taken on:

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<sup>9</sup> Jane Diplock (2007) notes the IMF and World Bank had a number of concerns about New Zealand's regulation of the financial sector in 2003.

<sup>10</sup> Detailed information on Consumer Institute research is available through subscription – see [www.consumer.co.nz](http://www.consumer.co.nz)

- supervision by corporate trustees of collective investment schemes and debt issuers;
- security offerings disclosure;
- insurer prudential and market conduct regulation;
- regulation of mutuals' governance;
- platforms and portfolio management services

[http://www.med.govt.nz/templates/ContentTopicSummary\\_\\_\\_\\_\\_27653.aspx](http://www.med.govt.nz/templates/ContentTopicSummary_____27653.aspx)

From 1 October 2007, earnings in managed funds will be taxed at each investor's specific tax rate and will not tax gains on New Zealand shares and certain listed Australian resident company shares will no longer be subject to tax. Specific regulations have also been introduced for Kiwisaver providers.

Even when all these changes are bedded in, the regulatory regime will remain relatively light-handed by international standards.

Grimes's investigation of ways to improve trust in the Retail Savings Industry recommended a number of other prescriptive actions:

- a standard disclosure form for all investment products
- a mandatory requirement for investment advisers to declare their fee income and to offer a range of similar products to clients
- an increase in the Retirement Commission's educational activities
- the Retirement Commission or some other body undertake a regular 'mystery shopper' programme amongst investment advisers and report the results publicly
- a Financial Ombudsman should be created to cover complaints across a broad range of services (Grimes, 2005:31).

### **Views from key informants**

Several informants raised the importance of having more robust regulations in place to provide a better balance of power between the sellers and buyers in the financial product market. An effective regulatory framework, quality of information about products, and financial organisations operating with integrity, were seen as important to building more public confidence in financial assets and to make it easier for people to judge the quality and risk of what is on offer, and gain redress in the case of unfair practice.

Several informants commented on the high fees and poor performance of larger managed funds. One noted the emergence of better performing niche investment companies. A further issue raised was that larger investors could reap economies from the scale of their investments, compared with small investors. One informant identified wrap accounts, a combined administration and investment service, as having opened the investment products that banks and even small investment advisers can access. This makes it possible to buy

products wholesale and manage portfolios of investments directly, rather than having to pay for a managed fund service.

Another issue canvassed was the education of fund managers. One informant considered that, in the future, all financial advisors, both the small operators and those working within large finance companies and banks, would end up with diplomas in financial planning. Another informant was not so optimistic, noting that banks and the larger finance companies had been resistant to setting up industry training and had large internal training systems and a vested interest in their people being good at marketing their products. In addition, there would also be boundary issues in large companies around what is, and what is not, financial advice. Performance payment systems within some insurance companies and banks were seen as having similar perverse incentives as the commissions paid to financial advisors who sold a limited range of products.

One informant thought the proposed regulatory regime that enables financial advisers to join one of many different professional bodies was likely to dilute the potential for effective consumer redress. A couple of other informants felt that the wide range of people that provided financial advice (including accountants and lawyers) made a single regulatory approach unworkable.

Informants differed in their views on the proposed changes to regulations. One felt it important to retain a relatively light handed approach to regulation and to focus on eliminating the power imbalance, another supported relatively light-handed regulation because more complex systems had not proved effective elsewhere. One informant noted that the regime might deal well with some of the unexpected influences on people's behaviours, and cited as an example provincial accountants who advertised specific financial products in their offices.

Several informants thought Kiwisaver was likely to assist the financial market to develop and become more profitable. One described the expected process as more interest in shares pushing up prices, which would then attract more companies to sell shares in the New Zealand market, which in turn would attract more buyers. Also, there would be limited opportunities for traditional, product-tied, financial advisors in Kiwisaver.

One informant considered that the absence of sizeable not-for-profit operators (such as Cooperatives or Trusts) in the financial product market in New Zealand means that there is a lack of an alternative paradigm in the market and less real choice for the public. As an example, none of the not-for-profits are currently Kiwisaver providers.

