



Response to Productivity Commission Draft
Report: How to Assess the Competitiveness
and Efficiency of the Superannuation System

13 September 2016

AIST Submission

AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$700 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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1 Executive Summary

AIST recognises that it is critical to both the retirement outcomes of Australian workers and the national economy that our super system operates at optimal efficiency.

We welcome the Productivity Commission's focus on developing appropriate evidence-based measures to assess the efficiency and competitiveness of the system, and appreciate the opportunity to comment on the framework and measures put forward by the Commission.

We agree with Commission's view that maximising net returns to members is critically important and that the focus should be firmly on member interests. This principle underpins our commentary in this submission, as does our belief that transparency, consistency and comparability are fundamental to the proper assessment of efficiency criteria.

We are less supportive of the Commission's emphasis on competition. While we acknowledge the important role that competition can play in promoting efficiency, we note that that competition is not the only way efficiency can be achieved. The Commission's own work around efficiency in the health sector where market signals are muted – as is the case with the super sector – recognises this.

Our overall assessment is that while the Commission has established a sensible approach to the assessment process, and proposed some useful and appropriate assessment criteria and indicators, there are key areas where the Commission should focus and clarify its approach.

Out of 111 indicators proposed by the Commission, AIST supports 54 indicators, has reservations about 35 indicators and recommends that 22 indicators be removed. We have proposed an additional 4 indicators in addition to recommendations that the Commission give more thought to further indicators on governance and fiduciary relationships.

The following is a summary of AIST's key concerns and recommendations:

- The Commission has proposed some indicators that are ambiguous, and subject to interpretation. The Commission must avoid using ambiguous indicators.
- There is also ambiguity as to how the criteria proposed by the Commission will be satisfied or measured, how it will be made publicly available, and what constitutes success.
- The Commission has overly focused on indicators of the default sector of the industry, implying that this is where most inefficiencies lie. AIST contends that significant inefficiencies exist in the Choice and the SMSF sector, where research points to long-term underperformance. Wherever possible, the Commission should focus on indicators that have system-wide application.
- In attempting to be comprehensive, the Commission has developed too many indicators. The impact of a large number of indicators is to blunt the impact of individual indicators. The

Commission should consider rationalisation of the number of indicators, including the removal of indicators outside of the control of the superannuation industry.

- Notwithstanding the above, there are a number of areas that are of material importance to the efficiency and competitiveness of the superannuation sector that have not been sufficiently considered. AIST proposes additional indicators that seek to address these gaps.
- While the review purports to cover the entire superannuation system, the majority of the criteria and indicators focus on super funds and does not sufficiently assess the efficiency of government agencies and service providers.
- By neglecting to distinguish materially between for-profit and profit-for-members super funds, the Commission is potentially missing a rich source of efficiency, competition and performance comparison.
- It would appear that an underlying assumption of the Commission throughout its review is that member activity signals constructive engagement. We question this assumption and note that high levels of member activity are often a signal of financial illiteracy (ie members making knee-jerk decisions and switching) rather than constructive engagement.
- The Commission notes that data needed to build certain criteria can either be provided from existing or new data. While recent superannuation reforms have led to improved data collection, some data is poor, due to issues of consistency, comparability and quality. In particular, there are significant gaps in Choice data and about fees generally. Moreover, some of the new data proposed by the Commission may be difficult to obtain in a meaningful manner.
- Overall, the Commission's proposed indicators will require a significant increase on the current levels of data being collected and assessed. In addition to the traditional means of data collection - such as focus groups and member surveys - the Commission should recommend that new forms of data collection and analysis are employed to the greatest extent possible – i.e. Big Data.
- It is our view that a new publicly-funded body should be established and maintained on an ongoing basis to manage the operation of the criteria and indicators, collect and analyse data, and assess the efficiency of the system.

1.1 Governance and measuring fiduciary duty

We note that the Commission has included a measure of trust in all areas of the framework, but we think it could be better articulated. We believe that the assessment of trust should be given more importance through the addition of trust-related indicators, especially in relation to governance.

In particular, AIST is concerned that the importance of the fiduciary relationship has been under appreciated and should be included as a more important indicator of efficiency.

We believe it is critical that the Commission consider the value that super fund members place in the fiduciary trustee mode. This is fundamental not only to the architecture of MySuper, but also when individuals with low financial literacy act on the advice of an intermediary.

Low levels of engagement and financial literacy underline the importance of a fiduciary indicator.

There is existing data, including publicly available information, which would be a good starting point to develop a fiduciary indicator. For example, Section 29QB SIS Act requires trustees to disclose a variety of information about director skills and experience. Other indicators of good governance include appropriate remuneration structures, clarity around the roles and responsibilities and the separation between board and executive.

AIST also believes there is a need for additional indicators to measure inefficiencies created by potential agency issues that exist in the trustee system. For example, there could be specific criteria that would mark down funds for not identifying or addressing conflicts of interest, especially the offering of employer inducements.

1.2 Indicators and default fund selection

Member intermediaries such as employers do not necessarily make informed decisions in the best interests of their employees. It should be noted that employers are not presently fiduciaries, and have no obligation to act in members' best interests.

Default superannuation arrangements exist because many employees do not actively choose a superannuation fund. Current default fund arrangements provide stability, and investment returns of default funds have generally exceeded those of non-default funds. The Fair Work Commission is the appropriate place to balance employer and employee interests in relation to superannuation.

These arrangements were improved to promote the best interests of members as result of changes to both the Fair Work Act and the Superannuation Industry Supervision Act in 2013. The primary objective of default MySuper products is the promotion of the best interests of members. For industrial awards that list default funds, the selection and ongoing assessment of those funds is now merit-based under the Fair Work Act, and the success of this model should be a key indicator proposed by the Commission.

1.3 System objectives

AIST supports the establishment of a legislated objective for superannuation, supported by the guiding principles addressing adequacy, sustainability and fairness. We also support the Commission in developing system-level objectives that support this over-arching objective and explicitly have a long term focus.

However, the absence of a system level objective for the adequacy of superannuation outcomes is a serious omission, as it also is in the Government's proposed legislated objective of superannuation. A central tenet of the superannuation system should maximise net returns over long term to deliver adequate retirement incomes in conjunction with the age pension.

1.4 How to read this submission

AIST's submission has four main parts: preliminary commentary on key issues/potential additional indicators that we believe need attention from the Commission; commentary on the Commission's terms of reference and assessment framework; our assessment of the Commission's proposed objectives; and our analysis (using a traffic light system) on the proposed assessment criteria and its indicators, which includes an additional four proposed indicators.

Indicators supported by AIST are denoted by green. Indicators which we have reservations about, or where our support is qualified are denoted by orange. Indicators which AIST do not support are indicated by red, and new proposed indicators are indicated by purple.

2 Introduction

AIST welcomes the opportunity to comment on the Productivity Commissions Draft Report “How to Assess the Competitiveness and Efficiency of the Superannuation System”.

AIST reiterates that the significance of Australia’s super system - both to the retirement outcomes of Australian workers and the national economy - means it is vital that our system operates at optimal efficiency. We therefore strongly support appropriate and robust measures to test the efficiency of the system. We acknowledge that there are complicating factors in establishing appropriate efficiency measures such as consistency and comparability in definitions, quantification methodologies and the removal of conflicts.

We acknowledge the challenge of developing a framework to assess the competitiveness and efficiency of the superannuation system.

Given the complexity of the system we commend the Productivity Commission on its work.

The Commission has adopted a three step approach to assessment that is summarised as:

1. Defining system-level objectives for the superannuation system — what is the system trying to achieve?
2. Formulating assessment criteria based on these objectives — that is, the performance standards by which the Commission will assess if the system-level objectives have been achieved.
3. Identifying indicators and other evidence to facilitate interpretation and ultimate assessment in stage 3.

The Commission proposes to use two ways of assessing performance: benchmarking performance, and identifying and assessing barriers that impede performance.

AIST believes that the Commission’s approach is sensible.

The focus of AIST’s submission is to assess the Commission’s proposed objectives, assessment criteria and indicators with the aim of assisting the Commission to produce a robust model that will ensure that Australia’s superannuation system is competitive and efficient and will therefore deliver higher living standards for superannuation fund members in retirement.

2.1 Governance

Good governance is a key factor in the success of any superannuation fund and the efficiency and competitiveness of individual funds can be influenced through a fund’s governance practices. Good governance however, is difficult to measure, as governance success results from a combination of many different factors. Good governance is not a science, it relies on the interactions and relationships of people, with systems and processes in order to make effective, and informed decisions. AIST submits that those factors differ from fund to fund, as well as between industry sectors.

Australian superannuation funds operate in a strict legal and regulatory environment and the fiduciary duties owed, together with the obligations under the SIS Act and APRA's Prudential Standards, protect the interests of superannuation fund members and their beneficiaries.

AIST supports good governance practices in the industry and is focused on delivering support for its members on governance matters through the creation of a Governance Code, continuous education and the provision of relevant tools and guidance.

AIST recognises the potential agency issues that exist in the trustee system and supports the ongoing involvement of member and employer representative directors on boards to help mitigate those risks. Inappropriate incentive structures and agency issues lead to consumer distrust.

Profit for member super funds have a governance model consisting of equal member and employer representation on the board. By bringing all of the voices to the decision-making table, the profits for members super sector mitigates against inappropriate incentive structures and agency issues. Retail funds have a different governance model that generally doesn't include member or employer representation, and often has a number of directors that are nominated by the parent company. This raises the concern that such directors may not be independent from the nominating organisation. The SMSF sector has individual trustees, and a different regulatory framework with limited focus on good governance practices.

The 2012 Productivity Commission review determined that it was important that fund governance practices are consistent with meeting the best interests of members, with particular focus on the mechanisms put in place by fund trustees to deal with conflicts of interest, and the transparency associated with disclosure of those conflicts. AIST agrees.

We appreciate that the Commission will be considering governance indicators on a system level for the determination of the industry's efficiency and competitiveness. As the peak body representing profit for member funds, we are committed to ensuring that the best interests of members remain at the centre of superannuation fund practices and any reviews of its effectiveness. A filter that puts the best interests of members first must always be applied in our mandatory retirement savings system, as well as in the governance of superannuation funds to mitigate potential agency concerns.

The legitimacy of the equal representation governance structure is given weight by the sector's historical outperformance and high returns. SuperRatings' data to 30 June 2015 of the performance of Australia's superannuation funds shows profit-for-members super funds as having outperformed retail super funds by 2 per cent for the year. On a rolling 10-year basis the outperformance is 1.94 per cent.¹ This trend has persisted since the introduction of compulsory superannuation. In an environment where governance is difficult to measure, AIST submits that the consistent outperformance and long-term returns data are a

¹ SuperRatings' Fund Crediting Rate Survey to June 30, 2015.

good indicator that the governance of the fund – that is, the decision making of the trustee board and investment committee.

2.1.1 Board competence and other measures

While AIST appreciates that conflicts management as well as the skills and competencies of trustee directors are important components of good governance, they are not the only indicators of good governance.

Other key elements of good governance include:

- Clarity around roles and responsibilities and the separation between the board and executive
- Robust risk management practices
- Transparency and meaningful disclosure
- The appropriate use of delegations to committees, executive, advisers and outsourced service providers
- Director training and performance evaluation
- Appropriate remuneration structures
- The role of internal and external audit functions

With regard to director skills and experience, mandatory disclosure requirements are already in place and the required information is publicly available. Section 29QB SIS Act requires a variety of elements outlined in SIS Regulations 2.37 and 2.38 to be disclosed on a publicly available part of an RSE licensee's website. This information is required to be kept up-to-date and penalties apply for breaches of the requirements on a strict liability basis. AIST submits that as a consequence the data available from the section 29QB disclosures is therefore highly reliable.

The section 29QB disclosures also require the duties and interests registers of the funds to be disclosed, as well as a summary of their Conflicts Management Policy. The regulatory framework around the contents of the conflicts management policy, APRA's expectations on conflicts management and the monitoring and reporting against the policy are clearly set out in SPS521 Conflicts of Interest.

While these disclosure requirements do not in and of themselves ensure a trustee's capacity to act in the best interests of members, nor provide evidence of the effectiveness of the individuals as part of the board dynamic, and therefore the effectiveness of that board's decision-making capacity, AIST submits that the trustee is highly regulated by both ASIC and APRA with regard to governance disclosures and practices. APRA's Prudential Standards SPS 520 Fit and Proper (SPS 520) and SPS 510 Governance regulate the necessary skills and competency requirements. The reporting and disclosure regime imposes strict penalties and as part of the broader legal and regulatory framework should engender trust in the strength of the system.

In late 2015 APRA announced its intentions to make amendments to SPS 510 and its corresponding guidelines, SPG 510. The identified changes would impact the size of the board, tenure of directors and the

nomination, appointment and removal processes for directors. While these changes have not come into effect, AIST supports transparency around the nomination, appointment and removal processes. Currently the section 29QB SIS Act disclosure requirements necessitate disclosure of the governing rules around these governance processes. It is unclear what further requirements APRA intends to impose on funds with regard to these processes in revisions to SPS 510 and SPG 510 and accordingly AIST is currently unable to comment further.

