



Online: [www.pc.gov.au/inquiries/current/superannuation/competitiveness-efficiency/draft](http://www.pc.gov.au/inquiries/current/superannuation/competitiveness-efficiency/draft)  
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**ONLINE AND MAIL**

9 September 2016

To whom it may concern

**Productivity Commission Draft Report: How to assess the effectiveness and efficiency of the Superannuation System (the report)**

As one of Australia's leading professional services firms, we believe we are well placed to share our perspectives on the important issue of superannuation. Our firm's national superannuation practice has deep experience in the superannuation industry and across the financial services sector more broadly.

Our firm takes its role in the community seriously. We are committed to positively contributing to the Australian community and supporting and enabling initiatives that will strengthen the future prosperity of our country.

Our high level feedback is overleaf. We would welcome the opportunity to discuss our views further.

Kind regards

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## **Objectives, assessment criteria, indicators and evidence sources**

The Report sets out the proposed system objectives, various assessment criteria, and an extensive number of indicators with associated evidence sources which are proposed to be used by the Productivity Commission to assess the competitiveness and efficiency of the superannuation system.

We commend the holistic, considered and comprehensive approach the Productivity Commission has taken to identifying the objectives, different methods and evidence sources which may assist in reaching meaningful conclusions.

As a broad comment, we agree with the direction the Commission is taking and do not believe there is anything significant which has been overlooked or not given due consideration.

In this context, our comments are intended to assist with some fine tuning of the identified objectives and indicators.

### **Objectives**

In regards to the first objective around maximising net returns over the long term (see below), we understand that the use of the term “over the long term” is intended to encompass a consideration of risk, but in our view it would be preferable to specifically mention risk in this objective.

*“The superannuation system maximises net returns on member contributions and balances over the long term”*

In regards to the third objective around insurance (see below), in our view the objective would be clearer if it referred to appropriate insurance for sustainable cost. This is because “members’ needs” could imply overly large levels of insurance that would inappropriately erode retirement benefits and “least cost” could encourage inappropriate policies and/or unsustainable costs.

*“The superannuation system provides insurance that meets members’ needs at least cost”*

### **Assessment criteria, indicators and evidence sources**

We anticipate that the assessment methods and evidence sources proposed to be used will vary significantly both in terms of the cost to produce and decision making usefulness.

In this regard, “regulator data” and “industry data” already available will have the lowest cost. It is also generally considered more reliable when prepared according to recognised frameworks. However, we note the concerns that it provides quantitative information only, which in the absence of qualitative information could be misleading.

By contrast, qualitative information collected through case studies and surveys will be significantly more expensive to obtain and its reliability is highly dependent on the construct of the survey/case study and how they are executed.

We note and applaud the fact that you intend to bear the major responsibility and costs for obtaining the survey data and are cognisant of not adding significant costs to the industry. Even so, you may wish to consider prioritising the assessment methods and evidence sources which are case study or

survey based according to the cost required to produce the information versus likely usefulness in decision making. You may also wish to consider conducting some pilot studies for some of the survey information, by selecting a smaller sample of superannuation funds to respond, in order to fine-tune the surveys prior to requiring a wider industry survey.

For example Table 7.3 (page 173) proposes extensive use of surveys in relations to assess “Do funds offer insurance products that meet members’ needs?” Given the complex nature of insurance and the varying needs of members, we believe it may be difficult to draw meaningful conclusions from surveys.

We are also aware that a number of superannuation funds/industry bodies have conducted insurance and other surveys in the past to their members, so it may be useful to assess the outcomes from their surveys in order to assist in the development of your own.

A significant component of the qualitative information concerns measuring member engagement. It may take some time to work out which indicators truly assess member engagement that leads to better rather than poorer outcomes. Member engagement that promotes efficient and effective operators over poorer ones is desirable, but member engagement that drives poorer longer term outcomes as a result of inappropriate and uninformed investment switching should not be encouraged.

## **Closing**

Finally we note that the superannuation industry is under continued pressure to implement Stronger Super reforms introduced in 2013 and other ongoing reforms since. These reforms are ongoing and will require significant resources to fully implement over the next 6 to 12 months. For example, ASIC Regulatory Guide 97 relating to fee and cost disclosures and accrued default amount (ADA) transition plans are both required to be implemented by early 2017.

The implementation of these reforms has placed significant resourcing and cost pressures on funds who also have the ongoing challenges associated with improving member outcomes and managing business as usual.

We believe that this is important context within which any additional imposts on industry as a result of this work should be considered before the final assessment methods and evidence sources are determined.

Also, it is worthwhile considering any potential unintended impacts on individual operators’ behaviours as a result of the formal review of the efficiency and competitiveness of the system and how this might ultimately feed into an assessment of the approach for allocating default members. For example, given the longer term consequences of potentially being considered as a default fund, could it be possible that some superannuation funds could misunderstand the system criteria and interpret them as being what they should focus on, which may not be to the interests of their particular members.

Finally, we recognise that what you are attempting to do, in assessing the competitiveness and efficiency of the superannuation system has not been done before, here or elsewhere and is a very difficult task. We believe this is a considered start to a difficult task and over time, the criteria and indicators will naturally evolve and rationalise. We thank you for the effort you have made to involve all sectors of the industry to assist you with this task.