## 6. CONCLUDING COMMENTS

Savings and investment decisions by New Zealanders appear to be informed by both the nature of the available options and the experience and circumstances of the investors.

### ***Changing investment environment***

Currently there are initiatives underway which could affect both and which may promote longer term changes in product integrity and attractiveness as well as investor behaviour and preference.

A number of factors are likely to work together over the next few years to increase the assets of, and improve public confidence in, the financial sector:

- the introduction of Kiwisaver, and its associated inducements
- the application of lower tax rates to earnings in managed funds
- forthcoming regulatory changes that will improve disclosure and prudential arrangements applying to financial products, providers and advisors.

Research informants and broader conversations in the course of this project suggest that the necessity to choose a Kiwisaver provider is leading people, often previously uninformed or unfamiliar with the financial industry, to investigate and discuss their options. This is likely to increase financial literacy, beyond that of basic numeracy, and create greater familiarity with non-property investment products that may be of advantage in any subsequent investment or savings decisions. All interviewees were aware of Kiwisaver and most were actively considering their options. The opportunity for 'structured' or 'contractual' savings seems appealing.

The consumers interviewed seemed to know that investment involves risks that can be reduced but not eradicated. Those who had chosen to invest in property often cited 'lower risk' as a key consideration. Perceptions of relative risk may be currently informed or reinforced by reported instability and volatility in worldwide markets and the seeming lack of control New Zealand investors have over these movements. This may confirm property as the low risk option.

### **Consumer view**

Having control over their own investments was a key theme of the interviews. One woman was very forceful in her view that she was, "not convinced that the people who manage the money are experts – they are just employees".

Another said that when they sell their land they "will hold term deposits – investments are looking risky at the moment."

### ***Investment in property vs financial/business products***

Property investment emerged as a fairly logical investor response to perceptions of relative risks, returns and the desire for personal control over investments. In addition, property is seen by New Zealanders as the only investment that can be funded by borrowing – generally against an owner-occupier house.

While consumers did not indicate a strong association between tax and investment options, the attractiveness of “free money” in Kiwisaver was evident. It may be that over time behaviour could be influenced by the experience of other factors identified by this review. Increasing the attractiveness of financial products, and decreasing the share of investment held in housing could be assisted by:

- publicly funded and publicly available league tables and/or consumer checks on investment products, providers and advisers to keep the industry honest and provide consumers with up-to-date independent information on products. The Retirement Commission, which is taking on this role in relation to Kiwisaver providers, could be a suitable body to take on this role.
- provision for a 7 day “cooling off” period when specified financial products are purchased. This would provide a degree of consumer protection from hard sell techniques and set in place incentives for advisers and financial institutions to ensure their buyers are fully informed and have undertaken due diligence prior to making their purchase. Such provisions would not be easy to apply to auction arrangements such as property and share purchases, but may be able to be incorporated into many life insurance and managed fund products.
- mandatory “plain English” disclosure of products, fees, investment performance on a simple, standard template.
- developing more sophisticated financial literacy for the future through education in schools – the Retirement Commission already has this as a key and increasing focus.

As far as property investment is concerned, some key informants suggested better enforcement of existing provisions of tax capital gains on individuals, trusts or companies that trade in property. However, interviews with consumers (bearing in mind the small number) indicates that this may not be currently key in their decision-making .

Overall this review supports a view that adequate income and money management skills are important precursors to savings intentions and behaviours.

***Recommendations regarding phase two of the project***

It is not recommended that phase two of the project proceed.

Important regulatory developments and the introduction of incentives for Kiwisaver have altered the landscape in which investment/savings decisions will be made. Allowing these to 'bed in' before proceeding with more in-depth discussion with investors seems sensible.

In addition, it is not certain that simply increasing the number of people interviewed would uncover further useful information on the general issues covered in this report. Overall, we found that there was little disagreement about the factors that encourage or discourage investment in property and/or financial assets in New Zealand.

