

2014 AWARD REPORT



Savings





SAVINGS

IN THIS REPORT

We collate our research of 11 cash PIEs, 23 term deposits and 35 saving accounts to announce the Best Value New Zealand Savings award.

We're doing well!

When it comes to saving, the good news is that we are. According to Reserve Bank of New Zealand statistics, the dollar value of New Zealand resident household deposits (excluding foreign currency) has grown from \$106,158 million in June 2012 to \$127,186 million in June 2014. It's an amount of money that has doubled since June 2006.

So where should cashed-up Kiwis be looking to stash their loot? When it comes to offering overall best value, CANSTAR has crunched the numbers of 13 financial institutions, across:

- **Term deposits** – These offer certainty of return although with the official cash rate on the rise, that may come at a cost. Currently on CANSTAR's database, the average interest rate on a 12-month term deposit is 4.26%. That said, we have noted rates currently as high as 4.75%.
- **Online saver** – The interest paid on an online saver account tends to rise and fall in line with official cash rate changes. That's a good thing, of course, when rates are going up. We have noted that, on average, online saver account rates change almost as soon as there is a change in the official cash rate.
- **Incentive saver** – Kiwis love incentives and on CANSTAR's database savvy savers can currently aim for an at-call return of 4.5%. Rates do vary between providers, though, and it's important to read the terms and conditions of any bonus on offer.
- **Full access saver** – A "Full access saver" is an account that gives its users a competitive interest rate along with transactional capability similar to an everyday transaction account. Unlike an online saver, the full access saver account gives users access to the financial institution's branch services and ATM networks. Direct debit, direct credit and eftpos are generally available in this type of account.
- **PIE account** – PIE accounts are not as popular as they could be, or perhaps should be. They are nevertheless a viable savings alternative. Portfolio Investment Entities (PIEs) are a unit trust. As an investor, you buy units in the trust, which are invested in a cash portfolio. It is easy to put money in and take money out (within restrictions imposed by the specific investment) and for income earners on a high tax rate, there can be tax advantages.



What should savers look for?

Different features of a savings account will have varying levels of significance depending on the type of account chosen and

the ultimate purpose of the account. Nevertheless, there are some common things savers should watch out for, including:



The interest rate – Obviously! Achieving a good return on their savings is high on the priority list for most people. With the official cash rate on the rise, the rates on offer vary almost continuously, so it's important not to "set and forget" cash.



The fees – Even though interest rates are on the rise, they are still historically low. That means that fees pack a bigger punch. Some common types of fees that consumers can incur on various savings accounts include a monthly account fee, branch deposit fees, over-the-counter transaction fees, eftpos fees and electronic transaction fees. The good news is that there are fee-free savings options available.



Accessibility – Whether it's online or in person, financial institutions need to offer good accessibility to their customers. The number of ATMs and branches available across the North and South Islands will be a factor that some savers deem important, while the quality of online banking platform and other saving apps will be a must-have for others.



Features – Features such as the credit rating of a specific institution, the online security offered, account conditions such as minimum/maximum opening balance and other account design features can make a significant difference to the overall usability of a savings account.



Financial management tools – We are increasingly on the www and financial institutions have a fantastic opportunity to increase the financial knowledge of their customer. As such, savers can look for a good range of value-add tools including:

- Calculators (e.g. saving goals and Resident Withholding Tax rates)
- Personal financial management tools
 - Budget planners
 - Savings articles.

Who offers outstanding value for money?

The CANSTAR savings award is presented to the institution that consistently offers outstanding value across the variety of savings accounts detailed earlier in our report. For the second year running, CANSTAR is pleased to announce that Bank of New Zealand (BNZ) has picked up our award for Best Value New Zealand Savings.

Offering the full suite of savings accounts assessed, BNZ stood out for its consistent performance across both the products and the personal financial management tools it provides. Some items of note include:

Rapid Save account

If you are looking for an incentive to save, BNZ's Rapid Save account is a serious contender. The account does not have any monthly fees and offers competitive bonus rates as well as a high base rate. It also offers one free withdrawal per month that does not have any negative impact on the potential bonus interest rate.

