



**Submission in response to Productivity Commission draft  
report into the efficiency and competitiveness of the  
superannuation system**

July 2018

# 1. Submission participants

This submission is made by:

- QIEC Super – a profit for members industry fund, established specifically for the benefit of all participants in the non-Government education sector, child and other care and community services in Queensland;
- Club Super - a profit for members industry fund, established specifically for the benefit of employees in the sporting and recreational clubs and associated industries in Queensland;

## 2. Executive summary

The Productivity Commission draft report into the efficiency and competitiveness of the superannuation industry is far reaching in its scope. The headline recommendation of the report, is that members should be defaulted into a fund only once, upon initial entry to the workforce, with that fund then following the member in any career moves, unless the member makes an alternative fund selection. This is positive and we support this recommendation as it will assist in minimising duplicate accounts, and will contribute to higher retirement balances for members, by reducing multiple fee deductions.

### **Top 10 'Best in show' competitive default selection process**

However, the recommendation to adopt a 'best in show' competitive selection process for default funds would, if implemented, irreversibly, and in our view, unjustifiably alter the structure of the industry, by creating a landscape in which only a small number of large funds would survive in the medium term. The report refers to the benefits which can be gained by making default fund selection subject to a competitive process. However, if the end result of this process is a superannuation industry concentrated in only a few large funds, this will result in a less competitive industry, resulting in fewer choices for members, and less pressure to innovate and reduce fees. The industry could end up being quite vanilla, with a small number of large funds, not dissimilar to the banking industry. We strongly suggest that would not necessarily be in the best interests of members.

The report gives virtually no recognition of the impact of this proposal on unsuccessful funds, and their members. Given that many funds source the vast majority of their new members through default arrangements, losing access to these default members will have serious, potentially terminal implications for these funds. Such funds would still be subject to outflows, in terms of regular benefit payments, transfers to the ATO (which are proposed to increase significantly), inter fund transfers via SuperMatch etc, but would be denied a large portion of their existing inflows. This is very likely to bring the viability of many funds into question. This in turn then raises the issue of numerous fund consolidation and mergers being undertaken (potentially in a similar timeframe), and the very real risks associated with transition of millions of account records to other funds, aside from the other risks associated with mergers. This could result in many well run funds who may fall outside of the top 10 due to investment returns over a given period being (marginally) inferior to the top 10, being wound up. Yet such funds may have performed better than the top 10 funds in the past, and may do in the future. We strongly consider this would be an inappropriate outcome for the members of such funds, and in the context of Australia's free market (though highly regulated) system, we would argue it is not the role of a Government appointed panel to effectively decide which private sector funds survive and which do not, particularly where such funds may be performing satisfactorily and offering services which are highly valued by their members.

The report suggests that funds would be required to submit a proposal in response to a range of selection criteria, with primary weighting being given to investment performance. The obvious flaw in that regime is that past performance is not a reliable indicator of future performance.

Additionally, we consider that any such process should not focus exclusively on quantitative outcomes and should also give adequate consideration to relevant qualitative factors. For example, we believe high levels of service and access to advice result in more members getting the opportunity to increase their superannuation knowledge, and make more informed decisions, thus contributing to the achievement of better retirement outcomes. We are concerned that any competitive process may focus exclusively on quantitative outcomes, and would place small and medium sized funds at a disadvantage, whose area of competitive advantage is service.

Another factor to be considered is that a process which results in 10 'winning' funds qualifying for default status, will create an environment where funds may have an incentive to take short term, potentially risky positions, in an attempt to get on the shortlist. Trustees should be adopting a long term focus when investing superannuation assets, and if the proposed process was to encourage a shift toward short term strategies, this may not be in member's best interests.

Additionally, the proposal amounts to the complete removal of the default fund selection process from the industrial relations sphere. We note that superannuation is a condition of employment, and represents deferred wages. As such, it is entirely appropriate that the industrial relations arbiter, the Fair Work Commission, is involved in the default fund selection process.

Also, the idea that there may be 10 'winners' is arbitrary. Funds outside of the top 10 may be providing comparable returns and providing high levels of service. However, based on the proposal, such funds would miss out on default fund status, and may be required to wind-up or merge in the short or medium term. This is not acceptable.

### **Complexity**

The report recognises that there is a relatively high level of member disengagement across the industry, with engagement levels increasing the closer members get to retirement. We consider that is partly due to the fact that for young and middle aged people, retirement is a long way away, and superannuation is a much lower priority than getting married, finding a job, buying a home and paying off a mortgage. However, another significant contributor to disengagement is the complexity of superannuation and the constant changes which are made to the rules by Government. The report recognises that considerable benefits may emerge from simplification of superannuation, enabling members to better understand the system, and feel more empowered to make informed decisions. We agree, and consider that there is considerable value in educating members about superannuation, and increasing financial literacy, which we believe will ultimately improve member outcomes. We consider these qualitative factors are crucial, and must not be overlooked.