## **7. APPENDICES**

### **Appendix 1**

#### ***Key Informants***

Tom Farkas, Vantage New Zealand Ltd

David Feslier, Executive Director, Retirement Commission

Angela Foulkes, member Taskforce on the Regulation of Financial Intermediaries

Frances Hartnell, former director, Pacific Island Business Development Trust

Grant Huwyler, CEO Hokotahi Moriori Trust Board

Dr Bill Kain, Independent Agribusiness Consultant

Lyn Meachen, private banker, Bank of New Zealand

David Russell, former director, Consumers' Institute

## Appendix 2

### Eight interviews

#### Interview 1: Public sector manager, female aged 40

Married, own their house – with mortgage. Husband has a superannuation scheme with a bank – not had it long.

Just moved from a public service job and the superannuation (with generous employer contribution) is about to be paid out – deciding what to do with the money. New employer will contribute the full 4% to Kiwisaver.

Feels they 'need to get into something'.

#### *Investments considered*

Still in the process of making up their minds. Options considered are:

- Reduce mortgage – have checked that there will be no penalty payments
- Pay off student loan – but because this is interest free and they are used to the money going out of her salary, they are unlikely to take this option
- Bank deposit
- Some sort of financial product – but feels that they should have an ethical base – thinks there are some church based schemes that may be worth looking at. Her own super scheme had very good returns (even when others did not) and so is open to this kind of investment.
- Put it into Kiwisaver
- Doing one or the above and making a major purchase

Considered buying into another property with a friend but have decided not to do this – really not keen on having the responsibility/hassle of another house and are not keen on the 'philosophy' of owning rental property. Also do not want to have all their 'eggs in one basket'.

Says that whatever they do will be 'conservative' and minimum risk.

#### *Advice obtained*

Have not as yet sought any advice beyond ringing the bank and checking about possible early re-payment penalty charges. They 'have done the maths' around the impact of paying off the mortgage and possible return rates on investments.

Thinks they will look at a few websites and ask around about an advisor to talk to. Will also talk to friends about what they have done.

### ***Impact of possible investment environment changes***

Is vaguely aware of some of the possible changes being discussed – but does not read business news etc and so it is pretty vague. But, does not think that the tax advantages/disadvantages (for example) will not be part of their consideration.

### **Interview 2: Public service manager, male aged 47**

#### ***Investment type***

Owns a house with his wife (and a mortgage) and they have managed funds. He has also joined the new government super for public servants.

#### ***Advice obtained***

He came here from England (around 15 years ago) and was used to paying a percentage of his salary into superannuation. There wasn't a scheme he could join at his first job and so he looked around for a financial advisor who was not going to get financial gain from particular schemes to get impartial advice about managed funds – he paid for the service from an accountant that had developed financial advisory expertise.

He contributes 6% of salary and now his wife does too – his view is the money goes away before he sees it – best way to save.

They review their commitments from time to time – eg when one of them gets an increment - generally they put more \$\$ on the mortgage. Believes in retiring debt and saving alongside – and this is diversification. Sometimes their broker offers new options and they have altered and added to the managed fund.

#### ***Options considered***

Didn't really think about other investments – knows people have made a lot of money from property – two turn offs for him are risk and bother – it is enough having a full-time job without having to look after tenants and another property – some people are adept at this. He has some commercial property investments within the managed fund. He observes that people really stick their necks out with property investments in NZ – it is part of the culture- of his parents who didn't buy a house until they retired – they had a secure council tenancy – different environment

Stocks and shares – again bother – and worry – with a managed fund he doesn't have to check the paper every day and ride the ups and downs. Of late they have noticed the higher returns from bank term deposits and it has made them aware of the fees etc taken from managed funds - but he thinks over the long term the returns are probably reasonable.

He joined government super because of the 3% free money – needed the inducement to do it.

There has been a “roaring absence” of info at his work about Kiwisaver – he has not turned his head to think about it and doesn't know whether his scheme can convert or get the benefits that apply to Kiwisaver. His staff are starting to ask about what to do as well.

### ***Future investments***

Looking ahead, they are thinking of buying a downtown apartment and renting it out for a while until they are ready to sell up their house and move there

## **Interview 3: Professional private sector male aged 33**

### ***Investment type***

He and his partner (also in a professional job) own a house with a mortgage (which they see as an investment) and belong to an art club

They have a commitment to invest regularly in the Art Club over the next 4 years – and the club is set up as an incorporated society that will dissolve after 10 years at which point the revenue from sales is returned to the members – he thinks this will then be taxable income (less what they put in) and he and his wife are looking into whether they can set up a blind trust to hold their share.

