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Encouraging fund choice in KiwiSaver

This report is for KiwiSaver providers and
for providers of any Managed Investment Scheme.
It will also be of interest to behavioural insight researchers.

This report describes the results of a
behavioural insights randomised control trial.

We would like to thank:

- Dr. Marcos Pelenur from the Ministry of Business, Innovation and Employment for his expert guidance in overseeing this trial.
- The Kiwi Wealth team for their participation in the trial and for publically sharing examples of their communications.

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Executive summary

We ran a behavioural insights trial with KiwiSaver provider Kiwi Wealth. The trial ran for seven months, from August 2016 to February 2017.

The aim of the trial was to see if behavioural prompts increased the number of active fund choices members made. To test this, prompts were included in the first communication KiwiSaver default members received from Kiwi Wealth.

There were 3,427 participants. Half of the default KiwiSaver members received the original communication (the control); the other half received the revised communication (the treatment). Members received either an email or a letter.

People who received the revised treatment communication were 47% more likely to make an active fund choice than those who received the control one. The result was statistically significant for those who received an email or a letter but overall those who received an email were more likely to make a change than those who received a letter.

As part of the research, we also looked to see if results varied across the months of the year and whether people who received the treatment communication were more likely to log in to their Kiwi Wealth account. We also looked at whether people were more likely to stay with Kiwi Wealth.

Our analysis shows the number of fund changes reduced towards the end of the trial – possibly due to inactivity around Christmas and New Year. There was no statistically significant difference overall between the control and treatment group for the number of people logging in to their Kiwi Wealth online account. However, there was a statistically significant difference in account closures, with those receiving the treatment communication more likely to stay with Kiwi Wealth.

This report provides a summary of the results of this trial. Due to its success, the Kiwi Wealth team has decided to continue using the treatment communication for all new default members.

We would like other KiwiSaver providers to make similar changes to their communications. The approach can be adopted across any member communications and the changes are quick and low cost.

We are also keen to continue to learn from what works, by running further trials with financial service providers. By sharing the results, we want to encourage providers to improve their communications with their KiwiSaver members.

About the trial

Why the trial was necessary

There are currently around 2.6 million members in KiwiSaver – New Zealand’s work-based retirement savings initiative. Approximately 450,000 of them are in a default fund.

The default fund was designed as a temporary holding fund for new members who hadn’t yet made an investment fund decision. It is conservatively invested and does not suit everyone. Often members in conservative funds will find their savings have not grown enough for them to enjoy a comfortable retirement.

Our Strategic Risk Outlook, published in February, highlighted that New Zealand is experiencing a significant change in its population demographics. More than 25% of our population will be aged 65 or over by 2040.

From 2040, under current proposals, NZ Super will rise to 67 years of age, making it even more important for New Zealanders to be adequately prepared financially for their retirement.

Default members typically have lower levels of knowledge and interest about KiwiSaver. This increases the risk they will not have adequate savings at retirement.

New Zealand’s nine default KiwiSaver providers each have an obligation to help their members make an active choice about the best type of fund to suit their savings goals.

Our KiwiSaver report 2016, reported on the success of these efforts. It shows most default KiwiSaver members are not choosing their own fund. While one provider achieved 22% of members making a fund choice, the others ranged from 1 to 8%. Most providers were clustered around 3 to 4%. We want this number to increase and believe providers can do more to encourage their members.

We decided to run a formal trial to test whether making changes to new member provider communications could improve these results. The trial was run after the release of our April 2016 white paper which explained how behavioural biases can impact investment decisions.

What we wanted to find out

The main aim of the trial was to see if using behavioural prompts in the welcome communication to default KiwiSaver members would encourage them to choose their own fund.

We also wanted to know:

- Does the format of the communication affect the result – for example, does receiving an email rather than a letter make any difference?
- Does the timing of the communication affect its result?
- Are people more likely to visit Kiwi Wealth’s website if they receive the treatment communication?
- Are people more likely to stay with their default provider if they receive the treatment communication?