Cash PIE

BNZ's PIE is a tasty offering, with a comparably high interest rate, as well as a low minimum balance and low minimum deposits in



Best Value New Zealand Savings



comparison to the rest of the market. Being PIE compliant, consumers with a marginal tax rate of 30% or 33% can enjoy a reduced tax rate of 28%. BNZ has also created a tax structure whereby tax is remitted upon the withdrawal of funds.

Term deposits

BNZ's term deposit rates are high in comparison to the other products on the market; there is a flexible "rollover" option, which allows customers to earn greater amounts of interest by allowing

their term deposits to keep renewing every 30 days; seventeen different term options are offered, giving consumers a large amount of choice in comparison to the market; and there are no establishment or management fees.

Online saver

BNZ's Personal OnCall is its top performing online saver account with a 3.10% interest rate, no monthly fees, no charges for withdrawing or depositing funds via funds transfer or one-off payment using internet or phone banking, there is no loss of interest for accessing or transferring funds, and there are no minimum monthly deposits.

Savings tools

BNZ provides excellent graphing and saving tools through internet banking and also provides online educational videos, budgeting articles and tips, and calculators through its website. A relatively new online product of note is YouMoney, which picked up a 2013 CANSTAR Innovation Award.

CANSTAR congratulates BNZ for winning the Best Value award in this important area of money management.



Q With interest rates now starting to rise after a long hiatus, has there been a change in the types of products that savers are favouring?

A We have noticed customers with larger savings balances moving their cash to savings accounts to take advantage of the better rates on savings accounts. However, as the longer term rates start to increase making term deposits more attractive, we expect to see customers returning to term deposits.

Q One of the products singled out by CANSTAR in the assessment was the BNZ Rapid Save account. In the low interest rate environment, have incentive saver accounts been increasingly popular?

A Yes, incentive saver accounts have become more popular as they tend to offer better rates of interest compared to call accounts. The BNZ Rapid Save has a good bonus rate that is paid when you grow your account balance by at least \$1



and make no more than one withdrawal each month. This helps as you don't always have to make large deposits, and if you need to make an emergency withdrawal, you may still be able to get your bonus interest. Having a full access product means you can transact on the account how and when you want to.

Q In terms of savings products, what should customers look for in a good-quality account?

A What is good for one person may not work for another. The most important consideration is to first work out what your individual circumstances, saving and spending habits, saving timeframes and goals are. From there

you can find the best option or options that suit your needs. For example; those regularly growing savings may consider an incentive type account while if they have a short timeframe and are likely to make withdrawals, a call account may be more suitable. It may also be better to spread your savings across a number of products.

Once you've worked out what you want to achieve, it is best to talk to your bank. Although it is tempting to go for the best interest rate, your requirements may mean a lower rate of interest with better access is more suitable. It is vital that you ask about and understand any conditions around interest rates and withdrawals and what that means for you.

It's also important to regularly review your accounts (at least annually) to make sure that they are still the best ones available for your needs.

You want to know you're going to get your money back, so saving with a stable organisation for security of your deposits also shouldn't be dismissed.

Fiona Ehn

Head of products and customer solutions

Some quick savings tips

If you love the idea of a healthy savings account but just can't manage to save much money, here are some quick savings tips to get you started.

Have a written budget. It sounds self-evident, but the easiest way to cut your costs is to know where you are spending your money. Having a written budget and tracking your expenses to ensure that it's accurate is half the battle.

Get your partner on board. They say opposites attract and it's amazing how often spenders team up with savers. If you have a partner, making sure that you're both communicating about your financial priorities is important.

Write a weekly meal menu to save many hundreds of dollars each year. Food is one of our biggest expenses, but doing one large weekly or monthly shop rather than several small ones can cut down on impulse buys, takeaway and wastage.

Check your credit card balance and interest rate. If you owe money on your credit card, check what interest rate you are paying. Credit card interest rates can vary by more than 10%. And if you carry an ongoing balance, it's a difference that could cost you plenty.