The report suggests a range of different data sources including the Superannuation Complaints Tribunal for criteria that could potentially be measured. While confirmed breaches from APRA sources may be a suitable indicator, it is the nature and extent of the breach that is important. AIST submits that evidence of complaints to the SCT is not a reliable indicator, not without taking the resolution of those complaints into account.

Member satisfaction, in a system where members are mostly disengaged, is also difficult to measure. Trust is perhaps a more reliable measure than satisfaction due to the high levels of disengagement, but again difficult to measure. Whether the consumers of the system trust the policy settings of the superannuation system is an important consideration, especially when the system has been set up as a mandatory savings vehicle with default settings and a MySuper product line to arguably allow consumers to have high degrees of comfort in not engaging with their super. AIST submits that the best way to ensure that the connection with members remains a strong focus for the trustee is to preserve the equal representation model of governance, a great defence against agency issues.

Whether superannuation funds subscribe to industry codes or their own codes of conduct is another possible indicator of good governance. Since 2011 AIST has provided *A Fund Governance Framework for Not-for-Profit Superannuation Funds* as a leading practice guide to its members and is currently working on a Code of Governance for the profit-for-member superannuation sector. A super fund's commitment to a code of governance, prescribing high standards of behaviour and practice is a good indicator of the likely effectiveness of the governance structure.

We support the Commission in including a measure of trust in all areas of the framework: demand-side, supply-side and efficiency. The Commission clearly understands the central relevance of trust in the system. In particular, the Draft Report states:

Ultimately, if competition in the superannuation system is delivering the outcomes that members want, this should manifest in outcome-based measures ... In this context, high and growing levels of member satisfaction and trust in the system is an indicator that would be both less challenging to measure and more directly linked to the objectives of competition in superannuation (table 5.5). (p.105)

However, trust has a complex relationship with competition and efficiency and needs to be better articulated in the assessment framework.

We submit that the assessment of trust should be given more importance by being a standalone assessment criterion with a number of indicators.

With respect to the relationship between trust, competition and efficiency:

- While low levels of engagement and activity can indicate low levels of competition, where there is low activity but high trust, this could indicate that member preferences are being proactively met in the system, or at least part of it, in this case predominantly the default system (output)
- In markets or market segments with high levels of trust towards providers, engagement/activity is primarily around moments of challenge or learning, and should not be expected to be homogenous across demographics, channels or topics (input)
- The level of trust is often related to the effective level of disclosure and readily available information (output)
- The level of trust has an inverse relationship to intermediation, and hence higher levels of trust can lead to greater efficiency (input) ²
- Low levels of trust can lead to greater conduct regulation which is less efficient (input)
- We also know that low trust levels are a significant deterrent to seeking financial advice (input).

We submit that the assessment criteria include the following criteria and indicators:

- Do members trust that their system is operating in their interests?
- What is the level of trust members have in the overall system?
- Is there low market segmentation along levels of trust (fund sector, member balance and age)?

2.1.2 The importance of the fiduciary relationship

As a general comment, AIST believes that the proposed assessment criteria and indicators do not sufficiently address the importance of the fiduciary relationship that exists between superannuation funds and their members.

As part of developing indicators to assess whether members make informed decisions, the Commission proposes indicators on quality of information, financial literacy, use of advisers and capacity and willingness of employers to select a default.

One of the fundamental advantage of the trustee model is that superannuation investments are managed by trustees for the sole purpose of provision of benefits for members.

² Chapter 6, The Kay Review of UK Equity Markets And Long-Term Decision Making Final Report, July 2012

In a world where investment markets are increasingly volatile, where uncertainty is the new normal, and where corporates are continually hit by scandals, we believe that superannuation members are increasingly interested in whether they can trust their superannuation fund. Trust in fiduciaries provides comfort so that super fund members have a choice as to whether to dedicate their personal time to developing their own understanding of superannuation.

A key measure of the efficiency of the superannuation system is whether an individual member is able to enjoy the benefits of the superannuation system throughout their life, with the need to engage financial advisers kept to a minimum (such as at life events) and without a requirement to develop high level skills.

In developing indicators we believe it is critical that the Commission consider the value that super fund members place in the fiduciary trustee model. We note that members do not readily distinguish between help, information, education and advice – all forms of advice are required at different times, by various media and channels to support members, whether robo or face to face. Members are going to need different things to assist them at different times.

The value of the fiduciary model is fundamental to the architecture of MySuper. The Super System Review and subsequent governments have recognised the need for a higher standard for trustees in relation to a lifelong service where the product is complex and intangible and the purchase is characterised by an ongoing relationship between the member and the provider. In a MySuper product, as with other superannuation products, buyers and sellers have an ongoing relationship across a very long time (e.g. labour markets; superannuation) and the benefit/return is measured across the medium to long term (e.g. superannuation). As the Commission has noted, issues of low levels of engagement and financial literacy remain, underlining the need for a fiduciary indicator.

2.2 Assumptions on engagement

It would appear that an underlying assumption of the Commission throughout its review is that member activity signals constructive engagement.

We note that activity by a member is not necessarily an indicator of engagement. High levels of activity in relation to a member's super account is more likely to be an indicator of a problem than of constructive engagement. The problem may be either internal or external. For example, the following are examples of events driving activity unrelated to engagement:

- Levels of member switching increased during the GFC and other market downturns. Many of these switches are to cash or a capital guaranteed option: Such switches tend to crystallize member's losses, lead to low long term returns and lengthen the 'recovery' period.
- Media stories on a problem with a super fund or the industry lead to a spike in the number of members contacting their super funds for information or comfort.

2.3 Emerging inefficiencies

We believe that there are dangers of inefficiencies emerging in the product market. AIST is concerned that the number of investment options in the non-MySuper (Choice) space is primarily supply-driven and not member driven. While we anticipate innovation in retirement income products, it is not sufficient to say that an increase in the number of products indicates an innovative market. It may be the case that:

- Where members lack confidence, the increase in number of products reflects supply driven attempts at differentiation rather than genuine demand driven innovation, or
- Products have been designed to support financial planner business models and/or financial service profitability.
- An increased number of products may come at the cost of operational efficiency.

3 Comments on Chapter 1

Chapter 1 establishes the Commission's interpretation of its Terms of Reference. In particular the Commission notes that its study aims to develop the framework to assess the competitiveness and efficiency of the superannuation system in stage 3 of the review process, but that its assessment is ultimately dependent on the objectives of the system that are still to be legislated following the 2016-17 **Commonwealth** Budget announcement that the Government's objective for superannuation is to provide income in retirement to substitute or supplement the Age Pension. It is noted that the Government has now released draft legislation on the objective of superannuation for public consultation.

AIST and a number of other industry associations have confirmed their support for a legislated objective that reflects the core purpose of the system in providing adequate retirement outcomes.

The objective proposed by the Financial System Inquiry, now reflected in the draft legislation, is a sound starting point for the development of a more holistic objective. It recognises that the superannuation system must provide income to retirees in conjunction with the Age Pension. However, it fails to articulate the social goal of the system to maximise the number of Australians living in comfort and dignity in retirement. The core purpose of the superannuation system is to deliver income which affords a comfortable standard of living in retirement, over and above what the Age Pension delivers.

Incorporating these elements will establish a primary objective aligned with the core purpose of the system. This, in turn, will ensure that the superannuation system is working towards a clear goal of providing Australians adequate retirement incomes and a comfortable standard of living, now and into the future.

A definition in the following terms would best reflect this:

To provide an adequate income to ensure all Australians achieve a comfortable standard of living in retirement, supplementing or substituting the Age Pension.

The system-level objectives proposed by the Commission should be predicated on the assumption that the overall objective of superannuation includes consideration of adequacy. The absence of a system level objective for the adequacy of superannuation outcomes is a serious omission, as it also is in the Government's proposed legislated objective of superannuation. A central tenet of the superannuation system should maximise net returns over long term to deliver adequate retirement incomes in conjunction with the age pension.

AIST suggests the following changes to the system level objectives proposed by the Commission:

- Insurance:

The system should provide insurance appropriate to members needs' at a cost reflective of the risks involved.

- AIST also supports the ISA submission for the following additional objective on the following slightly amended basis:

The system is transparent and accountable, and provides meaningful information to members throughout their life.

The Commission states that the superannuation industry is expected to continue its trend of consolidation, noting the Cooper Review's projection that by 2035 there will be approximately 75 institutional funds, compared with over 250 today.

AIST's view is that whilst we are likely to see future consolidation, superannuation funds that are dedicated to servicing the specific needs of particular groups of members have the capabilities to do so. These funds should be able to continue to provide services to their members where they meet APRA's governance and scale requirements.

We expect to see continued innovation in the market place as super funds continue to search for ways to improve member long term benefits.

4 Comments on Chapter 2

Chapter 2 provides the Commission’s factual analysis of the key characteristics of the superannuation system. The Commission notes that the system is compulsory and complex, and that members can disengage in the face of cognitive constraints and restrictions on choice.

The Commission analyses the factors that contribute to a lack of engagement amongst members, noting that the compulsory nature of the system means that most members contribute to their superannuation, regardless of their personal preferences and that cognitive constraints and behavioural biases may impede member engagement and optimal decision making. The Commission states that member engagement is not a guarantee of good outcomes for members and that it is important to distinguish between member activity and member engagement.

AIST believes that whilst it is an objective of all superannuation funds to engage with their members, that the level of engagement needs to be seen in the context that the objective of superannuation is to deliver income in retirement that for some members can be half a century away. With such a long time frame, a test of the efficiency of the system is whether a member can be disengaged and yet have a super fund act in their best interest over a long period of time. AIST contends that the trustee system, which places the emphasis on trustees acting in the sole interests of members is a critical factor in providing an environment where a super fund member is able to be disengaged until a time of their choosing, usually a time aligned with the needs of their personal financial situation.

5 Comments on Chapter 3

Chapter 3 introduces the Commission’s assessment framework. The Commission establishes the importance of efficiency, stating that “an efficient and competitive superannuation system means members have larger balances (for a given level of contribution) and higher living standards in retirement.” According to the Commission, “an efficient superannuation system broadly means costs are minimised, returns maximised, *members placed* in the most appropriate investments based on their preferences and needs, and that the system embraces innovation and technology to improve outcomes over time.” The Commission states that competition is generally critical to promoting efficiency, as it provides incentives for funds to become more efficient in order to improve or maintain market share.

The Commission proposes to use two ways of assessing performance: benchmarking performance, and identifying and assessing barriers that impede performance.

5.1 Benchmarking and choice of performance indicators

AIST acknowledges the valuable role that benchmarking plays in providing a mechanism to evaluate relative performance within a broader system. In the context of the superannuation system, the difficulty of making international comparisons due to different regulatory systems means that benchmarks that are developed out of the current process will need to primarily focus on the Australian superannuation system.

The absence of historical data and the continued evolution of the system through ongoing reforms which are still flowing through the system make historical comparisons difficult. In this regard the optimal use of benchmarks produced by the Commission will be to enable future comparisons.

AIST notes that it is proposed that as part of the development of benchmarks that the Commission will attach weightings to each criterion. Weightings will include both objective and subjective assessments of the impact of each criterion on member outcomes.

Recent superannuation reforms are resulting in improved data collection which will assist in the formation of benchmarks. AIST believes that in developing its benchmarks that the Commission should prioritise objective measures and wherever possible minimise the use of subjective measures.

Improved data reporting and disclosure was an important part of the Stronger Super package of reforms. This included the establishment of MySuper product dashboards, greatly expanded super fund reporting to APRA and new fee disclosure requirements. However, this process was both not completed and some issues of consistency, comparability and data quality have still to be addressed. Requirements for Choice product dashboards and portfolio holdings disclosure have not been finalised, not all information is reported to APRA on a like-for-like basis and ASIC fee disclosure requirements both allow some inconsistencies and have significant exclusions.

The assumption therefore that existing data sets are fit for service as indicators in their present form may be premature. In particular, there are significant gaps in data, particularly publicly available data, about

Choice products and about fees generally. The Commission should recommend that there be a further audit of superannuation data to identify and then collect information on all superannuation products, especially fully transparent fees.

Upon completion of the Commission's initial benchmark it is important that a regular update of the benchmark is produced for it to have any ongoing impact on enhancing competition and efficiency across the system.

AIST recommends that the competition criteria not be finally determined until such time as any comprehensive review of structural arrangements in the industry in 2018 has occurred, one year after the due date for completion of transfer of Accrued Default Amounts into MySuper.

AIST notes that the Productivity Commission's work is determined principally through Ministerial references and that the Commission's current Terms of Reference have been focused on producing models to assess the performance of the system. A significant question is, once the Commission has completed its current work, how will any outputs such as benchmarks will be reviewed and updated?

AIST recommends the establishment of an independent publicly-funded body to assess the superannuation system's performance and report on superannuation policy changes. The funding of such a body should be subject to regular review by Government, with the funding tied to a performance audit undertaken as part of a review.