However, it must be acknowledged that the complexity of superannuation derives from Government legislation and other regulation. To achieve greater simplification would require Government to wind back on some aspects of the regulatory landscape. Unfortunately, we consider there is no cause for optimism on that front, as Government has relentlessly expanded regulatory obligations over the last 20 years, and has shown little appetite for moving in the other direction.

The report queried whether foreign funds could compete in a 'best of show' selection process for default fund status. As outlined elsewhere in this submission, we do not support the proposal for a 'best of show' selection process for default fund status.

However, if a competitive process was introduced, it must be conducted on fair terms. A fund originated from overseas should only be permitted to participate in the proposed competitive process if it is operational in Australia, and subject to the full Australian regulatory / prudential environment. It would be completely inappropriate, and would represent a very uneven playing field if a foreign fund operated only overseas was allowed to participate. In that scenario, the foreign fund would have very different cost and compliance structures, which would completely compromise the competitive process.

### **Responses to findings and recommendations**

In addition to the fundamental concerns outlined above, our responses to each of the findings and recommendations in the draft report, are set out below.

### 3. Response to draft findings

Findings	Response
Investment performance	
<p><b>Finding 2.1</b></p> <p>APRA-regulated funds have delivered investment returns to members over the past two decades (net of all fees and taxes) of 5.7 per cent a year, on average. The majority of members and assets in the system are in products that have performed reasonably well. But there is significant variation in performance within and across segments of the system which is not fully explained by differences in asset allocation. Not-for-profit funds, as a group, have systematically outperformed for-profit funds. While retail funds dominate the ‘tail’ of underperformance, industry and corporate funds also reside in the tail.</p>	<p><i>We agree, and this finding reflects longstanding conclusions drawn by industry commentators and ratings agencies. We consider this is due to generally lower costs in the not for profit sector, and a more robust governance model that has delivered superior returns.</i></p>
<p><b>Finding 2.2</b></p> <p>The SMSF segment has broadly tracked the long-term investment performance of the APRA-regulated segment on average, but many smaller SMSFs (those with balances under \$1 million) have delivered materially lower returns on average than larger SMSFs. The difference between returns from the smallest SMSFs (with less than \$50 000) and the largest (with over \$2 million) exceeds 10 percentage points a year.</p>	<p><i>As QIEC Super and Club Super are not involved in the SMSF sector, no comment is made.</i></p>
<p><b>Finding 2.3</b></p> <p>There is wide variation in performance in the default segment that is not fully explained by differences in asset allocation. About 1.7 million member accounts and \$62 billion in assets are in MySuper products that underperformed conservative benchmarks over the 10 years to 2017. This suggests that many members are currently being defaulted into underperforming products and could be doing better.</p> <p>If all members in these underperforming products received the median return from a top-10 MySuper product, they would collectively be \$1.3 billion a year better off. Being in an underperforming product means</p>	<p><i>That depends on the gross level of returns achieved by various funds. A fund delivering high gross returns and which has relatively higher fees, may produce a comparable retirement outcome to another fund which produces lower gross returns, but has a lower fee.</i></p> <p><i>Additionally, it should be recognised that investment performance is highly variable. Past performance is not a reliable indicator of future performance. Even over a long term period of 10 years, the top 10 performing funds in one period are very unlikely to be the same top 10 performing funds over the next 10 year period. This highlights that conclusions around outperformance should be made with extreme caution.</i></p>

<p>that, on retirement, a typical worker (starting work today) is projected to have a balance 36 per cent lower (or \$375 000 less to retire with).</p>	<p><i>While net returns are recognised as being important and need to be competitive, members may highly value and feel secure with their membership of their current fund, especially if the benefit design caters for their specific industry, and meets their needs.</i></p>
<p><b>Finding 2.4</b></p> <p>There is wide variation in performance in the choice segment that is not fully explained by differences in asset allocation. Over \$50 billion in assets are in investment options that underperformed conservative benchmarks over the 12 years to 2016. Many choice members could be doing a lot better.</p>	<p><i>We consider that there is likely to be a range of reasons behind that, including fluctuations in fee levels across products and segments of the industry.</i></p>
<p>Fees and Costs</p>	
<p><b>Finding 3.1</b></p> <p>Despite regulator endeavour, there remain significant gaps and inconsistencies in how funds report data on fees and costs. This harms members by making fee comparability difficult at best, and thus renders cost-based competition largely elusive.</p>	<p><i>It should be acknowledged that the introduction of fee and cost disclosure reforms as a result of changes required by updated ASIC Regulatory Guide 97, has been plagued by problems. It is widely recognised that there is now less comparability of fees and costs, than existed prior to the RG97 changes. This has increased the risk of members drawing false conclusions, which may well have adverse impacts for members and funds.</i></p> <p><i>It is also noted an external expert has been commissioned to improve the regime.</i></p> <p><i>We also consider that while fees and costs are a factor to be considered, there should be greater focus on net returns, rather than fees and costs in isolation.</i></p>
<p><b>Finding 3.2</b></p> <p>Superannuation fees in Australia are higher than those observed in many other OECD countries. In aggregate, total fees — for administration and investment management services, and in both accumulation and retirement — have been trending down as a proportion of assets, from 1.3 per cent in 2010 to 1.1 per cent in 2016. Fees have fallen markedly for retail funds, albeit they remain higher (at least for choice products) than the (largely unchanged) fees for industry funds.</p> <p>Among APRA-regulated funds, the MySuper and SuperStream reforms have likely acted to reduce fees (including some likely competitive</p>	<p><i>Without consideration of contributing factors as to why fees in Australia may be higher than in overseas jurisdictions, we consider this is not a robust finding. The retirement income systems in various countries are inevitably very different, with varying structures, and vastly differing regulatory environments.</i></p> <p><i>It should be recognised that the Australian superannuation system is very highly regulated, and the consequence of that is there are significant costs in upgrading systems on an ongoing basis to deal with ever changing regulations, high costs associated with complex disclosure requirements, costs associated with regulator reporting, costs associated with licensing, costs associated with expert compliance and legal review etc. In our view, the report does not adequately recognise these as being major factors contributing to the Australian superannuation industry having higher costs than other OECD countries.</i></p>