Shop around for insurance. The cost of many insurances (car, home and contents, life and even travel) can all vary significantly between providers. You can potentially find great-quality cover at a more affordable price.

Cut back on a vice. Do you smoke? Drink much alcohol? How about indulge in takeaway food? These are all habits that can cost us a lot of money. Add it all up and look for a way to cut back.

Try spending cash only for a month. There's nothing like handing over real cash to make you aware of how much you're spending. Give it a go!

Start a coin jar! Throwing your coins into a (non-opening) jar each day can build funds very quickly.

Plan for "unexpected" costs. Whether it's a birthday gift or the car insurance, the school fees or a wedding to attend, a lot of "unexpected" costs wouldn't catch us by surprise if we checked our calendar now and then. Planning ahead can really save money on those last-minute buys.

If all else fails and you love impulse buying, **calculate how many hours of work it takes to earn the cost** of an unnecessary item you're considering. It's a way to sort the impulse buys from the real wants!





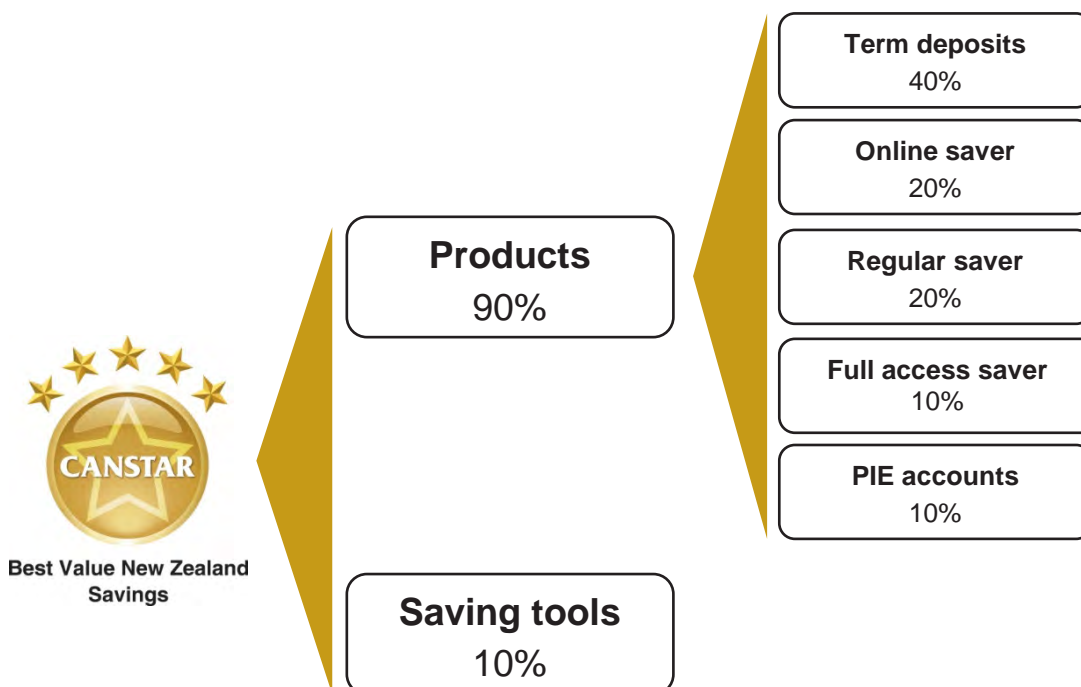
What is the CANSTAR Best Value Savings Award?

CANSTAR *Best Value Savings Award* uses a sophisticated rating methodology, unique to CANSTAR, which compares institutions' saving products and tools available in the New Zealand market.

This CANSTAR award aims to give recognition to the institution that most effectively equips consumers with the products and tools to save up for goals, whether it be a holiday or a house. This includes providing product value across a variety of cash PIEs, term deposits and saving accounts sourced from the relevant CANSTAR star rating profiles as well as a number of online saving tools to assist consumers in achieving their saving goals.

How is the CANSTAR Best Value Savings Award calculated?