6 Comments on Chapter 4

In Chapter 4 the Commission seeks to develop system-level objectives that support the Government’s overarching superannuation objective, that are specific to competition and efficiency, and that can be used to frame the criteria and indicators set out in the Commission’s study. From the perspective of competition and efficiency, the Commission proposes five objectives for the superannuation system:

1. Competition in the superannuation system that drives efficient outcomes for members through:
 - a. A market structure and other supply and demand-side conditions that facilitate rivalry and contestability
 - b. Suppliers competing on aspects of value to members across the accumulation, transition and retirement phases.
2. The superannuation system maximises net returns on member contributions and balances over the long term.
3. The superannuation system meets member preferences and needs, in relation to information, products and risk management, services and intra-fund or full advice over the member’s lifetime.
4. The superannuation system provides insurance that meets members’ needs at least cost.
5. The superannuation system complements a stable financial system and does not impede long-term improvements in efficiency.

While AIST notes that the Commission’s proposed sub-objectives are proposed in the context of developing criteria to measure the efficiency and competitiveness of the superannuation system, these sub-objectives should in no way be confused with sub-objectives for the whole of superannuation.

AIST supports the establishment of an objective for superannuation that would be enshrined in legislation. We believe that this primary objective should be supported by guiding principles addressing adequacy, sustainability, and fairness.

AIST proposes eleven Guiding Principles:

Guiding principle	Why the principle is important
Adequacy	Adequacy should take into account superannuation, public pensions, and other sources of income.
Fairness	Delivery of fairer outcomes within the retirement incomes system through proper targeting of public pensions and superannuation concessions.
Sustainability	Ensuring adequacy and sustainability are suitably balanced taking into account current and future generations.

Intergenerational fairness	Ensuring the retirement incomes system takes generations (between and within) into account.
Superannuation is a savings, not a wealth creation vehicle	Ensuring the retirement incomes system does not unreasonably create intergenerational wealth transfer.
Gender lens is needed	Application of a gender lens to the retirement incomes system with a view to closing the gender gap.
Employment lens is needed	Application of a retirement incomes lens to employment policy development.
Structural change needs assessing	Demographic ageing and structural changes are to be taken into account.
Sole purpose test is key	Implementation of the primary objective of the retirement incomes system should be designed so as not to interfere with the operation of the sole purpose test, including the provision of insurance as part of superannuation benefits.
Transparency and accountability	Policy development should not be ad hoc, but should be developed within a transparent and accountable retirement incomes framework. The community needs to know how proposed policies will affect the adequacy, sustainability and fairness of the retirement incomes system prior to policies being tabled within Parliament. Statements of Compatibility should be used and include an assessment of how any proposed policies may impact quantifiable goals which have been set.
Superannuation has a role in national savings	Recognition of role of the superannuation system in national saving and funding economic activity, especially infrastructure.

In respect to the Commission’s proposed competition and efficiency sub-objectives, AIST believes that all sub-objectives should explicitly have a long term focus. We note that objectives 2 and 3 address the long term nature of superannuation but that this is missing from sub-objectives 1 and 4. A long term focus is particularly important in respect to sub-objective 1 which focuses on competition through market structure and competing suppliers.

6.1 Competition and Efficiency

Chapter 4 discusses elements of competition and efficiency with a focus on operational efficiency, allocative efficiency and dynamic efficiency. Competition, as the Commission identifies, is not an end in itself, but is important in the context of its role in driving efficiency.

While we acknowledge the important role that competition plays influencing efficiency, we note that competition is not the only way that efficiency can be achieved. We point to the Commission's previous work around efficiency where competition was not the principal focus. In particular the Commission's April 2015 *Efficiency in Health* Research Paper noted that health care is not like other parts of the economy and that because Australian governments choose to promote universal access by funding the bulk of the costs of health care, market signals are muted. The Commission's focus in this particular instance was on making the fundamental reforms to institutional, financing and funding structures to improve efficiency. We argue that similar conditions apply in the superannuation industry and system.


In terms of the discussion on allocative efficiency we believe it is important to acknowledge the role that compulsory saving has. In our view, allocative efficiency is impossible to define in a system where government compulsion requires people to save when they might otherwise redirect personal funds to acquisition of other assets or consumption. The very basic assumption of Australia's superannuation system is that people are not expected to be able to make sensible decisions about their long term savings needs. Working outwards from this assumption, the Cooper Inquiry correctly identified the need to put in place a system which protected the interests of disengaged individuals being forced to save.



7 Comments on Chapter 5



Chapter 5 proposes a set of assessment criteria and indicators. The Commission has produced a comprehensive set of indicators that reflect the diverse elements that contribute to competition and efficiency. Our overall assessment is that there are some areas where the Commission should reconsider assessment criteria and indicators. AIST is of the view that:

- The Commission has proposed some indicators that are ambiguous, and subject to interpretation. Wherever possible the Commission should avoid using ambiguous indicators.
- The Commission has overly focused on indicators applicable to the default super system. Wherever possible the Commission should focus on indicators that have system wide application.
- In attempting to be comprehensive the Commission has developed too many indicators. The impact of a large number of indicators is to blunt the impact of individual indicators. The Commission should consider rationalisation of the number of indicators.
- There are a number of areas that are of material importance to the efficiency and competitiveness of the superannuation sector that have not been sufficiently considered. AIST proposes additional indicators that seek to address these gaps.



7.1 Demand-side characteristics: criteria and indicators

Indicator	AIST response	AIST key points
Is there sufficient member engagement to exert competitive pressure?		
Member account monitoring activity (use of websites, call centre enquiries)* (input, behaviour)		<p>Ambiguous indicator because member engagement activity can be influenced by a range of factors including market events where share prices fall rapidly which historically have resulted in more calls by members to super fund call centres.</p> <p>Regular activity is not necessarily an indicator that a member is engaged. A super fund member who checks their superannuation fund balance on a daily basis may not be a positive indicator but may indicate a member is seeing superannuation as a short term investment or is fearful of the impact of short term market volatility on their account balance. In such cases members may make decisions based on short term considerations which may not necessarily be optimal.</p> <p>Readership of annual reports could be included as a measure; however, proving that members have read either</p>


		<p>their statements or the annual reports has long been a challenge for funds.</p> <p>In terms of time period for assessing activity, a longer time period should be used such as 3-5 years. AIST does not believe that activity is a proxy for engagement.</p>
Member awareness of key features of superannuation, in order to assess value.* (input)		<p>We recommend that this indicator be amended to “Member awareness of key features of their superannuation, including insurance* (input)”.</p> <p>This is an ambiguous indicator which depends on what the definition of awareness is. This indicator should focus on high level awareness rather than awareness at a micro level.</p> <p>“Key features” needs to be tightly defined. Whilst we would agree with the sentiments in the draft report that some services add questionable value to members, we would support a template of features that could be offered as a best practice model. These may include intrafund advice, insurance and a small range of investment options. However, a fund that simply offers good investment returns, low fees and default insurance arrangements may also be in the best interests of members, without providing a slew of additional features.</p> <p>All of this means that there should not be a one-size-fits-all solution to the provision of additional services.</p>
Active member ratio (input)		<p>We recommend deletion of this indicator. This is an ambiguous indicator that depends on the definition of what an active member is, as most funds define active members to include those for whom contributions are being made, which usually means SG contributions. The definition should be focused beyond 12 months, potentially 3-5 years being an appropriate level.</p> <p>While ambiguous, voluntary contribution measures are likely to be more reliable indicators of engagement and interest than switching measures.</p>



<p>Switching rate between and within default and choice funds and between institutional funds and SMSFs, by age and wealth (behaviour)</p>		<p>We recommend deletion of this indicator as this is an ambiguous indicator. An increase in switching rate, either between and within default and choice funds or between institutional funds and SMSFs can be impacted by factors other than competition. In general the level of switching between investment choices can fluctuate according to volatility of investment markets. According to a report by Paul Gerrans for AIST³, during the period of the GFC five to seven per cent of members made an investment switch, with the majority of these members having made just the one change to their investment strategy, and with 20% making more than one switch. Members who made one switch only may have crystallised losses permanently if they moved to cash and did not take advantage of the rebound over the following three years..</p> <p>The fact that some members made more than one switch during the GFC is an indicator that switching activity can be driven by news and fear.</p> <p>A more meaningful indicator with regards to competitiveness between funds may consider like-for-like switches. For example, an investor in one fund’s international shares option deciding to switch to another fund’s international shares option.</p> <p>In terms of the indicator it would be important to be able to understand the impact of investment markets on switching behaviour. An interpretation that a higher switching rate is a positive indicator is likely to be inaccurate and misleading.</p>
<p>Default rates for funds, investment and retirement income products, and insurance</p>		<p>An ambiguous indicator. Consistent demand for default fund products is not an indicator of a lack of competition, but an indicator that the default funds are meeting long term needs and preferences of members. The establishment of MySuper means that the overall quality of</p>


³ Gerrans, P. (2009). *Member Investment Choice Response to the Global Financial Crisis*. September 2009. [online] Melbourne: Edith Cowan University and Australian Institute of Superannuation Trustees. Available at: <http://tinyurl.com/zc4reww> [Accessed 7 Sep. 2016].

(behaviour)		<p>default fund products across the system has improved. Members in default fund investment options, may have actively chosen their option.</p>
<p>Duplicate accumulation accounts and insurance policies (output)</p>		<p>Agree with this indicator. Lost superannuation consolidation and reforms to SuperStream should lead to a consolidation of superannuation funds across the system.</p> <p>An efficient retirement savings system should protect against the erosion of members' capital through fees and charges. Similarly, an efficient system should discourage the duplication of fees and charges, particularly for consumers that are not actively choosing to participate in the retirement savings system.</p> <p>The Stronger Super package of reforms resulted in a requirement on super funds to implement their own policy on intra-fund consolidation, and thus reduce the number of duplicate accounts. Recent regulatory changes also allow Eligible Rollover Funds to undertake matching activities to assist with the reunification and consolidation of small, lost and unclaimed super accounts into active member accounts.</p> <p>In tandem with consolidation activities undertaken by the ATO, the successful implementation of these polices (including appropriate use of ERFs by super funds) could be used as assessment methods for this indicator.</p> <p>The Stronger Super consultations also involved consideration of super funds being required to have and implement an inter-fund consolidation policy. Further development of this policy by Government would provide another useful indicator for this assessment criteria.</p>
<p>Information collection by funds on key member characteristics* (input)</p>		<p>We recommend that this indicator be removed. We do not agree that this is an indicator of member engagement leading to competitive pressure. Additional information beyond what is required in order to manage a member's superannuation account is not an indicator of competition.</p> <p>Collection of additional information may assist a superannuation fund to service a member. In terms of</p>

		<p>designing products and services to meet needs, superannuation funds are likely to utilise traditional marketing techniques including market research and focus groups to gain insights into member needs and preferences.</p> <p>There are privacy implications of collecting additional data. Super funds have privacy policies which inform members on how their data has been collected and how it is used, and must comply with the National Privacy Principles.</p>
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Indicator	AIST response	AIST key points
Are members and member intermediaries able to make informed decisions?		
Availability, cost and quality of information on fees and investment risks at product level* (input)		<p>Ambiguous indicator on the basis of the degree to which disclosure of information is required through regulation. An example of increased provision of information is Portfolio Holdings Disclosure which super funds are required to implement by 1 July 2017.</p> <p>Currently there are different disclosure requirements for MySuper and choice products with the MySuper product dashboard including fee and investment risk information, while a choice product dashboard does not yet exist. We also note the wholesale exemptions available to platforms, including those from the fee and cost disclosure as outlined in ASIC’s Regulatory Guide 97 (RG 97).</p> <p>AIST notes that super funds are increasingly responding to requests from members for disclosure of funds’ actions to address long term investment risks with the objective of delivering long term investment returns. Examples include member engagement around climate change.</p> <p>This indicator should also include an assessment of how super funds are responding proactively to long term investment risks, as the present Standard Risk Measure does not capture this information. For example, the SRM is a measure of volatility rather than risk. Lack of consideration of purchasing power risk in the SRM results in the erroneous</p>




		outcome of cash being the lowest-risk long term investment.
Financial literacy and numeracy compared to an 'adequate' standard (input)		<p>Agree with the value of financial literacy. However, the ability of the system to improve financial literacy is important but minimal.</p> <p>To help identify and assess financial literacy in Australia, AIST recommends that a financial literacy benchmark be established, which should include an assessment of the understanding of investment and superannuation concepts. However, as outcomes are largely outside of the control of the superannuation industry, we propose deletion of this indicator.</p>
Use of advisers by members and/or member intermediaries (input)		<p>We do not agree that this is an indicator of members making informed decisions, as this could be an inverse measure of information asymmetries.</p> <p>An efficiency measure for the superannuation system is the extent to which an individual super fund member is able to access the full range of features of superannuation with minimal need for financial advice:</p> <ul style="list-style-type: none"> • Over the long term a measure of efficiency could be the use of online information such as calculators and robo-advice tools which will become more sophisticated. • In the short term the use of financial advisers may be influenced due to demographics and the regulatory complexity of Centrelink and superannuation interactions. In particular, the baby-boomer generation is larger than following generations and may result in short term demand for financial advice as baby boomers transition to retirement. • AIST is concerned that only a small cohort of members access financial advice which is often expensive. Alternatives such as robo-advice and intra-fund advice have the advantage of scale efficiency and have mass market application and therefore increase overall system efficiency.