spillover to choice products), albeit this is difficult to attribute directly given growth in average fund scale and the impact of other fee drivers.

While dispersion of product-level fees has decreased over the past decade, there remains a persistent 'tail' of relatively high-fee (mainly for-profit) choice products with total fees exceeding 1.5 per cent of assets each year. This tail comprises about 14 per cent of member accounts and 15 per cent of system assets.

**Finding 3.3**

Reported costs for SMSFs have increased over recent years and, for those with over \$1 million in assets, are broadly comparable with APRA-regulated funds as a percentage of member account balances. By contrast, costs for low-balance SMSFs are particularly high, and significantly more so than APRA-regulated funds. These high costs are the primary cause of the poor net returns experienced by small SMSFs on average. However, the number of new SMSFs with very low balances (under \$100 000) has fallen from 35 per cent of new establishments in 2010 to 23 per cent in 2016.

*Consistent with our position for finding 2,2, we make no comment.*

**Finding 3.4**

Higher fees are clearly associated with lower net returns over the long term. The material amount of member assets in high-fee funds (about 10 per cent of total system assets), coupled with persistence in fee levels through time, suggests there is significant potential to lift retirement balances overall by members moving, or being allocated, to a lower-fee and better-performing fund.

Fees have a significant impact on retirement balances. For example, an increase of just 0.5 per cent a year in fees would reduce the retirement balance of a typical worker (starting work today) by a projected 12 per cent (or \$100 000).

*We re-iterate the comments made in response to finding 2.3. We again note that the report does not adequately recognise qualitative factors as contributing to retirement outcomes. QIEC Super and Club Super provide high levels of personalised service, which we consider delivers very real benefits to their members in assisting them in making more informed choices, thus enhancing their retirement outcomes. While higher service levels may come at cost, it should be recognised the benefits that members receive as a result. Without such service levels, otherwise (relatively) disengaged members may not make optimal decisions.*

Members' needs

<p><b>Finding 4.1</b></p> <p>Qualitative judgments by members of superannuation funds suggest that a small share are dissatisfied with the overall performance of their fund. Members who have a poor understanding of the system and less capacity for accurately gauging the performance of their funds tend to report being much less satisfied. However, many more members indicate that the performance of funds, including their service quality, has improved over time than those who feel that performance had flagged.</p> <p>A sizable minority of members selecting a retirement product express equivocal or negative views about the degree to which funds meet their specific product needs.</p>	<p><i>We note the finding. While there may be scope for additional diversity in retirement product offering, it should also be recognised that many members are satisfied with the relative simplicity and flexibility offered by products such as Account Based Pensions.</i></p>
<p><b>Finding 4.2</b></p> <p>Many members find it hard to make comparisons between the large numbers of superannuation products available. The substantial proliferation of investment options in the choice segment (some 40 000) complicates decision making and increases member fees, without boosting net returns.</p> <p>A ‘no frills’ product with low fees that is allocated to a balanced (or balanced growth) portfolio is likely to meet the retirement needs of most Australians during the accumulation phase. A better designed and modernised default allocation could act as a trusted benchmark for better member decision making across the entire system.</p>	<p><i>Although we agree with the conclusion regarding choice products, we consider the conclusion regarding the ‘no frills’ product is a strange finding, as the above factors describe what the existing MySuper product was supposed to deliver. If a more simplified universal product than MySuper is being proposed, it raises questions around whether MySuper has delivered on its objectives.</i></p>
<p><b>Finding 4.3</b></p> <p>The inclusion in MySuper of life-cycle products is questionable given the foregone returns they pose for many members’ balances (with some foregoing higher returns by adjusting asset allocation as early as 30 years of age). Life-cycle products comprise around 30 per cent of all MySuper accounts, but are mostly suited to members who want to ‘lock in’ a lump sum for some immediate purchase after retirement. For other members, maintaining a balanced portfolio before and after retirement would maximise retirement and lifetime income. Life-cycle products are better suited to the choice segment.</p>	<p><i>We consider that this finding does not adequately recognise that post retirement, many members are understandably seeking more security and stability around their balance and income levels, and that this may not be achieved by a balanced portfolio. Instead, it may be more appropriate for post retirees to invest in more conservative portfolios. In our experience, many members choose such strategies in post retirement.</i></p>