While their art investment is relatively small – lots of the others in the club (20 shares) belong to other art groups and they have visited private collections with several hundreds of thousands of dollars of art.

### ***Advice obtained***

They got into art because they like it – no advice - they will buy independent of the club in the future and will probably roll the money they get out of the club into more art when the incorporated society dissolves.

Sees art as an investment – art appreciates – and as something they can enjoy at the same time - similar to a house

### ***Options considered***

Haven't thought about other investments - the share market looks big and scary – he was 13 when the 1987 crash happened and it made a big impression. It is also an age and stage thing - their mortgage is at 9% - so best to pay that off at this point.

Housing is something you need to find out about – that is enough to learn about for now – he knows people who make money out of shares – but they spend a lot of time studying the stockmarket – or, like his wife's mother, they use a broker to manage. He knows that infrastructure shares are relatively good risks eg his parents have contact energy and AK airport shares.

Have had a seminar about Kiwisaver at work – thinks it is a good idea – people need incentives to lock savings in - they will sign up their 10 month old – they haven't done the sums for themselves yet but think it is a better deal at the moment if they throw more money at their 9% mortgage because their incomes are quite high and therefore the contribution is quite high. The maths might change if the employer contributions get up to 4%. Both he and his wife are aiming to be partners in their respective firms so that also might change the sums on whether Kiwisaver is a good idea for them. Has just bought Mary Holm's book to look into this further

Anecdote about UK compulsory scheme - he joined government programme and his payments will go to NZ govt to offset national super – his wife joined a private scheme and the \$\$ will come back to her

## **Interview 4: Professional private sector woman age 30**

### ***Investment type***

For as long as she can remember she intended to buy an investment/rental property. Worked to put herself through university to avoid a student loan, so when she began to earn money, felt as if she had a lot! Started looking at age 23 – wanted to 'make the next steps' in terms of 'being secure'. Bought 3 bedroom property with a flat at age 24. Rented it out, lived in it briefly and now it is rented out.

### ***Other investments***

Has been in an employer super since she started work and has just joined Kiwisaver

### ***Advice obtained***

Did a lot of research herself – but mainly about property types, risks etc. She was always sure she wanted a house. The advice she sought was from people with expertise in property – an accountant and a financial advisor. Had a very good mortgage broker.

### ***Experience of advice***

She did not find the advice that useful – probably because she felt she had already done the homework and was sure what she wanted to do. Did consider the different tax advantages between options but it was not a big deal in the decision making.

### ***Options considered***

To the extent that she considered other options, she saw rental property as a low risk and low effort option. One of her ex flatmates was heavily into the sharemarket – won a lot and lost a lot – but overall he won. But, he spent ages doing it. He was from Hong Kong and it was more part of his ‘culture’ and experience than hers – while her family had shares it was pretty passive and not discussed. Nothing at school gave her any financial literacy to consider/evaluate any other options – main emphasis was on security and ‘getting on in life’

### ***Impact of possible investment environment changes***

Is aware of some of the things being floated around – but she sees her investment as for the long haul and would be reluctant to sell or change – no matter what happens she will still have the house and the rent almost covers all the outgoings.

### ***Future investments***

Is planning to buy another house – this time to live in.

## **Interview 5: Professional private sector female aged 41**

### ***Investment type***

Has had two properties, recently sold both and bought one higher quality apartment where she lives and owns with a mortgage. Has life insurance which she took out when she bought her second property (about three years ago). She also has a small savings account with a bank (getting low interest)

Property is her primary investment vehicle. She is going to join Kiwisaver.

### ***Advice obtained***

No history of long term savings in her family. Parents inherited a house and got a mortgage for the first time in their 50's to build a new house. Her parents drummed into them the importance of getting an education, but not saving. Although she did learn about not getting into bad debt and saves for most things she buys – not into hire purchase, but uses credit card, and will buy with cash if that is advantageous.