To arrive at the overall score, CANSTAR assesses two components consumers look for when seeking the best institution to help achieve their saving goals. While an institution's product offering takes up the majority of the institution's overall score, consideration must be made to the available saving tools from its website or internet banking such as calculators, financial or budgeting advice and personal financial management tools.



Product assessment

Each institution is represented by its highest scoring product in the CANSTAR deposit, cash PIE and term deposit rating. Each of the products' star ratings is calculated as follows...

Deposit accounts

Each deposit account reviewed for the CANSTAR *Deposit Account Star Ratings* is awarded points for its comparative Pricing and for the array of positive Features attached to the account. These features include accessibility, conditions attached to interest payments and S&P rating of the institution offering the product. Points are aggregated to achieve a Pricing score and the Features score (see table below for weightings).

	Pricing		Features		
Online saver	80%		20%		
Regular saver	80%		20%		
Full access saver	70%		30%		
	Rates	Scenarios	Credit rating	Product features	Access
Online saver ⁺⁺	90%	10%	30%	70%	0%
Regular saver	60% ^{^^}	40% [^]	25%	65%	10%
Full access saver	65%	35%	25%	60%	15%

⁺⁺filter by current total interest rate on \$25,000 greater than or equal to 1%
[^]Regular saver scenario is the net return over six months (see below for details)
^{^^}80% six months' bonus/promo historical rate and 20% six months' base historical rate

Please see the CANSTAR *Deposit Account Star Ratings Methodology* for more information.

Rate component

The rate component accounts for the tiered interest rate structure of deposit accounts. The tiers for historical rate calculations are applied in the following manner:

	Tier 1, \$	Tier 2, \$	Tier 3, \$
Interest rate tier weighting	40%	45%	15%
Online saver	2,500	25,000	50,000
Regular saver	1,000	10,000	25,000
Full access saver	5,000	10,000	25,000

Scenario component

Transaction fee scenarios based on 500 hypothetical customers. The following table outlines scenarios for each of the profiles (excluding Regular saver):

	Online saver	Full access saver
Average balance	\$25,000	\$10,000
Average deposit	-	-
Average no. of transactions	5	5
ATM withdrawal, own network	-	10%
Branch cash withdrawal	-	20%
Direct credit	-	15%
Direct debit	-	15%
eftpos transaction	-	20%
Internet transaction	100%	10%
Phone banking	-	10%

For the Regular saver, the following scenario is used instead of the hypothetical 500-customer scenario:

- \$2000 initial deposit on day of month one
- \$100 deposit on day one of the next 11 months (excluding month six)
- \$100 withdrawal on the last day of month 12
- The interest earned is calculated then indexed

Credit rating component

The higher the credit rating of the institution, the more points it will receive for this category. The total number of points each institution receives is indexed against the institution with the highest credit rating to receive the total credit rating score.

Access component

The ratio of the total number of free ATMs and branches across New Zealand (both islands) against the New Zealand population is calculated against a cap of 10,000 people per ATM and 25,000 people per branch. Any institution that exceeds the cap will receive full points for this category, with the remaining institutions being indexed against the caps.

Both access areas are weighted equally at 50% for each profile except for the electronic transactor, where ATM and branch are weighted 80% and 20% respectively.

Product features component

CANSTAR's methodology takes into account more than 100 product features with weights given to each relevant area. Examples include minimum opening deposit, minimum withdrawal and ATM facilities.

Feature category	Online saver	Regular saver	Full access saver
Account facilities	50%	45%	55%
Specific condition	30%	35%	25%
Exempt for fee and charges	5%	5%	5%
Account design options	10%	10%	10%
Online security	5%	5%	5%
Fees and charges	-	-	-

Cash PIE

As with the deposit star ratings, each account rated within the CANSTAR *Cash PIE Star Ratings* is awarded points for its comparative Pricing and array of positive Features attached to the account. Its relative weighting is as follows:

Pricing	Features
80%	20%

Please see the CANSTAR *Cash PIE Star Ratings Methodology* for more information.