<p><b>Finding 4.4</b></p> <p>A 'MyRetirement' default is not warranted. The diversity in household preferences, incomes, and other assets when approaching, and in, retirement means there is no single retirement product that can meet members' needs. The most important task remaining is to improve the quality of financial advice to guide members among the various complex products, especially where members may decide to make the mostly irreversible decision to take up a longevity (risk pooled) income product.</p>	<p><i>We concur with that position.</i></p>
<p><b>Finding 4.5</b></p> <p>Superannuation funds make insufficient use of their own (or imputed) data to develop and price products (including insurance). This is particularly problematic for designing products for the retirement and transition to retirement stages, because this is when different strategies have the biggest payoffs for members.</p>	<p><i>We consider that the tight regulatory environment is an inhibitor to the development of new products. We also disagree with regard to the report's pricing observation. The philosophy of 'not for profit' funds is to price products on only a cost recovery basis, so we consider the observation is not accurate with respect to the 'not for profit' sector.</i></p>
<p>Member engagement</p>	
<p><b>Finding 5.1</b></p> <p>Across a range of indicators, member engagement remains low on average, though it is not realistic or desirable for members to be engaged all the time. Engagement tends to be higher among those approaching retirement, those with higher balances and owners of SMSFs. Engagement is lowest for the young and those with relatively low balances.</p> <p>While many Australians have good broad knowledge of the superannuation system, many lack the detailed understanding necessary for effective engagement. Low financial literacy is observed among a sizable minority (about 30 per cent) of members.</p>	<p><i>We strongly re-iterate our position set out in response to finding 3.4, and also note that complexity caused by Government regulation is a causal factor in detracting from engagement. We consider that the draft report also gives insufficient recognition to the importance of qualitative factors, such as service levels and education, in increasing engagement.</i></p>
<p><b>Finding 5.2</b></p> <p>Demand-side pressure in the superannuation system is relatively weak.</p> <ul style="list-style-type: none"> <li>• Most members in the accumulation phase let the default segment make decisions for them, at least when they enter the workforce.</li> </ul>	<p><i>We note the finding and make no additional comment.</i></p>

<ul style="list-style-type: none"> <li>• A significant minority of members (an estimated 1 million) are barred from exercising choice even if they wanted to.</li> <li>• Fund and investment switching rates are modest, suggesting that active members (or their intermediaries) have not exerted material competitive pressure on funds.</li> </ul> <p>Proposed legislative changes to prohibit restrictive clauses in workplace agreements on members' choice of fund are much needed.</p>	
<p><b>Finding 5.3</b></p> <p>While there is no shortage of information available to members, it is often overwhelming and complex. Dashboards should be a prime mechanism to allow for product comparison and need to be salient, simple and accessible to be effective — but most are not.</p>	<p><i>We consider this is a strange finding, as MySuper dashboards may only include mandated content, so all MySuper dashboards should be consistent in terms of content. It should also be recognised that the use by members of MySuper dashboards across the industry has been low, reflecting relatively low engagement levels. As a result, MySuper dashboards have proved to be more of a compliance burden for superannuation funds, rather than an effective member comparison tool. Therefore, any proposals to enhance MySuper dashboards or to introduce choice product dashboards is unlikely to be effective, in the absence of increased member engagement.</i></p>
<p><b>Finding 5.4</b></p> <p>The quality of financial advice provided to some members — including those with SMSFs — is questionable. Knowledge of the guidance and supports available to pre-retirees is generally lacking. In future, as members retire with higher balances and the diversity of options available expands, the need for tailored advice will grow.</p>	<p><i>While we won't comment on the quality of advice across the broader industry, QIEC Super and Club Super offer a high quality, professional, and efficient in-house financial planning solution. This includes access to intra-fund advice, included within administration fees, and access to personal advice, on a user pays basis. The in-house financial planning model is not compromised, as the planners receive no commissions, and make recommendations only in the best interests of members.</i></p>
<p>Erosion of member balances</p>	
<p><b>Finding 6.1</b></p> <p>Several proposed policy changes will promote Superannuation Guarantee payment compliance:</p> <ul style="list-style-type: none"> <li>• Single Touch Payroll being extended to small employers (with less than 20 employees) from 1 July 2019</li> <li>• funds being required to report contributions to the ATO at least monthly</li> </ul> <p>the ATO having stronger powers to penalise non-compliant employers and recover unpaid contributions.</p>	<p><i>We note this finding, and support any measures to improve SG compliance, thus ensuring more members have a chance to adequately fund their retirement.</i></p>

**Finding 6.2**

The superannuation system, primarily due to its policy settings, does not minimise the unnecessary and undesirable erosion of member balances. This erosion is substantial in size and regressive in impact.