Buying her first property was tied up with wanting a secure place to live. Doesn't like the dependency of renting. And it is dead money. One of her workmates went to a financial adviser and she could see that as a result she started to manage her money.

Prior to buying a property was useless at saving but she did the sums and could see it was possible. Borrowed part of her deposit from a family member who was an accountant and suggested she use a mortgage broker – her first mortgage was a better deal than the banks were offering. She also thought she should buy a house because her friends were buying houses.

She has always used friends or family for advice and chooses those to ask based on their own ability to manage money.

Went overseas to work and rented her property – got advice from her accountant relative and then managed the finances and tax returns herself. Enjoyed the challenge of learning about this – and is willing to search the internet, phone IRD etc to find out what she needs to know (is a researcher).

Bought her second house because she was living away from her first property (which was still rented out). Found it was easy to leverage off the first property. Searched around, including with banks for a mortgage provider for house. Opted for a non-bank provider. Until she took a mortgage with them, she had not realised the importance of paying off her credit card.

She likes the mortgage provider because:

- She has a personal consultant to call
- They have set her up with a flexible and fixed mortgage – so she can make lump sum payments without penalties
- Likes the interest-free advantages from using her credit card and paying it off every month via a flexible mortgage
- They are friendly and professional

### ***Options considered***

Has a preference for property – thinks it is safe and easy to get a mortgage. Wouldn't do risky things though – eg buy an apartment off plans to on sell. Doesn't see herself investing in property like that – but more to buy a place to live in, and possibly rent out. Her increase in wealth has come from capital gains.

She also knows it is important to spread her risk.

She doesn't know enough about shares to buy shares. Has checked out her money personality on Sorted –she likes to be safe and to plan

Her employer has decided to start contributing 1% of salary to Kiwisaver from day one- this plus the government kick start and contributions is enough to encourage her to get into the programme. She is particularly attracted by the mortgage diversion option – because that way her savings in Kiwisaver will help her pay off her mortgage more quickly.

She has done a lot of reading up about Kiwisaver – on Kiwisaver site, on Sorted, Consumer web site, and phoned IRD. From the Consumer website she got the information that not all providers would be into mortgage diversion.

She has not decided on a provider yet – is finding it a challenge and is learning a lot along the way.

She does not see herself using a financial advisor – is not sure how you would chose a good one- so she turns to family and friends with knowledge. Would use a financial advisor on the basis of word of mouth

She is aware of the discussions on capital gains on housing. She always notices interest rates now that she has a mix of floating and fixed rates in her mortgage

### ***Future investments***

Hasn't got great ambitions to save lots for the long term – wants to live too –she is great at saving for short-term goals - also likes having some money available to provide informal loans to her family. Her mother died at 61 so she feels it is important to not tie everything up for old age.

One vehicle that would really interest her is ethical investments – she knows about the Grameen bank and likes the idea of supporting funds like that ie that help women in need. She tried to put a small amount in the Angel Fund when she heard about it -

### **Interview 6: Professional private sector male aged 30**

Recent immigrant – been in NZ 3.5 years.

Grew up with house prices pretty unattainable in his home city and with most people thinking that owing a house was not an automatic thing – even with interest rates that are much lower than here.

#### ***Investment type***

Owns a portion of a property in his country of origin and some NZ shares - made it clear that they were ‘small’ investments.

#### ***Advice obtained***

Talked to friends and a couple of golf mates –both of whom are in involved in the ‘financial industry’ – these were certainly not formal discussions.

#### ***Experience of advice***

He felt that the pros and cons of different investment options were discussed – although did mention that he found some of the stuff a bit complex. But, he felt that his property investment overseas was safe (and also gives him a stake “back home”) and that he has an ideological and philosophical attraction to investing in NZ small businesses – ‘helping business in NZ grow and supporting the economy as a whole’.

#### **Managing the share investment**

He manages the shares himself and watches progress etc. He felt that one of the downsides to managed funds and to Kiwisaver is that other people manage the money and make the decisions – you are a long way from having control. You have to trust other people and take a lot of time to read and follow the stuff.