Our approach

Dr. Marcos Pelenur, a behavioural insights specialist employed by the Ministry of Business, Innovation and Employment helped us oversee the trial. Kiwi Wealth also agreed to participate in the trial.

We identified Kiwi Wealth's first 'welcome' communication for new default members as the best opportunity to encourage members to choose their own fund.

Email and letter versions of the 'welcome' communication were amended using the EAST framework. These are principles international studies have shown to have effective and measurable behavioural change outcomes:

Make it easy

- We turned the long narrative form email into three easy steps to follow
- We added links in the email version so people could easily go online to complete their actions

Make it attractive

- We framed the actions required as 'to finish setting up your KiwiSaver account'
- We used a visually engaging layout

Make it social

- We let readers know they were doing what most other New Zealanders had done in joining KiwiSaver and making a fund choice

Make it timely

- The communication is issued when default members first join Kiwi Wealth, making it a relevant time to consider their fund choice
- We had a clear call to action in the email subject line (in the letter we used a visual 'sticky note')

The next page has an example of the amended email.

The trial began in August 2016 and ran through until February 2017.

In total, 3,427 new default KiwiSaver members received the welcome communication. Members were randomly assigned so that half received the original communication (the control) and half the revised communication (the treatment). Members who had an email address received the communication by email. The others received it by letter.

 Action required: choose an investment fund, find out how below

Welcome to the Kiwi Wealth KiwiSaver Scheme

Hi **###MEMBERNAME###** and thanks for joining us!

You've taken the first step to a more comfortable retirement. You have joined over 150,000 Kiwi Wealth KiwiSaver Scheme members who benefit from easy-to-understand monthly reporting and award-winning customer service.

To finish setting up your Kiwi Wealth KiwiSaver Scheme account, we need you to do three simple things.



1. Set up your online account

Go to www.kiwiwealth.co.nz and click on the Kiwi Wealth KiwiSaver Scheme login button (in the top, right corner of the page). Below is your temporary password. You will need to change this the first time you log in.

Username: **###USERNAME###**

Temporary password: **###PASSWORD###**



2. Choose how your money's invested

Nine out of ten Kiwi Wealth KiwiSaver Scheme members have chosen how their money is to be invested. Now is the time to think about the future you. Your future lifestyle might depend on choosing the right investment fund, so make sure you pick the right one for your needs.

Our quick and easy online quiz at www.kiwiwealth.co.nz/risk-profile will help you choose which investment fund might be right for you. Log into your online account and click on "Change your investment direction" in the quick links on the right hand side.



3. Make sure we know who you are

Check your personal details are correct and update these online. Please give us a quick call on 0800 427 384 to verify your identity. This is something we're required to do by law and it takes just five minutes.

The results - what we found

Impact on member fund choice

People were more likely to choose their own fund if they received a treatment communication

Table 1 shows the total number of members in the control and treatment groups who made their own fund choice. Only one person from the control group chose not to change their investments.

Table 1: Number of members who made a fund choice

	Email	Letter	Total
Control	44	10	54
Treatment	64	16	80

Statistical results

We used two statistical models to analyse the data.

Simple model

This model looked at whether people who received the treatment communication, across both email and letters, were more likely to choose their own fund.

Full model

This model analysed whether the type of communication (email or letter) made it more likely a member would choose their own fund and whether the results changed across certain months. Find out more about the two different models in Appendix 1.

Analysis from the simple model showed there was a statistically significant difference ($p < 0.025$). As shown in figure 1, people who received the treatment communication were more likely to choose their own fund.