- Unintended multiple accounts (one in three of all accounts) are the most egregious driver, directly costing members nearly \$2.6 billion a year in excess insurance premiums and administration fees. For an individual member holding just one unintended multiple account throughout their working life, the projected reduction in their balance at retirement is 6 per cent (or \$51 000).
- Superannuation Guarantee non-compliance is hard to estimate, but may be costing members about \$2.8 billion a year.
- At least 2 per cent of all member accounts (about 636 000) are subject to (grandfathered) trailing adviser commissions. These commissions may cost members in excess of \$214 million a year.

Recent policy initiatives have improved the situation, but current policy settings are inevitably making slow progress by treating the symptoms and not the structural cause.

*We support measures that minimise multiple accounts, unless actively decided by a member. It should be recognised that members may have valid reasons for retaining an account in another fund, including preserving access to more favourable insurance. As QIEC Super and Club Super are 'not for profit' funds, we do not support payment of trailing commissions.*

**Market structure, contestability and behaviour****Finding 7.1**

The market structure of the superannuation system (as distinct from its policy and regulatory settings) is conducive to rivalry. At the retail level, there are many funds and products. At the wholesale level, while there is concentration in some service provider markets for outsourcing (like administration), a growing ability for larger funds in particular to insource all, or parts, of their service requirements adds to competitive pressure in the system.

*We concur that there is too much concentration of the administration market in two dominant players, which hinders competition and choices for Trustees. However, regarding the option of insourcing major functions such as administration, there has been very little new evidence of this occurring in the industry, due to complexity, cost and risk. Insourcing has been more prevalent in ancillary functions such as marketing and call centres.*

<p><b>Finding 7.2</b></p> <p>At the system level, fund-level regulation is a significant cost of entry and there are structural features of the system on the supply and demand side that are likely to create challenges for new entrants (including gaining scale by attracting members). However, these are not necessarily prohibitive or even high barriers to entry.</p> <p>In the default segment, there are high regulatory barriers to new fund entry, due to policy and regulatory settings that limit access to the market (including difficulty being listed in a modern award). There is also an absence of competition for the default market. Conversely, the choice segment is largely contestable.</p> <p>While the costs of exit are unlikely to deter new fund entry, barriers to fund mergers are continuing to frustrate much needed consolidation in the system, at great cost to members.</p>	<p><i>We disagree with this finding. We consider that the very high costs associated with licensing, establishing and maintaining a compliant system, maintaining compliant disclosures, appointing and monitoring service providers etc are very significant barriers to entry, and there are certainly significant costs of exit from the industry. This is borne out by evidence, in that there have not been significant new starters in the industry for many years. While there have recently been a few new startups, it is noted that these have leveraged off the licensing and resourcing of existing players in the market.</i></p>
<p><b>Finding 7.3</b></p> <p>There are signs of unhealthy competition in both the choice and default segments of the superannuation system.</p> <ul style="list-style-type: none"> <li>• While the choice segment is largely contestable, competition has not always translated to better outcomes for members, and product proliferation (some 40 000 investment options is unhealthy choice) and poor comparability is symptomatic of unhealthy competition.</li> <li>• In the default segment, the risk of employer inducements (of no benefit to members) remains a concern and can work against the interests of members.</li> </ul>	<p><i>We agree that proliferation of investment options in the choice sector is not in the best interest of members and requires rationalisation. We also strongly support any steps to remove employer inducements in the default sector.</i></p>
<p><b>Finding 7.4</b></p> <p>There is a high propensity for funds in the system (particularly retail funds) to report using associate service providers — a form of vertical integration. While vertical integration is not in itself a problem, it does raise a potential conflict of interest which needs to be addressed by confident regulators and with greater transparency through disclosure and reporting.</p>	<p><i>Where funds do appoint associated service providers, we note such appointments should be on arms length terms, with the terms of the engagement to be overseen by APRA. Neither QIEC Super or Club Super have appointed any associates, with all service providers unrelated to the Trustee, and appointed and monitored on commercial terms.</i></p>