He feels this is also true of property investment – you have more control and the house ‘exists’. His overall principle for investment decisions is ‘keep it simple’.

### ***Impact of possible investment environment changes***

He is aware of possible changes/ideas floating around – really not taking too much notice of it. Mentioned that in his country of origin they have a Stamp Duty (like capital gains) – but first home buyers are exempt.

### ***Future investments***

Is looking to buy a place in NZ to live in – probably an apartment. Does not see this purchase as an investment – would choose quite differently if he thought of his home in those terms. Finds the high interest rates off putting but sees them as ‘what it takes to get one here’.

If he was in a position to invest more cash he would definitely look at some direct investment in small growing NZ businesses – not necessarily his own.

### **Interview 7: Private sector woman, mid 30’s**

Works part time, married to a tradesman. Currently buying the house they occupy – two preschool children

### ***Investment type***

Have just bought a one bedroom inner city apartment . They did this through a ‘one stop shop’ investment property company – the company buys the apartments, on sell, help organise the finance, find the tenants and manage the rental/maintenance of the property. Says the fees were explicit – a ‘one off fee’.

### ***Advice obtained***

Believed that property offered the best returns and offered them the most control. This was partly influenced by the experience of a superannuation scheme they had that seemed to be losing money and so they cashed it in. Did a lot of personal research on returns on property in the last few years and felt that it was probably the safest option and that inner city seemed to be the best prospect. Got advice from the woman’s boss who is of a similar age and has had experience investing in commercial property. The property company they bought from supplied a lot of figures about potential returns, possible rental income etc and they felt that this was pretty convincing. Company flew them up to look at the property. Also attracted by the arms length distance of the renting relationship – not being involved with the tenants.

While they think that they did as much work as they could on the pros and cons, they also talked of ‘flying blind’ in that this kind of thing is well outside of their or

their immediate family's experience. Driven by a sense of wanting to be in a position to provide good opportunities for their children. See it as an investment for the next 5-10 years.

### ***Consideration of other investment options***

Their experience with superannuation meant they really did not consider other options – they will probably not even join Kiwisaver because of a mistrust of other people managing their money – see it as a combination of uncertainty of returns and a risk. Not convinced that the people who manage the money are experts – “they are just employees”.

Property was the only investment they could make where they could leverage off their own house and add to their mortgage – they did not have cash to invest in any other way.

### ***Impact of possible investment environment changes***

Aware of talk of capital gains tax but politicians seem against it. “Can't worry about these things – we wanted to do something and everything is risky” .Interest rates going up are obviously a worry but thinks that by fixing the rate you can have some control.

## **Interview 8: Private sector male aged 36**

### ***Investment type***

Personally owns a house (with mortgage) with wife and around \$10,000 of shares in a new company (a company where he knows the owners)

Part-owner of hospitality business as a limited liability company – they have fittings, plant etc in a restaurant, also have an LAQC that owns a 10 acre farm section and they are looking at expanding their business into catering.

### **Advice obtained**

His father had always been self employed and was an important source of advice. Also, in the beginning he was in partnership with someone who had previously set up a hospitality business from scratch.

They bought the land because business had dollars in the bank –and they didn't want to pay it out and pay tax on it. Accountant gave advice on how to set up an LAQC – they always run financial decisions past their accountant.

Had ideas about the land being a market garden for fresh produce for the restaurant. In fact, everyone has been too busy to do much on the land – they have had it three years – it has gone up in value a lot - and they are now thinking of selling it.

### **Other investments**

Has always wanted to focus investments around property. If they had not bought land , then they would have bought something commercial – land/property is something that he understands. It is tangible – yes, it goes in cycles but he believes that over time it is one of the soundest investments.

### ***Impact of possible investment environment changes***

He believes there should be a capital gains tax on people who buy and sell property as a business – the prices are way out of wack and tax would settle them down.

### ***Future investments***

When they sell the land will hold term deposits – sees investments as looking risky at the moment

On Kiwisaver - thinks scheme is a great idea but doesn't like employer contribution – hard on businesses like theirs that have entry level staff and need to have rewards for more skilled staff and where 4% on salary is a lot – especially if there is a downturn in economy- could put people out of business

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