		<p>An alternative measure would be use of online education and advice tools, robo-advice, intra-fund advice, and full service personal advice, each measured by age, balance and gender segments.</p> <p>AIST believes that an efficient superannuation system is one which minimises the need for expensive financial advice. Super fund members shouldn't need to learn to become a "mechanic" at retirement in order to be able to enjoy full features of superannuation. We believe that there is a need for a whole of life focus, rather than a focus on retirement at a particular date.</p>
<p>Capacity and willingness of employers to select a default fund (input)</p>		<p>Do not agree that this is an appropriate indicator and recommend that it be removed. This indicator is likely to be subjective. As an employment-based entitlement, the Fair Work Commission is the appropriate place to balance employer and employee interests in relation to superannuation. It should be noted that employers are not presently fiduciaries, and have no obligations to act in members' best interests.</p> <p>We also note that while there is a significant and unchanging gender gap in salary and wages, and consequently in superannuation savings, there is a continuing need for the Fair Work Commission to remain involved in women's salary and superannuation affairs.</p> <p>Default superannuation arrangements exist because many employees do not actively choose a superannuation fund. Current default fund arrangements provide stability, and investment returns of default funds have generally exceeded those of non-default funds.</p> <p>These arrangements were improved to promote the best interests of members as result of changes to both the Fair Work Act and the Superannuation Industry Supervision Act in 2013. The primary objective of default MySuper products is the promotion of the best interests of members. For industrial awards that list default funds, the selection and ongoing assessment of those funds is now be merit based under the Fair Work Act; although the process to give effect</p>

		<p>to this has been stalled for the past three years.</p> <p>The criteria used for MySuper product authorisation provide a sound basis for the selection and ongoing assessment of superannuation funds for listing as default funds as do the factors that are to be considered in the second stage when the Fair Work Commission is selecting funds to be listed in modern awards.</p> <p>AIST submit that these factors remain relevant for default fund selection:</p> <ul style="list-style-type: none"> • The appropriateness of the MySuper product's investment return and risk profile for employees to whom the superannuation provisions in that modern award apply; • The fund's expected ability to deliver on the MySuper product's investment objectives; • The appropriateness of the fees charged by the MySuper product, given its stated investment return objective and risk profile; • The assessment of governance structures to test if they are, as far as legislative requirements allow, consistent with meeting the best interests of members; • The assessment of the mechanisms put in place by fund trustees to deal with conflicts of interest, and the transparency in disclosing those conflicts the likelihood of members being switched to higher cost divisions of a fund, or facing significantly higher fees upon exiting employment ('flipping'); • The compatibility of the fund's insurance offerings with the characteristics of the relevant super fund members; • The quality of member- and fund-specific intra-fund advice; and • The administrative efficiency of a fund against a set of benchmarks.
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Indicator	AIST response	AIST key points
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Is there low market segmentation along member engagement lines?		
Fund expenditure on member retention relative to overall marketing expenditure (input)	●	<p>We recommend that this indicator be removed. We are concerned that this is an ambiguous indicator that depends on the definition of expenditure on member retention. It is likely to be difficult to disaggregate data that is specifically targeted for member retention. We also note that it will be difficult to separately identify expenditure on “group” or brand advertising (e.g., in a multiple product financial conglomerate) from product or single super fund marketing expenditure.</p> <p>We are also uncertain what constitutes a “bad” score for this indicator. Is it a high spend? Member retention is needed as proof of competitiveness, as well as scale.</p>
Fee dispersion (between default and choice products, comparable products within a fund, and within products) (output)	●	<p>We are concerned that this is an ambiguous indicator. A greater dispersion between default and choice products does not necessarily indicate that a member is receiving enhanced services but may be an indication that a member is unaware of the impact of costs having been sold a product via a financial adviser. Dispersion could therefore be an indicator that providers are seeking to “game” the default fund selection system by churning members of default funds into higher fee products.</p> <p>We are also uncertain what the criteria should be for a “good” score for this indicator. Does this indicate low transparency? In any event, the consideration of fees in isolation to net returns is concerning as it should not matter how products make their returns, just that they should be good after fees are taken into account.</p>


Indicator	AIST response	AIST key points
Do active members and member intermediaries have sufficient countervailing power?		
Fund and product switching costs (administrative, search and learning costs) (input)		Agree with this indicator. The absence of such costs should be a positive indicator. As SuperStream reforms are bedded down transaction costs should reduce. Learning and search costs are still very high given current disclosure regimes, especially in the Choice environment.
Size of the SMSF sector (funds and members) relative to institutional sector (output)		<p>Concerned that this is an ambiguous indicator. Over time there are a number of factors that may influence the growth of the SMSF sector. The Draft Report listed these: legislative changes, tax settings, permissible leverage, and the significant influence of advisers (p 253-4). Being mostly advised individuals, the SMSF sector is fragmented and should not be understood as a coherent or homogenous market participant. The concept of ‘countervailing power’ is therefore inappropriate in this context.</p> <p>A long term structural issue that SMSF trustees must manage is cognitive decline. It can be expected that, over the long term that as the population of SMSF trustees age, where an individual trustee suffers cognitive decline they close their SMSF on the basis of the inability to exercise trustee duties adequately.</p> <p>In the absence of being able to conclude whether an increase or decrease of SMSF is positive or negative for the system as a whole, this indicator is ambiguous.</p> <p>We point out that SMSFs are rarely set up without advice and that the reliance on intermediaries and the capture of the aging trustee is a barrier to exit which could lead to an inefficient growth in SMSFs.</p>
Switching rate from institutional funds to SMSFs (behaviour)		Concerned that this is an ambiguous indicator. At the very least this indicator should also assess switching <i>from</i> SMSFs to institutional funds.



		<p>However, as evidence suggests that the advice of an accountant or financial adviser was the catalyst to establish an SMSF for over half of those who do establish a SMSFs, noted in the Draft Report, this indicator is more evidence of the activities of advice than the presence of countervailing power. The fact that financial advice is out of scope means that an informed interpretation of this indicator will be difficult to establish. A long term structural issue that SMSF trustees must manage is cognitive decline. It can be expected that over the long term that as the population of SMSF trustees age that where an individual trustee suffers cognitive decline that they close their SMSF on the basis of the inability to exercise trustee duties adequately</p> <p>Again, we note the role of advice in the setting up of SMSFs.</p>
<p>Changes in market shares of funds and sectors (for profit, profit-for-members and SMSF) (output)</p>		<p>Agree with this indicator and propose its expansion to consider the different value propositions of the different sectors. It can be expected that in the long term that super funds or sectors that deliver better performance will increase their market share, depending on other factors such as marketing, advertising and distribution spend.</p>
<p>Corporate fee discounts (output)</p>		<p>Concerned that this is an ambiguous indicator that is subject to gaming. The presence of a corporate fee discount is not an indicator of system competitiveness. An example of rate gaming occurs in the hotel sector where “rack rates” are commonly significantly higher than the rate that hotel guests are charged. The rationale for high rack rates can be to capture marginal pricing benefits, but there may also be behavioural elements, which is that hotel guests feel good about discounts.</p> <p>We note that discounts are only available to large employer MySuper plans. This system relies on information asymmetries and members of these plans and others administered as part of the same fund or funds would benefit from full transparency.</p> <p>We also note that small employers are unable to offer their employees these benefits, which may be an example of anti-competitiveness against small business. We question</p>




		whether members of superannuation funds who work for the 90% of employers who are small businesses have a countervailing power. The presence of discounts can actually be a measure of uninformed customers.
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7.2 Supply-side characteristics: criteria and indicators






Indicator	AIST response	AIST key points
Is there rivalry among incumbent providers?		
Market concentration (Herfindahl-Hirschman Index and market shares of largest providers) (output)		<p>Agree with this indicator, although we think it is likely to be of limited use in the super funds sector of the system.</p> <p>The collective market share of the largest firms in the industry is likely to increase in the short term through industry consolidation. In the long term it is desirable that there is a diversity of providers.</p> <p>The HHI will be more relevant in measuring concentration in custody and administration services.</p>
Number of institutional funds (input)		Agree with this indicator. In the short term there is the potential for industry consolidation. In the longer term it is desirable that there is a diversity of providers.

Indicator	AIST response	AIST key points
Is the market contestable?		
Height of barriers to entry — effect of default rules on market entry (input)		<p>Agree with this indicator but concerned that barriers to entry to establish a new MySuper product are influenced by a range of factors:</p> <ul style="list-style-type: none"> The availability of capital is one element of establishing a new superannuation entity;

		<ul style="list-style-type: none"> • The length of time to obtain regulatory approval is also likely to be a factor dissuading new entrants; • The evolving structure of Australian workplaces is likely to be a factor in influencing whether new providers seek to offer MySuper products; and • The prudential requirements of trustees in meeting MySuper requirements with regards to sufficient scale. <p>We query the interest in barriers to entry, when there appears to be an overwhelming focus on reducing the number of super funds. We also note that the height of the barriers is an important protective element to the system in the MySuper landscape which has been specifically designed to provide protection for those who do not choose a fund.</p>
<p>Height of barriers to entry — market impediments to funds accessing distribution channels (input)</p>		<p>Barriers to entry are strongly influenced by regulatory factors, and are largely outside the control of the superannuation industry. See comments above.</p>
<p>Mergers prevented by bulk transfer rules (behaviour)</p>		<p>Concerned that this may not be a long term indicator. As part of the Commission’s focus on barriers to performance, where an individual barrier is identified this would presumably result in proposals from the Commission to address the barrier. In this context barriers will either be addressed, or determined that addressing them is not of sufficient importance to improve the competitiveness and efficiency of the superannuation system.</p> <p>On this basis indicators should be prioritised that enable long term comparison.</p> <p>We also note that this indicator presume that equivalent rights are in place. These are not going to be available in all instances, and this implies a relative scarcity with regards to this notion. What happens in the long term when equivalent rights are exhausted?</p>

New entries into and exits from the market (behaviour)		<p>Agree with this indicator. Exits from the industry should principally be through consolidation, potentially through the scale test.</p> <p>New entries are likely to be influenced factors outlined above.</p>
Capacity and willingness of employers to select a default fund (input)		<p>Do not agree that this is an appropriate indicator. This indicator is likely to be subjective. As an employment-based entitlement, the Fair Work Commission is the appropriate place to balance employer and employee interests in relation to superannuation.</p>
Prosecutions of fund trustees for contraventions of SIS Act on inducements (output)		<p>Agree with this indicator however determinations or judgements should also be used as the indicator. This indicator should be broadened to include prosecutions against promoters of schemes.</p> <p>For SMSFs, legal actions by trustees against service providers can be used as an indicator. Because the cost of any legal action may dissuade litigants, the Commission should also use complaints as an indicator.</p>

Indicator	AIST response	AIST key points
Are there material anticompetitive effects of vertical and horizontal integration?		
Alignment in the structure of member fees and underlying costs (output)		Agree with this indicator.
Proportion of funds required (by trust deed) to outsource to related-party providers (input)		<p>We agree with this indicator.</p> <p>From a system perspective it is inefficient to have outsourcing requirements within the trust deed. This most efficiently dealt with through regulatory standards.</p>

<p>Process used by funds to make outsourcing decisions (input)</p>		<p>We recommend that this indicator be removed.</p> <p>This process is set down by Prudential Standard and therefore indicator is not relevant.</p>
<p>Cost and member fee differences from outsourcing administrative and insurance services to related versus unrelated parties (output)</p>		<p>Agree with this indicator.</p> <p>We have interpreted this indicator to mean that the best case outcome is that a related party outsourced provider results in reduced costs and a negative outcome would be increased costs arising from using related party outsource providers.</p>
<p>Transparency and efficacy of fee disclosure by funds, including for distinct services (behaviour)</p>		<p>Agree with this indicator. We note further legislative support is required for system wide disclosure and that there are current challenges with implementation of RG97.</p>
<p>Proposed new indicator: Bundling of superannuation products with non-superannuation product discounts</p>		<p>Vertical and horizontal integration creates the opportunity for employee interests to be overridden by the bundling of sub-standard superannuation products with discounted non-superannuation products. An ISA survey showed that 26 per cent of small to medium size businesses had been offered a default superannuation account by a bank and of that group more than half had been offered inducements to change to the bank's fund.</p>
<p>Proposed new indicator: Inducements offered to employers to win default superannuation business</p>		<p>The existing law should be reviewed with respect to employer inducements. In addition, the roles and powers of the regulators ASIC, APRA and ACCC should be reviewed to consider whether the members' best interest obligations was met on all occasions. Finally, the role of employers and whether they should be considered as fiduciaries needs to be reviewed.</p>

We have proposed new indicator above to consider the potentially anti-competitive practices of bundling superannuation with unrelated product discounts or services. In research⁴ released by Industry Super Australia in 2015:

New research indicates that banks appear to be offering business bundling deals to employers, which could result in employees being switched into superannuation funds irrespective of the impact on their net returns and long term retirement savings.

A survey of 550 small and medium businesses conducted by UMR has produced some deeply concerning findings:




- *26% of employers surveyed said that a major bank had approached them about transferring their employees' default superannuation to the bank's own retail super fund in the last year.*
- *Just under half those approached say their bank offered them benefits to change funds.*
- *The most common offers made by the banks involved a direct benefit to the business rather than employees, such as discounts on business banking and insurance products. Some employers report being offered tickets to sporting events.*
- *33% of employers offered benefits say they were persuaded to switch to a super fund promoted by their bank, and many more (57%) report that they are still considering switching.*
- *Two banks in particular appear to be the most active in approaching employers about switching default super fund arrangements and recommending their own fund.⁵*


Employer inducements are a serious threat to the competitiveness of the superannuation industry and further evidence of how employers as non-fiduciaries are in a position to detrimentally influence the retirements of Australians.