<p><b>Finding 7.5</b></p> <p>Over the past decade, significant economies of scale have been realised in the superannuation system, but this has mainly been driven by the exit of small, high-cost funds. It is not evident that individual funds have been able to realise cost efficiencies as they have grown in size.</p>	<p><i>As highlighted in response to finding 3.2, it must be recognised that the Australian superannuation system is very heavily regulated, with the level of regulation ever changing and expanding, and with that comes significant cost, which detracts from the ability to obtain cost efficiencies. We also note the Government’s proposal in the 2018/19 Budget, that accounts which have not received a contribution in 13 months would be required to be transferred to the ATO. If implemented, this will represent a significant loss of assets and membership to many funds in the industry, thus significantly detracting from their efforts to attain increased scale and deliver better member outcomes.</i></p>
<p>Insurance</p>	
<p><b>Finding 8.1</b></p> <p>The deduction of insurance premiums can have a material impact on member balances at retirement. This balance erosion is highly regressive in its impact — it is more costly to members with low incomes. It also has a larger impact on members with intermittent attachment to the labour force, and those with multiple superannuation accounts with insurance (the latter comprise about 17 per cent of members).</p> <p>Balance erosion for low-income members due to insurance could reach a projected 14 per cent of retirement balances in many cases, and in extreme cases (for low-income members with intermittent work patterns and with multiple income protection policies) could be well over a quarter of a member’s retirement balance.</p>	<p><i>While the finding around erosion of small balance accounts by insurance premiums is noted, we contend that it is likely to be far more valuable to a low account balance holder to have the security of death and/or total and permanent disablement insurance in place, than having an account which would be marginally higher but still be low balance, without having the protection of insurance in place. We consider that the erosion argument needs to be counter balanced against the consideration of security that insurance cover provides, which can be invaluable.</i></p> <p><i>We agree with the position regarding income protection policies, and would support any initiatives which would prevent members having multiple income protection policies in place.</i></p>
<p><b>Finding 8.2</b></p> <p>In terms of premiums paid, default insurance in superannuation offers good value for many, but not for all, members. For some members, insurance in superannuation is of little or no value — either because it is ill-suited to their needs or because they are not able to claim against the policy. Income protection insurance and unintended multiple insurance policies are the main culprits for policies of low or no value to members.</p>	<p><i>Trustees are obliged to consider the needs of their membership when taking out group cover. However, due to the diversity of circumstances individuals face, it is recognised that the needs of all members won’t be met. Notwithstanding that comment, we believe the value of default insurance is considerable for the majority of members. While superannuation funds communicate to members the ability to opt-out of cover, not all members read or understand these conditions. We consider that increased communications, including around the ability to opt-out, would assist this problem.</i></p> <p><i>We also reiterate our comments in response to finding 8.1 around the importance that having insurance in place may have for a low account balance holder.</i></p>

<p>Younger members and those with intermittent labour force attachment — groups which commonly have lower incomes — are more likely to have policies of low or no value to them.</p>	
<p><b>Finding 8.3</b></p> <p>The fiscal effects of insurance in superannuation are complex, and the net effects are uncertain. Existing (public) fiscal estimates overestimate the net fiscal benefits as they do not consider the impact of balance erosion on Age Pension eligibility.</p>	<p><i>We note the finding and make no further comment.</i></p>
<p>Fund governance</p>	
<p><b>Finding 9.1</b></p> <p>Although there have been improvements to trustee board appointment processes to better ensure boards have the necessary skills and experience, there is still much room for trustee boards to do better in this area. Use of a skills matrix (informed by external evaluation of board performance, skills, experience and knowledge) to guide the appointment process should be considered best practice by superannuation trustee boards.</p>	<p><i>We acknowledge that Director appointments should adequately consider required skills and experience to assist in executing the Board’s objectives and its business plan.</i></p>
<p><b>Finding 9.2</b></p> <p>Best practice governance for superannuation trustee boards would involve a ‘critical mass’ (at least one third) of independent directors. However, ensuring boards have processes in place to recruit highly skilled and experienced directors is at least as important as the number of independent directors.</p>	<p><i>We consider that there is no definitive evidence that independent Directors actually result in superior outcomes, either in superannuation or other industries. As a result, we do not support mandating the appointment of independent Directors. Instead, we consider each Board should assess whether they might need to appoint one or more independent Directors based on their circumstances. It should also be recognised that in the ‘not for profit’ sector, many Directors receive only nominal remuneration. Independent Directors will expect to be remunerated at market rates, which will have flow on implications for the remuneration of other Directors. The impact of this is that the Fund (and ultimately members) will pay significantly more for Directors undertaking their duties. Such Boards would need to demonstrate improved outcomes to justify that additional cost. We consider mandating the appointment of independent Directors would come at the expense of members, with no discernible benefit.</i></p>