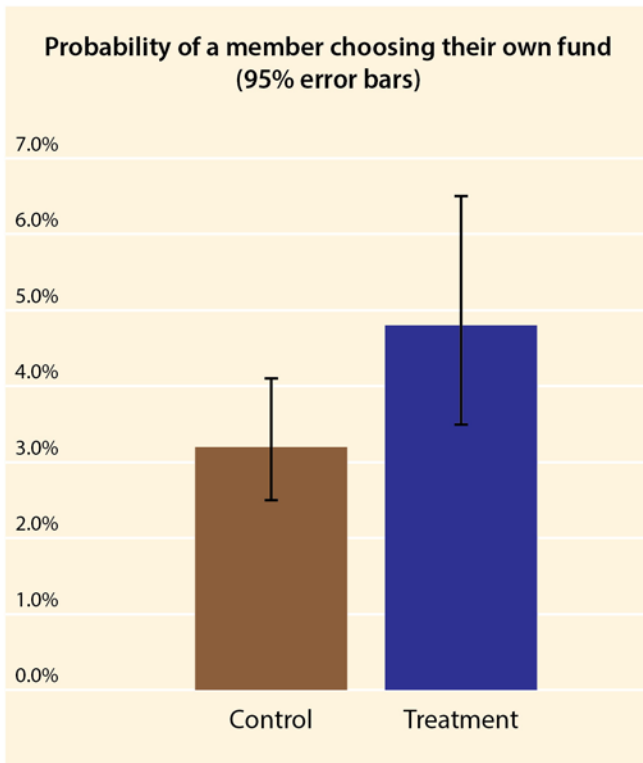
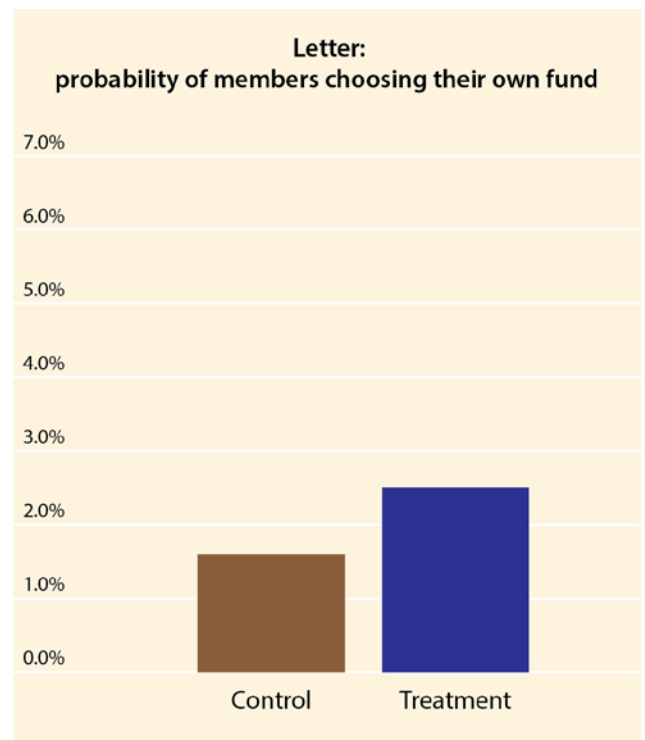
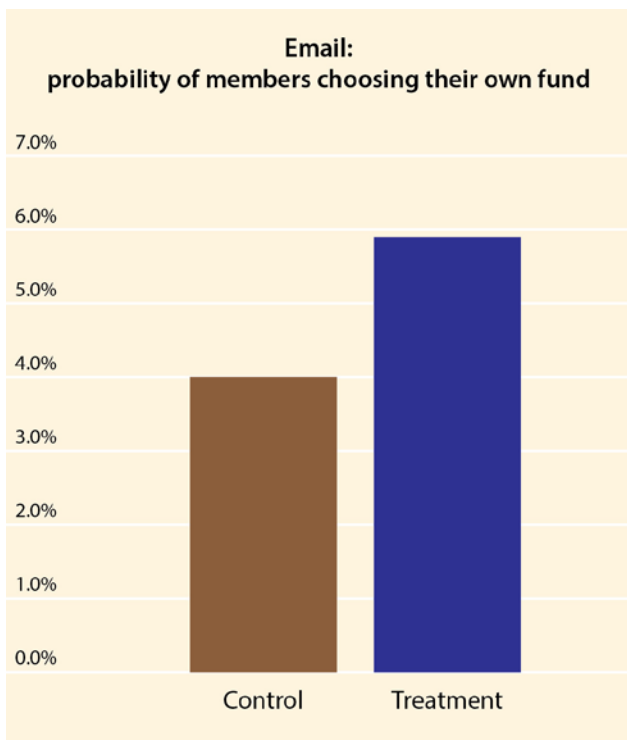


Figure 1: Probability of members in the control or treatment group choosing their own fund

On average, the probability of the treatment group changing their fund choice was 47% higher than for those who received the control communication.