Finally, we recommend that the process whereby approved product lists are created and maintained is reviewed, together with the role of MySuper products.



⁴ Summarised in a briefing note: Industry Super Australia, (2015). *Bank cross-selling to employers: A threat to Australia's super safety net*. Briefing note. [online] Melbourne: Industry Super Australia. Available at: <http://tinyurl.com/gt9sj6w> [Accessed 9 Sep. 2016]. Research in greater detail: UMR Strategic, (2015). *SME Employer Attitudes to Superannuation*. [online] Melbourne: Industry Super Australia and UMR Strategic. Available at: <http://tinyurl.com/js4mw5t> [Accessed 9 Sep. 2016].

⁵ Industry Super Australia, (2015). *Banks offer incentives to employers to gain access to employee super*. [online] Available at: <http://tinyurl.com/jr6wy3j> [Accessed 9 Sep. 2016].




Indicator	AIST response	AIST key points
Do funds compete on costs?		
Costs relative to assets and member base: wholesale (by service) and retail (by segment)* (input)		Agree with this indicator.
Margins: wholesale (by service) and retail (by segment)* (output)		<p>Agree with this indicator</p> <p>We note there will be challenges with sourcing the data, especially from offshore suppliers (fund managers, custodians etc) who regard this information as confidential and prejudicial.</p>
Investment management fees by asset class compared to other countries* (output)		<p>Agree with this indicator but note the challenge of comparing different systems.</p> <p>The International Organisation of Pension Supervisors concluded in its IOPS Working Paper No 20 (April 2014) that <i>“Comparing fees and charges across jurisdictions is a difficult task for a number of reasons:</i></p> <ul style="list-style-type: none"> - <i>one challenge in such comparisons is the different reporting methods for fees and costs across jurisdictions, and the extent to which reported fees, costs and expenses include the same elements (e.g. fees charged by investment funds in a pension fund portfolio).</i> - <i>the structure of fees differs across jurisdictions. Pension funds may charge fees on assets under management, fees on flows, fees on contributions, fees on returns, fees on salaries etc. These expenses may be chargeable by differing parties (the fund, the administrator, other service providers) and paid by either the pension fund, the contributing member, an employer or out of underlying investment capital.</i>



		<p>- <i>since the designs of pension systems are different from one another, pension funds may be required to perform quite different tasks. Hence, fees and charges may be used to finance different services and/or products. This means that even where data may be comparable, raw figures might not accurately reflect whether fees are high or low. A higher fee could be explained because it is used not only to provide asset management services, but also collection, recovery and payment services, unemployment or disability benefits, insurance, etc.”</i></p> <p>AIST notes that the way that investment fees are reported is influenced by the structure of the investment. According to Frontier Investment Advisors it costs more to manage alternative assets (e.g. an infrastructure asset), versus a portfolio of equities (e.g. an ASX 200 portfolio). However, listed markets contain alternative asset portfolios, such as infrastructure trusts, which are not declared on a look-through basis.</p> <p>For example, Macquarie Atlas Roads (MQA) is a constituent of the S&P/ASX 200:</p> <p>MQA pays the Manager, Macquarie, a base fee of 1.75% p.a. on the first \$1 billion of market capitalisation and 1% p.a. on amounts over \$1 billion (the current market cap. is circa \$1.5 billion)</p> <p>It also pays Macquarie a performance fee if certain hurdles are met (last paid for the period ended 30 June 2011, with \$50.1 million paid to Macquarie in three instalments over 2011, 2012 and 2013)</p> <p>If MQA were to be de-listed and managed by Macquarie in an unlisted vehicle, it would be expected that MySuper option would disclose the fees paid to Macquarie.</p>
Alignment of the structure of member fees and		Agree with this indicator



underlying costs (output)		
Transparency and efficacy of fee disclosure by funds, including for distinct services (behaviour)		Agree with this indicator

Indicator	AIST response	AIST key points
Are economies of scale utilised and the benefits passed through to members		
Proposed new indicator: Risk pooling		The Draft Report acknowledges that the benefits of risk pooling are a further source of cost reduction from growing size. Consideration should be given to including an indicator to measure the extent to which risks are pooled, either directly at the fund level or via access to external risk-pooling arrangements.
Unused scale economies at wholesale level (administration and investment management) and at retail level (output)		<p>Concerned that this indicator is not currently workable.</p> <p>There is a significant international discussion on ‘unused scale economies’. Economies of scale may exhibit a U shaped average cost function. The range of factors that can impact on scale are diverse and there is uncertainty to the optimal size of a pension fund in the international context.</p> <p>Research⁶ indicates that many drivers of scale economy and optimal scale may change over time. There is a need for substantive work on the Australian system on optimal scale. AIST believes that this could be an area of future</p>




⁶ Bikker, J. (2013). *Is there an optimal pension fund size? A scale-economy analysis of administrative and investment costs*. April 2013. [online] Utrecht: Tjalling C Koopmans Research Institute, Utrecht School of Economics. Available at: <https://tinyurl.com/jo76559> [Accessed 7 Sep. 2016].

		<p>focus for the Commission, but at the current time when research on this issue is still developing this is not a workable indicator.</p> <p>As an alternative indicator of economies of scale we propose a focus on scale economies that can be delivered through collaboration. An example of this is collaboration around corporate governance practices where collective engagement results in maximising benefits.</p>
Effectiveness of scale test (number of fund consolidations and magnitude of realised benefits) (output)		<p>Concerned that this is an ambiguous indicator.</p> <p>There is a need for further work to understand optimal scale in the context of the Australian superannuation system. Given evolving technology and new innovations that have the potential to impact on efficiency it is uncertain as to the impact of the scale test . While we believe further work is needed to understand how innovations in technology and innovations in capital markets impact on scale, currently this indicator is ambiguous.</p>
Mergers prevented by bulk transfer rules (behaviour)		<p>We recommend that this indicator be removed. The operation of Successor Fund Transfers and other mechanisms around the merger of super funds were considered during the Stronger Super consultations. An industry consensus was reached during those consultations that regulatory changes were not needed. Since the prior to the implementation of APRA’s RSE licencing regime, the number of APRA regulated super funds has more than halved, indicating that transfer rules are not an insurmountable obstacle.</p>
Pass through of benefits from scale economies (wholesale and retail) to members* (output)		<p>Concerned that this is an ambiguous indicator.</p> <p>Economies of scale can result in reduced fees or increased services that include broader diversification. One of the implications of the maturing of the system is that superannuation funds need increased international diversification as the size of superannuation assets outgrows the size of the Australian economy.</p>

		An assessment of economies of scale should be considered in context with the evolving nature of investment. Scale assessment should include the ability to provide services to members to help engagement and increase savings to support retirement goals.
Improvements in service quality in administration due to growing scale (output)		Agree with this indicator. SuperStream reforms are expected to result in significant improvements in service quality but will require some time to bed down. Measurement should account for the capital costs required to implement MySuper, SuperStream and associated change programs.
Increased diversification due to growing scale (input)		<p>Agree with this indicator. One of the impacts of the maturing of Australia’s superannuation system is the need for superannuation funds to diversify. Funds have been increasing diversification for many years, with new asset classes evolving to embrace funds’ scale, sophistication and diversity.</p> <p>One of the implications of the growth of the size of the pool of superannuation assets is that superannuation assets are beginning to outgrow domestic assets.</p> <p>APRA regulated funds continued to see growth of assets over the last 2 ½ years with APRA data revealing that total assets increased from \$1.09 trillion in September 2013 to \$1.33 trillion in March 2016. The data is demonstrating that whilst Australian fixed income assets grew by 41%, Australian listed equity and Australian unlisted infrastructure assets grew by 12%. This compares to international investments which showed fixed income growing by 64%, international unlisted infrastructure by 363% and international listed equity 54%.</p> <p>The data demonstrate in graphic terms that investment offshore by superannuation funds is growing at a faster rate than investment in domestic assets. In simple terms, more superannuation capital is flowing offshore and is likely to continue to do so in coming years.</p>

Indicator	AIST response	AIST key points
Are principal-agent problems being minimised?		
Existing ratings of system-wide quality of governance* (input)		Agree with this indicator. Indicators should identify issues of diversity including the number of women on trustee boards. Research shows that diverse boards make better decisions, and as a first step, gender diversity is easy to measure. In particular we would note the seminal work of Scott E. Page ⁷ .
Accurate disclosure of trustee directors' and investment committee members' qualifications and relevant skills/experience, remuneration structures, and potential conflicts of interest due to related-party dealings and competing duties* (behaviour)		<p>Do not agree with this indicator.</p> <p>We are concerned with the use of the word 'accurate'. Superannuation funds are required to provide certain information under Section 29QB of the SIS Act. These disclosures are monitored by ASIC and subject to strict liability penalties. Super funds are also subject to Prudential Standard SPS 520 (Fit and Proper).</p> <p>Where a super fund provided 'inaccurate' information this would be subject to APRA and ASIC sanction. We are concerned that an indicator on "investment committee members' qualifications and relevant skills/experience" is not consistent with how superannuation funds are structured and regulated. APRA has determined that super funds must establish an investment governance framework (Prudential Standard SPS 530).</p> <p>An investment governance framework is defined as the totality of systems, structures, policies, processes and people to address the RSE licensee's responsibilities with regard to investments of each RSE within the RSE licensee's business operations. This includes generating returns to meet investment objectives while managing and monitoring all identified sources of investment risk. An indicator that focuses on "relevant skills/ experience" is</p>

⁷ Page, S. (2008). "Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies".



		not consistent with APRA’s Investment Governance standard and would potentially be a misleading indicator of a fund’s capacity and skills.
Contraventions of regulator governance standards by trustees, employers, service providers and financial advisers* (behaviour)		Agree with this indicator. This indicator should be broadened to include SMSFs where disputes between trustees are becoming more common. There are examples of cases where an SMSF trustee has taken assets and fled overseas leaving remaining trustees destitute. It would be possible to capture SMSF prosecutions. Because the cost of any legal action may dissuade litigants, the Commission should also use complaints as an indicator.
Level of skills and standard of performance for trustee boards and investment committees, including review processes* (input)		Concerned this is an ambiguous indicator. Whilst assessing trustee board performance is a critical issue. APRA requires funds to conduct annual board performance reviews of both the board and individual trustee directors (Prudential Standard SPS 510). We are concerned that there is a lack of objective measures of performance. There is a significant global debate on measuring the performance of corporate boards which is a foundation for discussion on trustee boards. Across the pension industry globally there is also an active discussion on trustee skills. AIST believes that while performance of boards should be a focus for the Commission’s ongoing work, the absence of agreement on measures of good performance mean this indicator will be ambiguous.
Member satisfaction and trust* (outcome)		Agree with this indicator. However, we are concerned that this indicator is subject to fluctuations due to the volatility of investment markets. Historically member satisfaction increases when markets deliver strong investment returns and falls when markets drop. It would be useful to develop an indicator that was able to consider trust and satisfaction, excluding the impact of market movements, although returns have a direct bearing on outcomes. Some researchers are now looking at measures such as “ease of interacting / doing business with” to provide an extra dimension to




		<p>satisfaction measures.</p> <p>Trust and satisfaction are very different things, which is evident in their measurement:</p> <ul style="list-style-type: none"> • Measures of satisfaction appear highly correlated to short-term (six month) performance. • Trust appears much more durable. This may be because while members may trust the super system and that trustees are acting in their best interests, they can still be unsatisfied with their performance due to global economic uncertainty and slowing rates of growth. • A trust measure also provides good cross-interpretation with respect to the coupling of high levels of trust with low levels of activity indicating and effective and efficiency operation of the trustee in designing default products. <p>We recommend measuring trust only.</p> <p>For a conceptual approach to trust see the commentary on trust, market structure and regulation in <i>The Kay Review of UK Equity Markets and Long-Term Decision Making</i>, Final Report, July 2012.⁸</p>
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We note that this section only appears to address principal-agent problems covering trustee directors. This section should also comment on the principal-agent issues that arise in the investment management side of the system where there is significant leakage of value from members’ savings. The trend in the profit-for-members sector to insourcing investment management, at least in part, is a strong signal that funds are cognisant of, and are countering, the failure of fund managers to price competitively and equitably.


⁸ Kay, J. (2012). *The Kay Review of UK equity markets and long-term decision making*. Final report, July 2012. [online] London. Available at: <http://tinyurl.com/lz9fmzf> [Accessed 9 Sep. 2016]. For a source of data contact Don O’Sullivan, Associate Professor of Marketing at Melbourne Business School.