<p><b>Finding 9.3</b></p> <p>Despite widespread recognition that evaluation of board performance and capability by external third parties are crucial to identifying skills gaps on boards, many boards fail to undertake such evaluations.</p>	<p><i>This finding is noted.</i></p>
<p><b>Finding 9.4</b></p> <p>Many funds mimic (at least to some degree) the strategy of rival funds for fear they will otherwise exhibit poor short-term performance relative to their peers ('peer risk'). This short-termism is likely to be at the expense of long-term returns to members.</p>	<p><i>We consider that this phenomenon is partly due to the competitive nature of the industry, whereby periodic results are published by ratings agencies and the regulator.</i></p>
<p>System governance</p>	
<p><b>Finding 10.1</b></p> <p>The package of reforms contained in the Treasury Legislation Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill 2017 would improve member outcomes if legislated.</p> <p>In particular, the proposed MySuper outcomes test should better enable APRA to de-authorise poorly performing products and better promote fund consolidation. Giving APRA more power to deal with ownership changes of superannuation funds would also help.</p>	<p><i>We consider that the suggestion that APRA could withdraw a fund's MySuper authorisation to be severe, and likely terminal to the fund's prospects, and should only be considered in extreme circumstances. The proposed outcomes test should not be used as a tool to circumvent market forces in driving potential fund consolidation.</i></p>
<p><b>Finding 10.2</b></p> <p>Conduct regulation arrangements for the superannuation system are confusing and opaque, with significant overlap between the roles of APRA and ASIC. These arrangements have the potential to lead to poor accountability and contribute to the lack of strategic conduct regulation, with poor outcomes for members.</p>	<p><i>We support any initiatives which provide greater clarity for the industry around the roles and responsibilities of the respective regulators.</i></p>
<p><b>Finding 10.3</b></p> <p>The formation of the new Australian Financial Complaints Authority should be a positive reform for members, provided it is adequately resourced to deal with the level of complaints received.</p>	<p><i>We agree with this finding.</i></p>



<p><b>Finding 10.4</b></p> <p>The relatively small number of SMSFs with some form of limited-recourse borrowing arrangement (about 7 per cent and representing 4 per cent of SMSF assets) means such borrowing is at present unlikely to pose a material systemic risk. However, active monitoring (along with public reporting and discussion by the Council of Financial Regulators) is clearly warranted to ensure that SMSF borrowing does not have the potential to generate systemic risks in the future.</p>	<p><i>We note this finding and make no further comment.</i></p>
<p><b>Finding 10.5</b></p> <p>The frequency and pace of policy change undoubtedly create real pressures for participants in the superannuation system. However, most of the recent major reforms (such as MySuper and SuperStream) have been overwhelmingly beneficial from a public interest perspective.</p>	<p><i>While we agree that the introduction of MySuper and Superstream have been positive developments, there needs to be recognition that the superannuation industry is very heavily regulated, with new levels of regulation constantly being added. This is a very significant and growing cost to funds, and ultimately members. The report suggests that superannuation needs to be simplified, which would assist with member engagement. We contend that simplification cannot be achieved if the existing comprehensive regulatory landscape remains unchanged, as funds are bound to comply with the comprehensive and complex regulatory landscape.</i></p>
<p>Overall assessment</p>	
<p><b>Finding 11.1</b></p> <p>Fixing some of the worst problems in the current superannuation system would bring substantial benefits. If there were no unintended multiple accounts (and the duplicate insurance that goes with them), members would have been collectively better off by about \$2.6 billion a year. If members in underperforming MySuper products had instead been moved to the median of the top-10 performing MySuper products they would collectively have gained an additional \$1.3 billion a year.</p>	<p><i>We agree with the multiple accounts finding, provided provision is made for those members who knowingly wish to maintain multiple accounts. There may be valid reasons for this, including maintenance of superior insurance conditions in a particular fund.</i></p> <p><i>However, we do not agree with the suggestion to move members to the top 10 performing funds. As highlighted in response to finding 2.3, past performance is not a reliable indicator of future performance. Additionally, the exclusive focus on quantitative outcomes gives insufficient recognition to the importance of qualitative factors in promoting beneficial retirement outcomes. In that respect, we re-iterate the position we outlined in response to finding 3.4.</i></p>
<p><b>Finding 11.2</b></p> <p>The superannuation system has not kept pace with the needs of members. Most notably, structural flaws have led to the absurdity of unintended multiple accounts (one in every three accounts is</p>	<p><i>To address the issue of unintended multiple accounts, we support the proposal that a default fund be allocated only once upon entry to the workforce, and that this fund follows the member in any career moves, unless the member makes an alternative fund selection.</i></p>