Pricing component

The pricing score is based on a transaction scenario reflecting the typical behaviour of consumers investing in Cash PIEs:

- Initial investment of \$5,000 in January
- \$100 monthly additional deposits
- \$100 quarterly withdrawals (in March, June and September)
- Full withdrawal in December (*to account for funds that have returns upon withdrawals only*)

The total return of each fund is calculated using the current interest rate, interest payment frequency, and when the institution deducts tax from the customer's account and remits it to the Inland Revenue.

The total return is then indexed against each fund in the profile and then weighted by its respective feature weighting to determine the fund pricing score.

Feature component

Like the deposit account star ratings, the CANSTAR Cash PIE Star Ratings take into account more than 40 product features with weights given to each relevant area.

Category	Active saver
<i>Specific conditions</i>	30%
<i>Features</i>	25%
<i>Accessibility and communication</i>	43%
<i>S&P rating</i>	2%

Term deposit

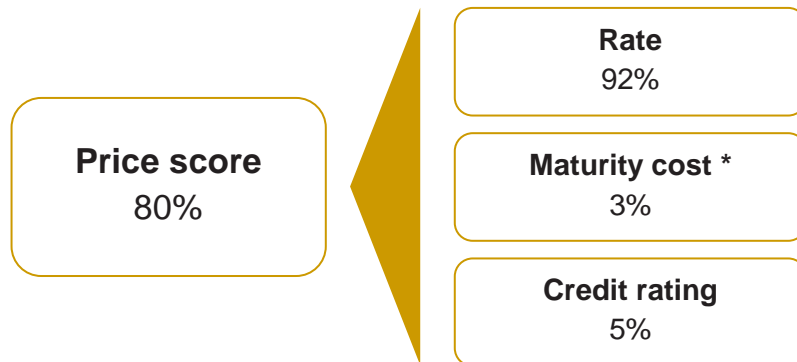
As with the deposit and cash PIE ratings, term deposits assessed within the CANSTAR Term Deposit Award is based points for its comparative Pricing and the array of positive Features attached to the term deposit. Its relative weighting is as follows:



Please see the CANSTAR Term Deposit Award Methodology for more information.

Pricing component

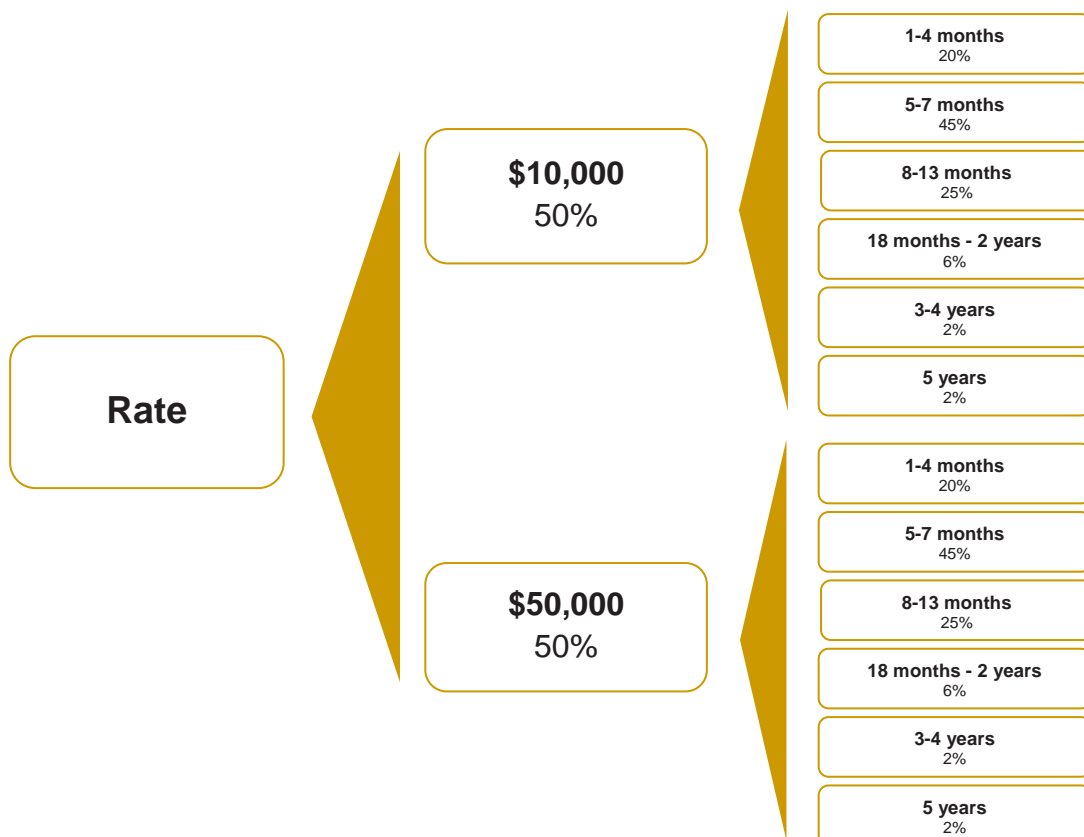
CANSTAR incorporates interest rates, terms and maturity costs into the calculation of the pricing score of the overall score.