7.3 Aligning competition with demand: criteria and indicators


Indicator	AIST response	AIST key points
Do funds compete on relevant non-price dimensions?		
Fund marketing expenditure (size, composition and share of operating expenses) (input)		<p>Agree with this indicator. A prudential requirement for funds is the requirement to obtain scale in order to obtain the benefits of scale. There are a number of ways to do this, however it is arguably most effective to grow membership in order to do this.</p> <p>This should be measured relative to membership size and FUM, and separate from group marketing expenditure</p>
Information collection by funds on key member characteristics* (input)		<p>Do not agree that this is an indicator of member engagement leading to competitive pressure. (See earlier comments.)</p> <p>Additional information beyond what is required in order to manage a member’s superannuation account is not an indicator of competition. Collecting additional information may assist a superannuation fund to better service a superannuation fund member.</p> <p>In terms of designing products and services to meet needs, superannuation funds are likely to utilise traditional marketing techniques including market research and focus groups to gain insights into member needs and preferences.</p> <p>There are privacy implications of collecting additional data – as mentioned earlier funds must comply with the National Privacy Principles.</p> <p>Collecting additional information may result in increased complexity that may add to administrative costs and therefore impact on operational efficiency.</p> <p>As an alternative indicator we would suggest the extent to which super funds utilise web analytics in order to gain insight into the products and services that members are</p>


		demanding. Such an indicator could also assess how the system is utilising innovations in technology such as apps to provide enhanced member services.
Availability, cost and quality of information on fees and investment risks at product level* (input)		Agree with this indicator. In addition to investment risks, the Commission should focus on information provided to members that assists the member understanding changing capital market conditions and long term investment issues.
Comparability of insurance product information disclosed by funds* (input)		Agree with this indicator. The Commission should also consider online tools.
Member awareness of key features of their superannuation, including insurance* (input)		Ambiguous indicator which depends on what the definition of awareness is. This indicator should focus on high level awareness rather than awareness at a micro level and will only be useful on a trend basis.

Indicator	AIST response	AIST key points
Is there innovation and quality improvement in the system?		
Declining number of products over time (accumulation) (output)		The interpretation of this indicator will be very difficult, even with cross-interpretation with other indicators. While we acknowledge the interest in innovation there are sufficient indicators relating to member outcomes and member preferences that an innovation indicator is not required. We therefore recommend removing this indicator. If the assumption is that innovation is reflected in a greater


		<p>number of products, and that more products lead to improved choice or alignment with member preference, the indicator is deeply flawed.</p> <p>Greater choice does not lead to improved choice and better members’ outcomes, especially for complex services like superannuation. There is ample psychological evidence that too many choices create confusion and have the effect of causing a person to avoid the confusion by not making a choice, and that complex choices are particularly challenging.</p> <p>The indicator could also point to market power discouraging market power or improved product design. Moreover, the indicator will mean very different things in the accumulation phase compared to the retirement phase where product development is far less mature.</p>
<p>Introduction of new retirement income products and development of more tailored default products* (output)</p>		<p>Concerned with the ambiguity of this indicator.</p> <p>AIST is concerned that the number of investment options in the non-MySuper space is primarily supply-driven and not member driven. While we anticipate innovation in retirement income products, it is not sufficient to say that an increase in the number of products indicates an innovative market, and ,where members lack confidence, reflect supply driven attempts at differentiation rather than genuine demand driven innovation. Increased products come at the cost of operational efficiency and higher fees to members..</p> <p>We agree with the Commission in stating that “Ultimately, an assessment of the sector needs to go beyond a simple examination of product diversity and levels of uptake, and focus on market and policy barriers to product development and the implication of those barriers for competition and efficiency” (p223), and submit that because of this the Commission consider removing the indicator from the framework.</p>


Indicator	AIST response	AIST key points
Are outcomes improving at the system level?		
<p>Growing voluntary consumption of superannuation services (investment, retirement products, advice, insurance) (output)</p>		<p>Disagree with this indicator</p> <p>Concerned with what this indicator means in practice and its potential ambiguity.</p> <p>One way of measuring voluntary consumption of superannuation has been through voluntary contributions. As an indicator this is strongly influenced by incentives such as the Superannuation Co-contribution and tax conditions. . We acknowledge that voluntary contributions, whether concessional or non-concessional indicate personal commitment to saving.</p> <p>The focus by super funds to develop MySuper products to meet the needs of the largest cohort of their members may enable super fund members to receive the benefits of the super system without the need to consume additional services.</p> <p>A low level of consumption of additional services should improve efficiency where core services provide benefits that meet the needs and preferences of most members. This in turn reduces the costs in the system for services that are currently devoted to servicing needs for which the majority of super fund members do not demonstrate little demand. Accessible education and information provided by funds, whether by workplace seminar or websites, support members’ decision making and improve financial literacy. While the system is maturing, superannuation savings will not be sufficient to meet members’ retirement needs - unless they make substantial additional contributions above SG. The transition group of retirees may feel let down by the system’s “promise” of something approaching an adequate retirement income. Rather than focus on voluntary contributions and services (which most consumers are unable to access), the Commission should focus on an indicator of adequacy.</p>

<p>Member satisfaction and trust* (outcome)</p>		<p>Concerned that this indicator is subject to fluctuations due to the volatility of investment markets.</p> <p>As previously noted, historically member satisfaction increases when markets deliver strong investment returns and falls when markets drop. It would be useful to develop an indicator that was able to consider the impact of investment returns.</p> <p>Trust and satisfaction are very different things, which is evident in their measurement. Measures of satisfaction appear highly correlated to short term (six month) investment performance. Trust appears much more durable. This may be because while members may trust the super system and that trustees are acting in their best interests, they can still be unsatisfied with their performance due to global economic uncertainty and slowing rates of growth.</p> <p>We recommend measuring trust only.</p> <p>Trust measure also provides good cross-interpretation with engagement with respect to the coupling of high levels of trust with low levels of activity indicating and effective and efficiency operation of the trustee in designing default products.</p>
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Indicator	AIST response	AIST key points
<p>Are net investment returns being maximised over the long term, taking account of service features provided to members?</p>		
<p>Long-term (5, 10 and 20 year) historical net returns from the system and market segments compared to benchmarks (output)</p>		<p>Agree with this indicator. The relative immaturity of the super system means that a twenty year timeframe is the longest for which meaningful data is available. In the long term the Commission should focus on whole of life indicators.</p> <p>We note that net returns to members will be a significant measure (net returns after investment and admin fees)</p>




		<p>over 10-20 years. We support the Commission’s requirement for two measures:</p> <ul style="list-style-type: none"> • The traditional CPI + x% over 5- 10- and 20- years measure is a familiar , easy-to-understand, headline measure which reflects members’ overall, CPI adjusted outcome. It provides: <ul style="list-style-type: none"> ○ Insight into whether funds’ Strategic Asset Allocation (SAA) have been successful ○ However, because the outcomes are dominated by market risk or beta, this measure does not provide substantial insight into Trustees’ investment skills; • Reference portfolios - “vanilla” lowest-cost form of delivering products in each prescribed risk category complement the CPI+ measures: <ul style="list-style-type: none"> ○ They give a much better reflection of the value-add by each fund relative to their SAA benchmark, ○ Reflect portfolio construction, selection of fund managers, use of private markets, etc ○ Help to assess whether Trustees have used their resources (fees and skills) well and how they are rewarded over time ○ Reference portfolios provide a measure of the strength of investment craftsmanship. <p>Both measures have challenges with data quality/reporting by funds and ensuring that we compare apples with apples.</p> <p>We propose that a separate indicator be developed that assesses the degree to which the system is exercising ownership rights that are conferred as an investor. This indicator would be based around the significant body of work in responsible investment. Investors are exposed to long term risks that have the capacity to impact on long term investment returns:</p> <ul style="list-style-type: none"> • One example is climate change which, according to established science, will have significant environmental, social and economic impacts over the coming decades. Super funds have been
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		<p>actively engaged in assessing the risks of climate change on investment portfolios.</p> <ul style="list-style-type: none"> Investors have also actively engaged on an international basis to develop corporate governance standards. Australian funds have taken a leadership role around corporate governance internationally including through legal cases that have established precedents around investor rights. In the Australian context super funds have been instrumental in the development of the ASX Corporate Governance Principles that are now in their third iteration. The ASX Corporate Governance Principles have significantly improved governance standards for ASX companies. Evidence suggests that there is a clear link between corporate governance and long term investment performance. Investor engagement is often done on a collaborative basis. Engagement is not limited to institutional investors. The Australian Shareholders Association has played an important role around advocating on behalf of small investors for many years.
<p>Long-term (5, 10 and 20 year) historical net returns to specific asset classes at system level compared to asset-class benchmarks (output)</p>		<p>Agree with this indicator.</p> <ul style="list-style-type: none"> We note that some areas of investment are not well covered by asset-class benchmarks. We expect that over time super funds will invest in new assets that provide risk-adjusted returns, for which benchmarks may not exist. AIST believes that indicators around long term investment are critical to provide an assessment of the efficiency of the superannuation system. In this regard it is important for the Commission to incorporate indicators that acknowledge the complexity of investment. The packaging of super as a product belies the fact that within each asset class there is significant complexity that investors must manage. Asset class benchmarks seek to capture relative performance and are commonly used by institutional investors


		<p>as a tool to assess manager performance.</p> <p>However asset class benchmarks are only one component of a complex investment process:</p> <ul style="list-style-type: none"> • Other areas that should be captured in indicators are around changes to strategic asset allocation over time. Super funds may change strategic asset allocation for a number of reasons including that an asset class has become more expensive due to structural factors. • In the case of infrastructure investments there is discussion as to whether increased prices that are currently being realised for mature infrastructure assets are cyclical or reflect a structural shift. • At a system level new APRA data is revealing that international investments are growing at a faster rate than domestic investments. This reflects that in the early days of compulsory superannuation there were sufficient investments available locally to absorb new contributions. As the size of the system has increased, the need for international diversification has also increased. <p>AIST recommends that the Commission establishes indicators to focus on assessing the system’s ability to understand and manage change in investment markets over long time horizons.</p>
<p>Dispersion of funds and products from a frontier of best-performing funds and products (based on historical long-term net returns) (output)</p>		<p>Agree with this indicator, but note that the intent is to apply this to only one segment.</p> <p>Overall we believe that the Commission’s focus should be on indicators where it is possible to develop measures across the system. Focusing on efficient frontier of best-performing approaches for SMSF, whilst logistically difficult, is of importance.</p>



Indicator	AIST response	AIST key points
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Are costs incurred by funds and fees charged to members being minimised, taking account of service features provided to members?		
Investment costs and fees across equivalent products and between market segments (input, output)		Agree with this indicator
Investment management fees by asset class compared to other countries* (output) Relationship between investment fees and returns (output)		Agree with this indicator. AIST reiterates that care needs to be taken with international comparisons due to differences in systems, and lack of transparency in reported costs and structures.
Use and disclosure of performance attribution by funds (behaviour)		Agree with this indicator. Super funds conduct performance attribution as a matter of course when assessing performance of investment managers. We note that while performance attribution is a core component of investment governance, its principal use is for professional investment managers. For super fund members the material question is whether funds are providing members with sufficient information to analyse the performance of their funds or investment choices.
Administrative costs and fees at system level and for market segments (input, output)		Agree with this indicator. SuperStream should deliver efficiency for whole system. Administration fees for SMSFs should include all fees charged by accountants to manage SMSFs.


<p>Cost savings from SuperStream (output)</p>		<p>Agree with this indicator.</p> <p>SuperStream is a work in progress but is delivering efficiencies for the whole system, especially employers.</p> <p>Additional efficiencies should be obtained from implementation of single touch payroll, online new employee registration and new and expanded ATO reporting. The introduction of new payment platforms and integration of data and payment solutions will greatly improve the efficiency of the system.</p> <p>SuperStream has been implemented for rollovers and contributions from medium and large employers. The transition into SuperStream for small employers is scheduled to be completed on 28 October 2016. While super funds can be assessed on how well they implement these reforms, SuperStream benchmark reporting (APRA SRF 711.0) does not provide comparable information about cost savings from SuperStream. This is because each reporting super fund sets its own methodology.</p> <p>The capital cost of implementation by super funds, administrators, software developers, gateways, payroll providers, employers and the ATO should be considered in assessing cost savings to the system. It is likely that this has exceeded \$1 billion.</p>
<p>Relationship between level of administrative fees and quality of member services (output)</p>		<p>We recommend that this indicator be deleted.</p> <p>This indicator is ambiguous and requires the Commission making judgements as to what a “quality service” is.</p>
<p>Costs relative to assets and member base: wholesale (by service) and retail (by segment)* (input)</p>		<p>Agree with this indicator.</p>


Margins: wholesale (by service) and retail (by segment)* (output)		Agree with this indicator.
Pass through of benefits from scale economies (wholesale and retail) to members* (output)		<p>Concerned that this is an ambiguous indicator.</p> <p>Economies of scale can result in reduced fees or increased services that include broader diversification. One of the implications of the maturing of the system is that superannuation funds need increased international diversification as the size of superannuation assets outgrows the size of the Australian economy. An assessment of economies of scale should be considered in context with the evolving nature of investment.</p>


