

Investor Capability Strategy 2017–2020

Building investor understanding
and confidence



Introduction

Capable, confident and well-informed investors are an essential part of healthy financial markets.

Our first **Investor Capability Strategy** in 2015 identified that investors needed help to build their levels of capability.

Since then, insights we've gained from the key activities outlined in our 2016 and 2017 **Annual Reports** have given us a better understanding of how to influence investor behaviour.

This revised strategy sets out our new areas of focus – responding to the 'investor understanding' and 'investor behaviour' drivers of risk identified in our **Strategic Risk Outlook**.



Our objective

Build investor confidence and understanding by:

"Creating safer and more transparent financial markets so investors can better choose and use appropriate financial products and make informed investment decisions."

We will continue to work closely with other Government agencies, market participants, and community organisations to achieve this objective. We will share our research to understand what helps investors make good decisions, and stay up to date with international research and conduct.



Our focus areas

Previously our core target audience was people aged over 50 with money to invest. Survey demographics and analytics from our direct, online communication with investors show we need to widen this target audience.

As a result, we will now focus on positively influencing the behaviour of all New Zealand investors in the following areas:

- choosing and using investment products
- complex investment products
- KiwiSaver
- awareness of high-risk 'investments'
- avoiding fraud and scams
- getting help and advice.



How we will target investors

Influencing how industry engages with investors

- Through supervision and regular monitoring
- Ensuring practices and services focus on good customer outcomes
- Cross-agency work and contribution to policy
- Disclosing information about KiwiSaver (such as fees and member engagement)
- Conducting more behavioural insights trials to see what works

Talking directly to investors

- Using social media and online resources
- Using partner and provider channels
- Events such as World Investor Week, Money Week and Fraud Awareness Week



What we want investors to do

- Use licensed providers
- Know the warning signs of scams, and check our warning lists
- Shop around for products – read disclosure information, make informed decisions and get advice when needed
- Be aware of investment risks
- Regularly check their investments

For KiwiSaver, we want members to:

- Understand the impact of fees on returns
- Choose an appropriate fund
- Ask the right questions before choosing or changing their KiwiSaver provider



How we will measure progress over time

- An improvement in our overarching investor confidence index (SPE)
- A sustained high percentage of website visitors surveyed who rate our content as useful in helping them to make informed investment decisions (SPE)
- An increase in investors surveyed who report they are confident in New Zealand's financial markets (SOI)
- An increase in investors surveyed who believe that financial product information they received helped them make an informed decision (SOI)
- We can show we regularly work with Government agencies and market participants to promote information and materials to improve investor capability (SOI)



Note

SPE is the annual **Statement of Performance Expectations**.
SOI is the medium-term **Statement of Intent**.

Why we need an investor capability strategy

The growth of KiwiSaver is exposing more New Zealanders to financial markets.

Research shows New Zealanders do not have a good understanding of basic investment concepts, and few New Zealanders seek professional advice. Our Investor Capability Strategy is how we deliver part of the Government's **National Strategy for Financial Capability**, facilitated by the Commission for Financial Capability.

Our **Strategic Risk Outlook 2017** identifies low investor capability and gaps in investment knowledge as significant drivers of risk. It also identifies that human behaviour often leads people to make poor decisions about investments (especially complex questions such as 'How much do I need to save for a comfortable retirement?').