Results from the full model analysis show people who received the treatment communication were more likely to choose their own fund than those in the control group regardless of whether an email or letter was issued. Overall, however, people who received a treatment email were more likely to choose their own fund than the treatment group who received letters, as shown in Figures 2 and 3.



Figures 2 and 3: Probability of members choosing their own fund across letters and emails

When the results were examined across the months of the year, the full model shows people are less likely to choose their own fund towards the end of the trial. This may be due to inactivity around Christmas and New Year.

Impact on first logins to Kiwi Wealth’s website

People who received letters were statistically more likely to log in than those who received emails

Table 2: number of first logins

	Email	Letter	Total
Control	226	28	254
Treatment	226	54	280

Statistical analysis

A simple model was used to determine whether receiving the treatment significantly affected the probability that a person would log in to their Kiwi Wealth online account.

The model found no statistical difference overall. A person that received the treatment communication was not more likely to log into their Kiwi Wealth account. However, the results did show if the person received a letter they were more likely to log in than those who received an email.

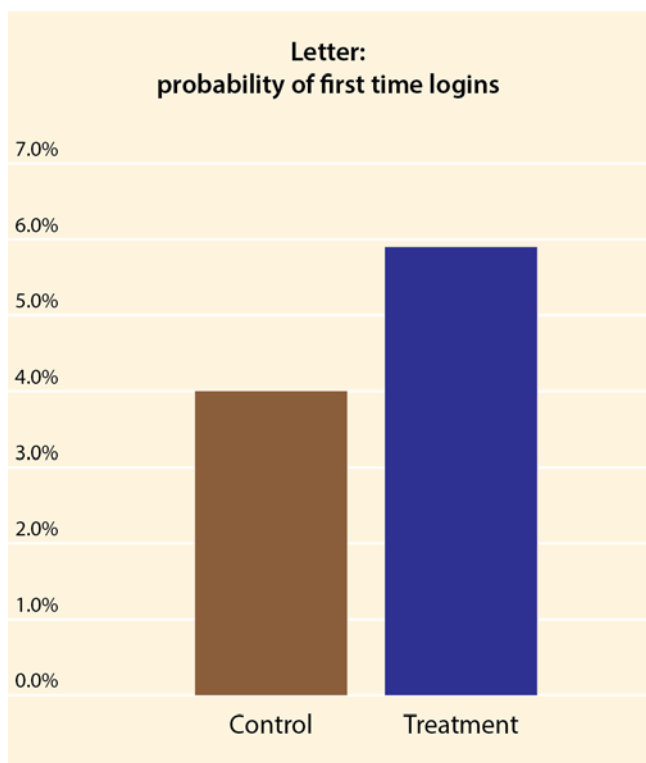


Figure 4: Probability of members logging in to Kiwi Wealth for the first time

Impact on account closures

The treatment communication encouraged loyalty to Kiwi Wealth

Table 3: Number of people who closed their accounts with Kiwi Wealth

	Email	Letter	Total
Control	99	41	140
Treatment	68	42	110

Statistical analysis

We analysed whether receiving the treatment communication made it more or less likely for a member to close their Kiwi Wealth account.

We found a statistically significant difference in account closures between the treatment and control group ($p < 0.05$), as shown in figure 6.