Indicator	AIST response	AIST key points
Do all types of funds have opportunities to invest efficiently in upstream capital markets?		
Asset allocation in SMSFs compared to institutional funds (input)		<p>Agree with this indicator.</p> <p>We note that asset allocation in SMSFs is not necessarily an indication of the availability of an investment opportunity. It may be an indication of investor education and behavioural bias. Of particular note, the ASX has enhanced the investment universe of SMSFs through developments including:</p> <ul style="list-style-type: none"> • Exchange-traded products (ETPs) – in recent years ASX has focused on increasing the number and range of ETPs. There are 176 ETPs listed on ASX totalling \$22.5 billion • Managed funds (mFund) allows investors to apply for and redeem unlisted managed funds using their broker platform. At 30 June 2016, there were 161 funds <p>SMSFs have a wider investment universe than is being utilised.</p>





		<p>It is likely that over coming years the availability to access international markets will increase as ASX seeks opportunities in areas such as international equity warrants. There is likely to be a small number of assets which SMSFs do not have direct access to. There has been discussion on the fact that SMSFs cannot access unlisted infrastructure assets for instance. SMSFs are able to access infrastructure through listed companies and listed funds.</p> <p>In considering differences in asset allocation the Commission should develop mechanisms to strip out structures that are appropriate for institutional investors but not appropriate for small investors. The core question is whether SMSFs are able to gain exposure to similar assets from a risk / return perspective.</p>
Retail investment management costs compared to wholesale (input)		Agree with this indicator.
Minimum transaction values (input)		<p>Agree with this indicator.</p> <p>The development of online broking services has enabled small investors to transact on capital markets at low cost.</p>

Indicator	AIST response	AIST key points
Are member preferences and needs being met by minimising unpaid contributions and lost accounts?		
Unpaid Superannuation Guarantee contributions (input)		<p>Agree with this indicator.</p> <p>The Commission should consider indicators of how a super fund notifies its members about superannuation contribution payments, noting that this is information funds may not have (reporting the absence of information can become a nonsense).</p> <p>This measure should be largely addressed by the introduction of Single Touch Payroll, where employers submit PAYG and BAS records together with contributions information.</p>
Delayed Superannuation Guarantee contributions (input)		<p>Agree with this indicator.</p> <p>See above.</p>
Number and value of lost accounts (output)		<p>Agree with this indicator.</p> <p>System wide reforms should reduce the number of lost accounts.</p>



Indicator	AIST response	AIST key points
Are member preferences and needs being met by funds collecting relevant information to ensure their product offerings are suitable for their diverse member bases?		
Information collection by funds on key member characteristics* (input)		<p>Do not agree that this is an appropriate indicator.</p> <p>The question whether individual member data is required in order to draw an insight into consumers is questionable. In other areas of commercial enterprise it is not the practice of a business to collect data on individuals before</p>



		<p>creating products and services to meet particular needs.</p> <p>There is also value in developing a website analytics indicator that would assess how the system is utilising innovations in technology such as apps to provide enhanced member services. Web analytics can provide meaningful information for super funds to assess member needs and preferences.</p>
Response rates to funds' member surveys (behaviour)		<p>Concerned that this is ambiguous indicator and should be removed.</p> <p>In many consumer markets the response rate of consumers to member surveys is very low. A low response does not tell us anything about the overall satisfaction of a product or service but is a measure of the effectiveness of the market survey techniques. We note that the evolution of smart phones has resulted in consumers dropping landlines. This has impacted on the way that market research companies gather information.</p>


Indicator	AIST response	AIST key points
Are member preferences and needs being met by the system providing high-quality information and financial advice to members to help them make decisions?		
Availability, cost and quality of information on fees and investment risks at product level* (input)		<p>Ambiguous indicator on the basis of the degree to which disclosure of information is required through regulation.</p> <p>An example of increased provision of information is Portfolio Holdings Disclosure which super funds are required to implement by 1 July 2017. Currently there are different disclosure requirements for MySuper and choice products with the MySuper product dashboard including fee and investment risk information, while a choice product dashboard does not yet exist.</p> <p>AIST notes that super funds are increasingly responding to requests from members around disclosure of the actions that a super fund is taking to address long term investment</p>

		risks with the objective of delivering long term investment returns. Examples include member engagement around climate change. This indicator should include an assessment of how super funds are responding proactively to long term investment risks.
Members acting on intrafund financial advice (behaviour)		Agree with this indicator. Historic models for the provision of advice have limited scope and are expensive. Intrafund advice is scalable and supports the provision of advice on a mass market basis which is efficient from a system perspective.
Member account monitoring activity (use of websites, call centre enquiries)* (input, behaviour)		Ambiguous indicator See previous comments on member account monitoring
Cost of funds' member engagement activities (input)		Ambiguous indicator that will depend upon the definition of member engagement. Suggest particular focus should be on measuring cost and results of member seminars, websites and communications, compared with costs and results of advertising.
Take-up rates of co-contributions and offsets (input)		Concerned at the ambiguity of this indicator. In an efficient system the benefit of co-contributions should apply automatically to members, rather than requiring knowledge of the benefit in order to be in a position to access it. Measurement of voluntary contributions provides more insight into members' engagement and long term savings. This also reflects the decision making of members who make additional contributions, but cannot qualify for co-contributions.



Indicator	AIST response	AIST key points
Are member preferences and needs being met by the system providing products and information to help members optimally consume their retirement incomes?		
Introduction of new retirement income products and development of more tailored default products* (output)	●	<p>Concerned with ambiguity of this indicator.</p> <p>While we anticipate innovation in retirement income products, it is not sufficient to say that introduction of new products equates with member preferences being met. Evidence in accumulation funds suggest that product development has been supply driven rather than demand driven.</p>
Proposed new indicator: Extent of risk pooling to assist optimal consumption of retirement incomes	●	<p>Products that genuinely help members consume their retirement incomes optimally will often, but not always, include elements of risk pooling. The extent to which risks are pooled within the system is suggested above as an additional Economies of Scale indicator and should also be included here.</p> <p>Larger funds often manage risk-pooling directly in-house, while other funds can avail themselves of external risk-pooling arrangements. The extent to which members have the opportunity to share risks collectively is an important efficiency indicator and also an indicator of optimality of de-accumulation of retirement savings.</p>
Take up of different retirement income products (output)	●	<p>Concerned with ambiguity of this indicator.</p> <p>While we anticipate innovation in retirement income products, it is not sufficient to say that take-up of different retirement income products is necessarily an indicator that needs are being met. Evidence in accumulation funds suggest that product development has been supply driven rather than demand driven. Increased products comes at the cost of operational efficiency in the short term. We also note that in the short-term, the majority of members are utilising account-based pensions.</p>



Drawdown rates in transition and retirement phases (output)		<p>Agree with this indicator.</p> <p>Evidence suggests that super members may seek to minimise drawdowns due to a number of behavioural factors, particularly fear of running out of money. System needs to be structured so that income is consumed in retirement not held over for inheritance – however there is limited evidence of this to date.</p>
Unclaimed superannuation (output)		<p>Agree with this indicator.</p> <p>System wide reforms including SuperStream and lost super accounts should improve performance over time.</p>

Indicator	AIST response	AIST key points
Are member preferences and needs being met by member balances being allocated in line with their risk preferences and needs?		
Introduction of new retirement income products and development of more tailored default products* (output)		<p>Concerned with the ambiguity of this indicator.</p> <p>Increased products come at the cost of operational efficiency. AIST is concerned that the number of investment options in the non-MySuper space is primarily supply-driven and not member driven. Whilst we anticipate innovation in retirement income products, it is not sufficient to say that the increase in the number of products indicates an innovative market, and may, in the case where members lack confidence, reflect supply driven attempts at differentiation rather than genuine demand driven innovation.</p>
Asset allocations by age cohort (across different market segments and products) (output)		<p>Not supportive of this indicator.</p> <p>There is a vibrant debate across the superannuation industry on asset allocation as members age. There are a number of different approaches in the market. The presence of different approaches should be considered as an indication that different member preferences are being</p>

		<p>served in the market. Given the presence of different approaches in the market an indicator around specific asset allocations by age would be ambiguous in terms of its meaning.</p>
<p>Member awareness of investment, sequencing and longevity risk (input)</p>		<p>Concerned with the ambiguity of this indicator, but would support if a meaningful metric can be developed</p> <p>This is a particularly complex conundrum, one which members may understand intuitively, but one for which definition and measurement will prove challenging.</p> <p>In each of the different identified inputs (investment, sequencing and longevity risk), there is considerable discussion across the industry. In terms of investment risk, the establishment of the Standard Risk Measure was an attempt by industry regulators to acknowledge that previously conceived measures of risk were now evolving. Historically investment risk was described in terms of asset classes and volatility. As markets became more sophisticated fixed income products were offered in capital markets with increased investment risk. Over time this meant that describing a fixed interest investment as a low risk investment was no longer necessarily true. The challenge in establishing an indicator around investment risk is that it may not provide an assessment of whether members understand actual risk, but whether they still understand risk in asset terms.</p> <p>Sequencing risk is influenced by product selection. A member who retires and moves into an investment product with the same or similar asset allocation is not exposed to sequencing risk; however, we note they will still be affected by drawing down in adverse markets where drawdowns are not offset by contributions.</p> <p>At a system level there is concern that members are not drawing down their super at retirement this could be an indication that the member is concerned that they will outlive their money. Compounding longevity risk is timing unpredictability, and the punitive costs of frail aged care.</p>

		All three issues are of critical importance in terms of delivering long term returns but the ambiguity around the issues means that the indicator itself is likely to be ambiguous in meaning.
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Indicator	AIST response	AIST key points
Is the system using lessons from behavioural finance to design products and ‘lean’ against well-known biases in how people make decisions?		
Funds’ application of the lessons from behavioural finance to design products, the effectiveness of fund strategies and whether lessons are being transmitted to other parts of the system (behaviour, output)		<p>The measure is ambiguous.</p> <p>The importance of ‘nudges’ to finance decisions is acknowledged. Nudges can be used in both positive and negative ways. In particular we note behavioural biases had a role to play in the establishment in the banking sector of late payment and overdrawn fees where the fees did not reflect the costs to the banks. The challenge with finance nudges is to ensure that they are done so in a way that is in the interests of members. In this regards simple measures, such as a binary question as to whether a provider utilised a nudge are potentially ambiguous.</p> <p>We note that behavioural finance lessons are being applied in communications, digital programs and interactive tools. These may be more relevant than products <i>per se</i>.</p> <p>We recommend amending this indicator to ensure that funds are measured in their application within the context of members’ best interests. This would ensure that the ability to exploit behavioural biases is explicit.</p>
Are trustees acting in the best interests of members?		<p>This indicator is not supported on the basis of its ambiguity and existing legislative requirement.</p> <p>Superannuation trustees have a legislated requirement to act in the best interests of members. In the absence of a legal action that determined that a trustee wasn’t acting in the interests of members then it would be difficult for an indicator to conclude that a trustee was not acting in the</p>




		best interests of its members.
Existing ratings of system-wide quality of governance* (input)		<p>Agree with this indicator.</p> <p>Indicators should include diversity, including the number of women and other groups on trustee boards.</p> <p>Diversity of Trustee Board: there is a significant body of work on the benefits of diversity. In particular we would note the seminal work of Scott E. Page⁹.</p>
Accurate disclosure of trustee directors' and investment committee members' qualifications and relevant skills/experience, remuneration structures, and potential conflicts of interest due to related-party dealings and competing duties* (behaviour)		<p>Do not agree with this indicator.</p> <p>We are concerned with the use of the word 'accurate'. Superannuation funds are required to provide certain information under Section 29QB of the SIS Act. Super funds are subject to Prudential Standard SPS 520 (Fit and Proper).</p> <p>Where a super fund provided 'inaccurate' information this would be subject to APRA sanction.</p> <p>We are concerned that an indicator on "investment committee members' qualifications and relevant skills/experience" is not consistent with how superannuation funds are structured and regulated. APRA has determined that super funds must establish an investment governance framework (Prudential Standard SPS 530). An investment governance framework is defined as the totality of systems, structures, policies, processes and people to address the RSE licensee's responsibilities with regard to investments of each RSE within the RSE licensee's business operations. This includes generating returns to meet investment objectives while managing and monitoring all identified sources of investment risk.</p>






⁹ Page, S. (2008). "Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies".