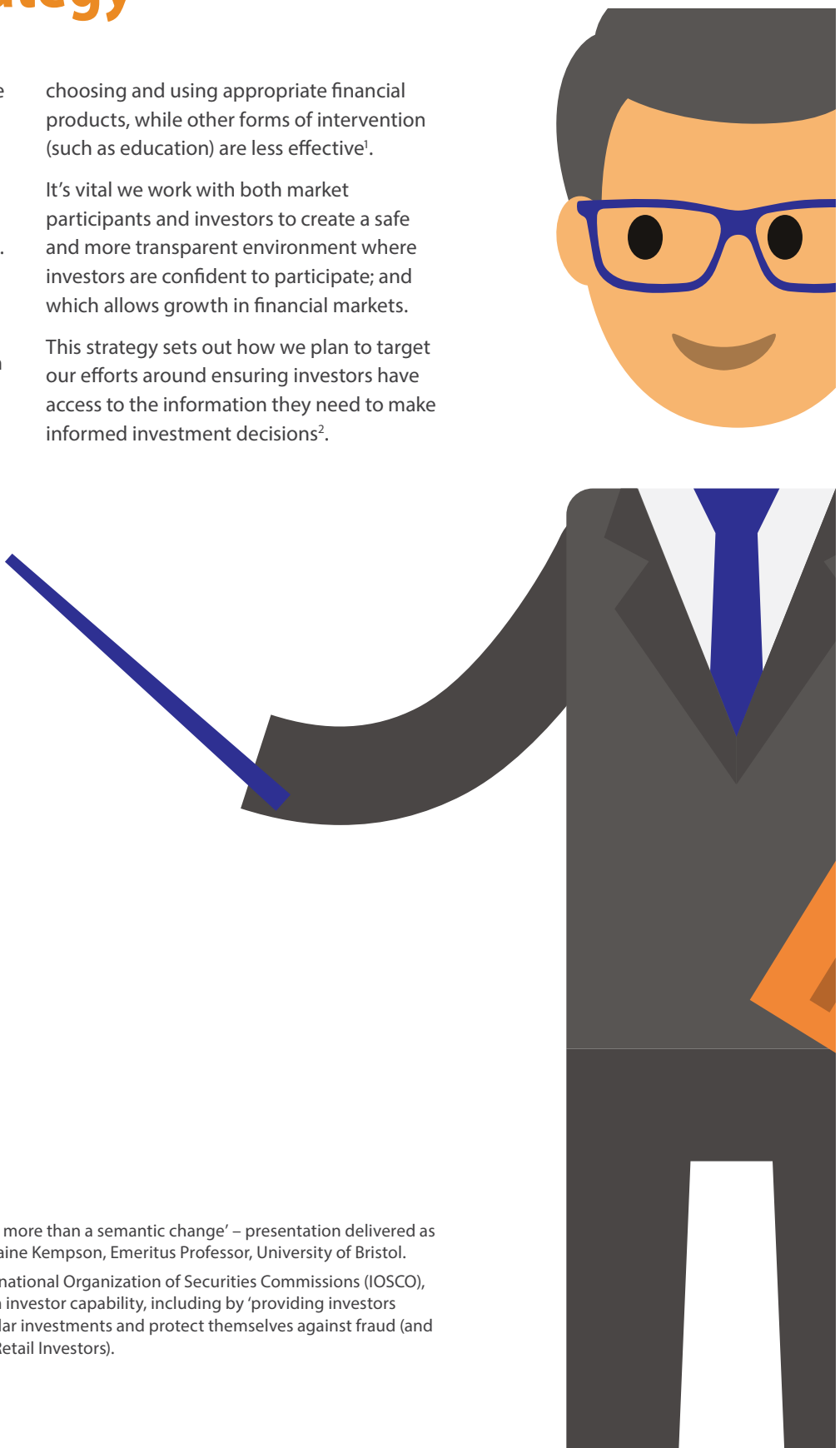
When market performance is erratic or returns are low, people are more likely to invest in complex, higher-risk products – increasing their risk of being scammed.

Research also shows intervening to protect consumers is vital – and we are able to do that. World Bank research shows consumer protection, regulation and supervision are critical to help investors become more capable at

choosing and using appropriate financial products, while other forms of intervention (such as education) are less effective¹.

It's vital we work with both market participants and investors to create a safe and more transparent environment where investors are confident to participate; and which allows growth in financial markets.

This strategy sets out how we plan to target our efforts around ensuring investors have access to the information they need to make informed investment decisions².



¹ 'From Financial Literacy to Financial Capability: more than a semantic change' – presentation delivered as part of the NZ Financial Capability Summit by Elaine Kempson, Emeritus Professor, University of Bristol.

² This is consistent with the direction of the International Organization of Securities Commissions (IOSCO), which calls on regulators to play an active role in investor capability, including by 'providing investors with tools to assess risks associated with particular investments and protect themselves against fraud (and other abuses)' (May 2017, IOSCO Committee on Retail Investors).