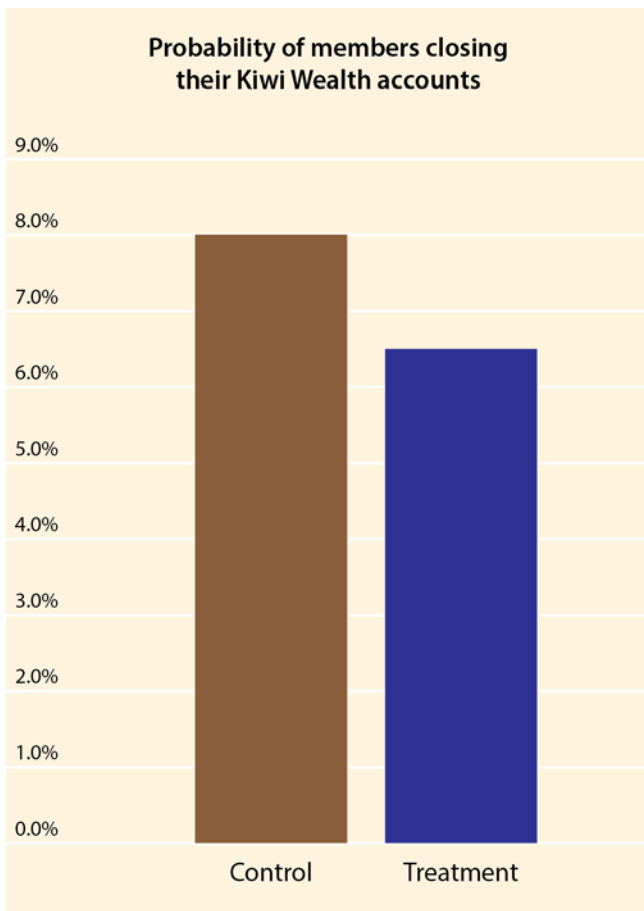


Figure 6: Probability of members closing their Kiwi Wealth account

On average, the probability of the treatment group closing their account with Kiwi Wealth was 20% less than those who received the control communication.

Conclusion and next steps

Due to its success, the Kiwi Wealth team has decided to continue using the treatment communication for all new default members. They are now reviewing all of their existing communications to identify opportunities where using this approach could add value.

We would like other KiwiSaver providers to make similar changes to their communications. The approach can be adopted across any member communications and the changes are quick and low cost.

We would also be interested in seeing whether further interventions, like follow-up phone calls, could improve results.

Direct engagement by phone

Providers who currently call members tell us that up to half of the people they reach end up choosing their own fund. However, many providers are not resourced to do this and often they do not have up-to-date contact details. We are keen to explore other more cost-effective ways of following up with members.

This trial shows that simple changes can increase the number of KiwiSaver members who decide to choose their own fund.

We are keen to see what else providers can do to further improve these results. We welcome the opportunity to work with other providers on similar trials that help members make the very important decision to choose their own fund.

References

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Appendix 1: Analysis models

The statistical analysis was conducted using a binomial logit regression model.

Model fit was tested against a null model to ensure the predictors fit significantly better than a model with just an intercept.

The null hypothesis (H_0) is that there is no difference between the probabilities of switching in the control or treatment group (ie they are the same).

Results show a statistically significant difference, therefore the null hypothesis is rejected.

About the models used

Analysis of fund choices

The simple model looked at whether receiving treatment significantly affected making an active choice.

- Model specification: ActiveChoice (yes/no) ~ group (control/treatment)

The full model controlled for the type of communications version sent (email or letter). It also controlled for month and communications version.

- Model specification: ActiveChoice (yes/no) ~ group (control/treatment) + commsversion (email/letter)
- Model specification: ActiveChoice (yes/no) ~ group (control/treatment) + commsversion (email/letter) + month

An interaction term was tested between group assignment and communications version and no statistically significant result was found. This indicates the treatment is just as likely to work across both email and letter groups.

Analysis of first logins to Kiwi Wealth

This model controlled for group assignment (control/treatment) and communication version (email or letter).

- Model specification: ActiveChoice (yes/no) ~ group (control/treatment) + commsversion (email or letter)

Analysis of number of accounts closed

This model controlled for group assignment, as there was no statistically significant ($p < 0.05$) relationship found for communication version.

- Model specification: activeChoice (yes/no) ~ group (control/treatment) + commsversion (email or letter) + month