		An indicator that focuses on “relevant skills/ experience” is not consistent with APRA’s Investment Governance standard and would potentially be a misleading indicator of a fund’s capacity and skills.
Contraventions of regulator governance standards by trustees, employers, service providers and financial advisers* (behaviour)		<p>This indicator is supported.</p> <p>This indicator should be broadened to include SMSFs where disputes between trustees are becoming more common. There are examples of cases where a SMSF trustee has taken assets and fled overseas leaving remaining trustees destitute. It would be possible to capture SMSF prosecutions. Because the cost of any legal action may dissuade litigants, the Commission should also use complaints as an indicator. It is noted that conclusions can only be drawn on the basis of regulator actions or legal actions. APRA discussions are likely to be confidential and legal actions may take years to complete, meaning that there is an absence of objective data to base assessments</p>
Level of skills and standard of performance for trustee boards and investment committees, including review processes* (input)		<p>This indicator is already covered by legislation and standards.</p> <p>APRA has determined that super funds must establish an investment governance framework (Prudential Standard SPS 530). An investment governance framework is defined as the totality of systems, structures, policies, processes and people to address the RSE licensee’s responsibilities with regard to investments of each RSE within the RSE licensee’s business operations. This includes generating returns to meet investment objectives while managing and monitoring all identified sources of investment risk.</p> <p>An indicator that focuses on “level of skills and standard of performance” is likely to be subjective and is not consistent with APRA’s Investment Governance standard.</p>
Member satisfaction and trust* (outcome)		<p>Agree with indicator (see earlier comments).</p> <p>However concerned that this indicator is subject to fluctuations due to the volatility of investment markets and legislative change. Historically member satisfaction</p>






		increases when markets deliver strong investment returns and falls when markets drop. It would be useful to develop an indicator that was able to consider the impact of investment returns.
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Indicator	AIST response	AIST key points
Are there material systemic risks in the superannuation system?		
Market concentration (Herfindahl-Hirschman Index and market shares of largest providers) in upstream service provider markets (input)		<p>Agree with this indicator.</p> <p>AIST proposes that in addition to the two indicators proposed, the Commission should consider indicators that assess the degree to which individual super funds adopt similar investments that have the potential to lead to increased systemic risks.</p> <p>There are two useful examples:</p> <p>If super funds were to shift to collectively to passive management of Australian shares this would potentially lead to concentration risks. There is evidence that increased passive investment may have impacts on market volatility.</p> <p>The second example is if SMSFs moved significantly into a particular asset class such as residential property. This could overheat a market, but would also have implications from the withdrawal from existing assets. The large proportion of SMSF investments in bank deposits for instance could be impacted which would have systemic impacts due to the importance of deposits for bank funding under Basel III.</p>
Levels of leverage in SMSFs (input)		<p>Whilst we agree with this indicator, we recommend that it be modified to take into account current and intended levels of leverage in superannuation system. We note that intended future leverage has been linked to SMSF establishment as a material driver of activity.</p>

Indicator	AIST response	AIST key points
Do funds offer insurance products that meet members' needs?		
Duplicate insurance policies by insurance type (output)		<p>Agree with this indicator provided the optimal result is a minimum of one insurance policy for each super fund member (that is, not for each account). Just as duplicate accounts should be limited to those who want them, there should also be near universal insurance coverage – excepting only those who have opted-out of insurance cover.</p> <p>This widespread coverage is a benefit of the default death and TPD insurance built into the infrastructure for MySuper products. This design has enabled many Australians to access default insurance that is affordable, and in many cases, tailored to their demographic.</p>
Rates of insurance take up in choice products and SMSFs relative to default products (output)		<p>We do not agree with this indicator. This indicator assumes a false dichotomy. Members of MySuper products can and do elect to purchase additional or differently structured insurance from the default insurance arrangements. A comparison of insurance in choice products and SMSFs with that of default products does not therefore provide useful information about insurance take up rates.</p> <p>As many consumers of choice products and SMSFs are advised into taking additional insurance without necessarily understanding the cover purchased, this is also not an effective gauge of engagement.</p>
Member awareness of key features of their superannuation, including insurance* (input)		<p>Agree with this indicator and the use of surveys and other qualitative measures to assess. This should include a measure of members' ability to read their statements, and the accessibility and readability of insurance policy information, including online.</p> <p>As well as information about the basic insurance features, an additional and important indicator should be insurer</p>

		and super fund disclosure about payout rates, that is, what proportion of premiums collected are paid out to members as insurance benefits. See also previous comments on engagement etc. We suggest that a better measure is members' ability to read their statements – based on surveys.
Level of unclaimed insurance (output)		Agree with this indicator, noting that it should be measured across all parts of superannuation, and not just default products. The collection of this data may however be problematic.
Ease of members opting out of insurance (input)		This is a subset of member awareness of insurance features and should be included as part of that indicator rather than as stand-alone indicator.
Time to respond to members compared to retail provider benchmarks (input)		Agree with an indicator of timeliness. However, this should be an absolute benchmark of best practice standards rather than a measure against retail providers. Insurance claims management codes of practice are being developed in the insurance and superannuation industry, and it is appropriate for these to set standards of timeliness that can be used as a benchmark.
Information collection by funds on key member characteristics* (input)		Do not agree that this is an appropriate indicator. The question whether individual member data is required in order to draw an insight into consumers is questionable. In other areas of commercial enterprise it is not the practice of a business to collect data on individuals before creating products and services to meet particular needs.
Use of member information by funds to target insurance products (input)		Agree with this indicator. With respect to indicator "Use of member information by funds to target insurance products", it will be important to consider what may be best practice, as opposed to current practice, with respect to targeting insurance especially in relation to small accounts. Best practice would therefore see funds more actively protecting wealth accumulation in these scenarios, and use member information in this

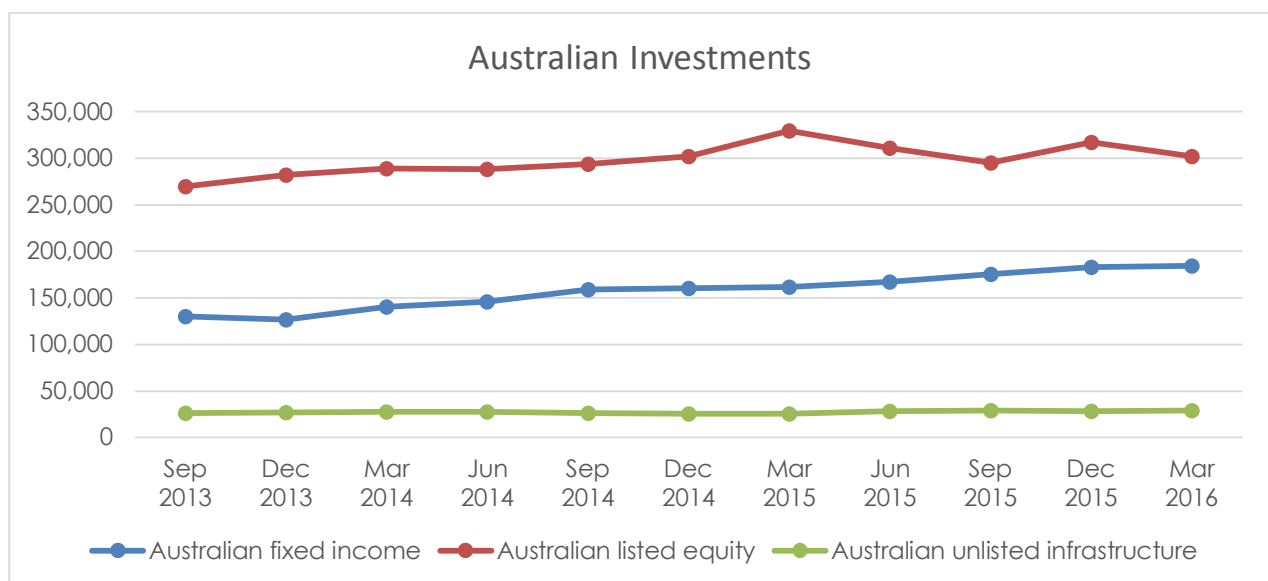
		respect.
Comparability of insurance product information disclosed by funds* (input)		Agree with this indicator.

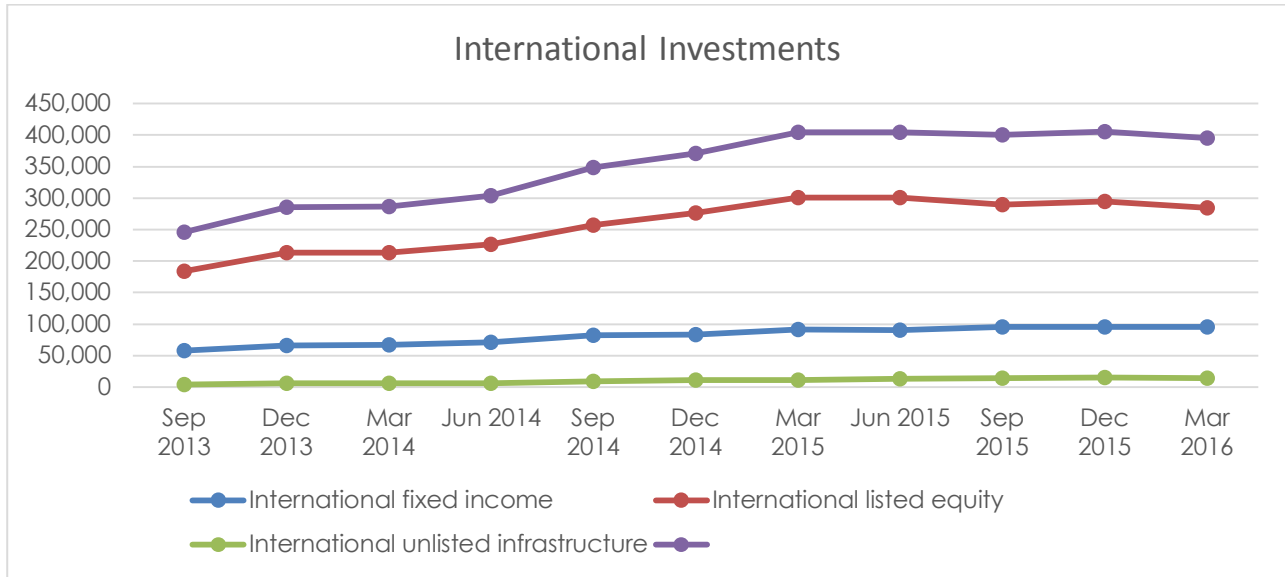
Indicator	AIST response	AIST key points
Are the costs of insurance being minimised given the type and level of cover?		
Insurance premiums inside and outside of superannuation (output)		Agree with this indicator provide that it is benchmarked against minimum service standards for the industry.
Insurance expenses (incurred by funds) (input)		Agree with this indicator provide that it is benchmarked against minimum service standards for the industry.
Erosion of member balances due to insurance premiums (output)		Strongly agree with this indicator.
Ratio of claims to premium revenue (loss ratio) within superannuation over 5 and 10 year periods (output)		Strongly agree with this indicator.
Fee and premium differences from outsourcing insurance services to related versus unrelated parties (output)		Agree with this indicator.

8 Appendix 1: Asset Allocation Trends

Asset Allocation Trends APRA Regulated Superannuation Funds

(\$ million)	September 2013	March 2016	Growth
Australian fixed income	130,018	184,246	41%
Australian unlisted infrastructure	26,106	29,210	12%
Australian listed equity	269,338	302,182	12%
International fixed income	58,296	95,646	64%
International unlisted infrastructure	4,099	14,906	363%
International listed equity	184,032	284,186	54%





9 Appendix: Section 29QB requirements

Disclosure elements required under section 29QB of the *Superannuation Industry (Supervision) Act 1993* are outlined below:

Disclosure area	Disclosure item
General information about executive officers and individual trustees	Name
	Appointment
	Qualifications
	Experience
	Duties and interests registers
	Board attendance
	Position changes
	Retirement
Executive officer and individual trustee remuneration	Appointment benefits
	General remuneration
	Share-based payments
	Performance bonuses
	Equity instruments
	Contract for services with executive officers and individual trustees
	Termination benefits
Documentation	Constitution
	Trust deed and related material
	Governing rules and rules relating to nomination, appointment and removal of trustees or trustee directors
	Product Disclosure Statements and Financial Services Guides
	Annual report
	Actuarial report
	Annual financial statement
Information	Australian Business Number
	Conflicts management policy
	Significant event notices
	Proxy voting policies
	Voting activity summary

10 Appendix B: Incidence of lost and inactive accounts

The growth of temporary, casual and part-time jobs means that the number of inactive accounts continues to grow.

Table 1. Number of inactive super accounts

	Member accounts	Benefits (\$'000)
Whole super sector	27,986,740	1,175,058,548
Active	19,357,887	1,066,075,782
Inactive	7,949,379	98,149,429
Lost	631,756	6,947,308

Source: APRA Annual Fund Level Superannuation Statistics, 30 June 2015, released 10 February 2016.

Impact of small lost and inactive accounts

Low balance, inactive and lost accounts are predominantly held by young people who are more likely to be impacted by short-term employment and lower incomes.

Table 2. Average superannuation account balance by age and gender

Age in years	Mean superannuation balance 2013/14 (\$)			Median superannuation balance 2013/14 (\$)		
	Male	Female	Persons	Male	Female	Persons
15-19	375	262	320	-	-	-
20-24	6,265	3,941	5,118	2,400	1,800	2,000
25-29	18,072	14,812	16,441	12,000	9,000	10,000
30-34	36,373	25,549	30,937	25,000	18,000	20,000
35 and over	55,279+	34,812+	44,938+	40,000+	21,000+	30,000+

Source: ASFA Superannuation account balances by age and gender, December 2015.

Lost superannuation balances meeting certain criteria, such as being below the specified account balance) are required to be transferred by super funds to the ATO. The smaller the number of accounts being

transferred to the ATO and the smaller the total number of accounts being held by the ATO is a measure of the efficiency of the system in reducing the incidence of lost super.

Effective use of a super fund's intrafund consolidation policy and effective use of Eligible Rollover Funds by super funds will increase the level of protections given to members with small, lost and unclaimed super, and improve the efficiency of the system overall.

APRA could monitor the consolidation policies of super funds, and the effectiveness of their activities in respect to small and inactive accounts. For example, this could include consideration of members' best interests and the impact of fees on these accounts.