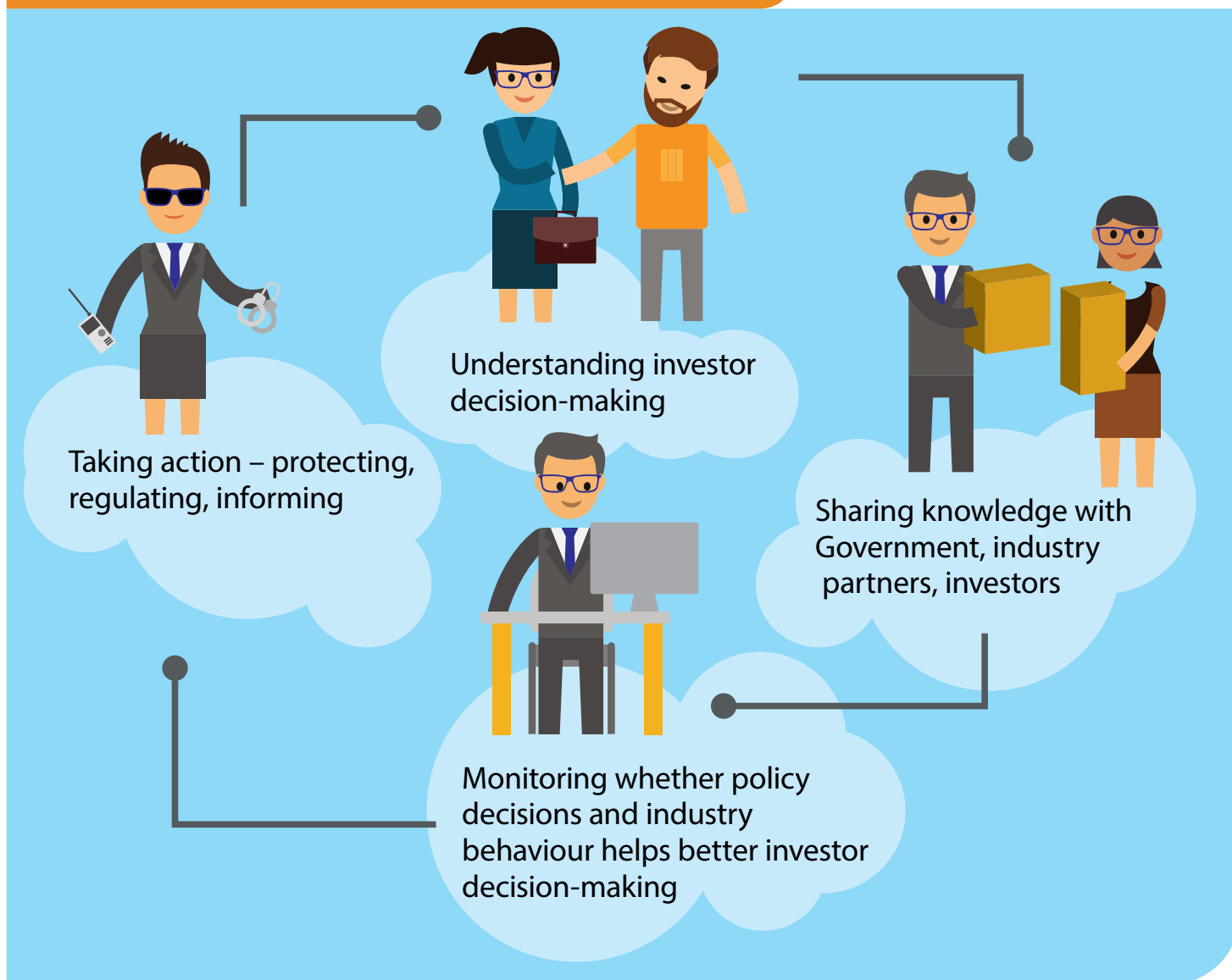


Our definition of investor capability

Our definition of investor capability recognises that to be able to make informed decisions, an investor needs more than just knowledge or skills.

'Investor capability is the ability to make informed judgments and effective decisions regarding investments. It is about having the knowledge, understanding, confidence and motivation to make and implement investment strategies and decisions.'

How we help build investor capability



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