Maturity costs included any cost associated with retrieving or transferring your funds at maturity such as the cost for a bank cheque.

The institution's credit rating was also taken into account where a higher S&P, Fitch or Moody credit rating attracted a higher score for its credit worthiness.

For the rate score, the pricing assessment accounts for both current and 26 weeks of historical rates and terms.



Feature component

The CANSTAR *Term Deposit Award* takes into account more than 40 product features with weights given to each relevant area.

Category	Category weighting
Account options	40%
Bonus/discounts	15%
Early withdrawals	10%
Interest options	15%
Statement options	5%
Term options	15%

Saving tool assessment

A consumer needs more than a savings account to achieve his or her goals. Saving tools can help paint a picture of a consumer's saving horizon and give directions into how much per week to save for a particular goal or show areas within the budget to generate extra savings.

We consider a number of features that promote or educate consumers on saving which is sourced from CANSTAR's *Online Banking Award*. These features include:

- Calculators (e.g. projected savings, regular savings)
- Graphing facilities based on transaction history within internet banking
- Budget planner
- Saving and budgeting articles

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

How often are products reviewed for star ratings purposes?

All ratings are fully recalculated every 12 months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.

Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.co.nz if you would like to view the latest star ratings reports of interest.



- Business deposits
- Cash PIE
- Credit cards
- Credit card rewards
- Home loans
- KiwiSaver
- Online banking
- Personal loans
- Savings accounts
- Transaction accounts
- Term deposits

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Saving Award

REPORT DATE: JULY 2013

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Company	Saving Products					Saving Tools			
	Online Saver	Incentive Saver	Full Access Saver	Cash PIE Account	Term Deposit	Projected Savings Calculator	Saving Goal Calculator	Budget Planner	Budgeting Tips

All ratings take into account costs and features - see our methodology document for further details

ANZ Bank	✓	✓	✓	✓	✓	✓	✓	✓	✓
ASB Bank	✓	✓	✓	✓	✓	✓	✗	✓	✓
Bank of New Zealand	✓	✓	✓	✓	✓	✓	✓	✓	✓
BankDirect	✓	✗	✓	✗	✓	✗	✗	✓	✗
Co-operative Bank	✓	✓	✓	✗	✓	✗	✗	✗	✗
Heartland Bank	✓	✗	✓	✓	✓	✓	✗	✓	✗
Kiwibank	✓	✓	✓	✓	✓	✓	✓	✓	✓
NZCU Baywide	✓	✗	✓	✗	✓	✗	✗	✗	✗
Nelson Building Society	✓	✗	✓	✗	✓	✗	✗	✗	✗
RaboDirect	✓	✗	✗	✓	✓	✗	✗	✗	✗
SBS Bank	✓	✓	✓	✓	✓	✗	✗	✓	✗
TSB Bank	✓	✗	✓	✓	✓	✗	✗	✗	✗
Westpac	✓	✓	✓	✓	✓	✓	✓	✓	✓