<p>unintended) in a system anchored to the job or the employer, and not the member.</p>	
<p>Competing for default members</p>	
<p><b>Finding 12.1</b></p> <p>While the default segment has on average outperformed the system as a whole, it fails to ensure members are placed in the very best products and places a sizable minority in underperforming products. For example, the top 10 MySuper products generated a median return of 5.7 per cent a year in the decade to 2017, whereas the bottom 26 generated a median return of 3.9 per cent a year (and represent about 1.7 million member accounts and \$62 billion in assets).</p> <p>Current arrangements also deny some members any ability to choose their own products. Default arrangements need to be modernised and recrafted to harness the benefits of competition for default members.</p>	<p><i>We re-iterate our position set out in response to finding 2.3, that the issue of who represents the top performing funds, will vary from year to year, and period to period. Also, this places exclusive focus on quantitative outcomes, to the exclusion of qualitative factors. We also consider that funds participating in a competitive tender will take the focus and resources away from delivering the best outcomes for members, and will incur additional unproductive cost.</i></p>
<p><b>Finding 12.2</b></p> <p>Current default arrangements do not promote member engagement. Recent survey evidence reveals that when members are provided with a simple and accessible list of superannuation products, only a small minority would not choose their own product. This evidence aligns with the lessons of behavioural economics.</p>	<p><i>While this finding may reflect the disengagement which exists in the industry, it fails to recognise that a proportion of members may actually be satisfied with their current fund.</i></p>
<p><b>Finding 12.3</b></p> <p>Although a sovereign monopoly default fund would be well placed to realise economies of scale for default members, such a model would run counter to the (desirable) absence of an actual or implied government guarantee in the Australian superannuation system and would fail to harness the benefits stemming from a competitive process. It would also supplant member engagement.</p>	<p><i>We agree that a Government monopoly default fund would be inappropriate.</i></p>

## 4. Response to draft recommendations

Recommendation	Response
<p><b>Recommendation 1</b></p> <p>Default superannuation accounts should only be created for members who are new to the workforce or do not already have a superannuation account (and do not nominate a fund of their own).</p> <p>To facilitate this, the Australian Government and the ATO should continue work towards establishing a centralised online service for members, employers and the Government that builds on the existing functionality of myGov and Single Touch Payroll. The service should:</p> <ul style="list-style-type: none"> <li>• allow members to register online their choice to open, close or consolidate accounts when they are submitting their Tax File Number when starting a new job</li> <li>• facilitate the carryover of existing member accounts when members change jobs</li> <li>• collect information about member choices (including on whether they are electing to open a default account) for the Government.</li> </ul> <p>There should be universal participation in this process by employees and employers.</p>	<p><i>As outlined previously in this submission, we support this headline recommendation. However, the report goes on to suggest the ATO should enhance its online process through MyGov and Single Touch Payroll to give members access to information so they can make consolidation choices at that time. While providing individuals with information to enable them to make their own choices cannot be disputed as a noble objective, we consider it is unlikely to be effective in the absence of required knowledge and engagement to make informed decisions.</i></p> <p><i>The suggestion that there should be universal participation in this process by employees and employers overlooks the fundamental reason why default arrangements exist, which is that many members do not make an active choice.</i></p>
<p><b>Recommendation 2</b></p> <p>A single shortlist of up to 10 superannuation products should be presented to all members who are new to the workforce (or do not have a superannuation account), from which they can choose a product. Clear and comparable information on the key features of each shortlisted product should also be presented. Members should not be prevented from choosing any other fund (including an SMSF).</p> <p>Any member who fails to make a choice within 60 days should be defaulted to one of the products on the shortlist, selected via sequential allocation.</p>	<p><i>We have significant concerns regarding the ‘best in show’ concept. Our initial concerns with this proposal are spelt out in response to findings 2.3 and 12.1, but additional concerns are spelt out below.</i></p> <p><i>It appears that the proposal would place primary focus on net returns, but also with consideration of other factors, given less weight. As we have outlined elsewhere in this submission, we believe consideration should be given not only to quantitative factors, but also to qualitative factors such as service levels, which we consider to also be significant contributors to achieving optimal retirement outcomes.</i></p> <p><i>Also, the idea that there may be 10 ‘winners’ is arbitrary. Funds outside of the top 10 may be providing comparable returns and providing high levels of service, thus assisting members in making informed decisions and optimising their retirement outcomes.</i></p>

<p>The ATO should embed the shortlist and accompanying information into the centralised online service.</p>	<p><i>However, based on the proposal, such funds would miss out on default fund status. This would not be appropriate.</i></p> <p><i>The report also gives no recognition of the impact of this proposal on unsuccessful funds, and their members. Given that many funds source the vast majority of their new members through default arrangements, losing access to these default members will have serious, potentially terminal implications for these funds. Such funds would still be subject to outflows, in terms of regular benefit payments, transfers to the ATO (which are proposed to increase significantly), inter Fund transfers via SuperMatch etc, but would be denied a large portion of their existing inflows. This is very likely to bring the viability of many funds into question. This in turn then raises the issue of numerous fund consolidations and mergers being undertaken (potentially in a similar timeframe), and the very real risks associated with transition of millions of account records to other funds, aside from the other risks associated with mergers. This could result in many well run funds who may fall outside of the top 10 due to investment returns over a given period being (marginally) inferior to the top 10, being wound up. Yet such funds may have performed better than the top 10 funds in the past, and may do in the future. This is not acceptable, and in the context of Australia's free market (though highly regulated) system, we would argue it is not the role of a Government appointed panel to effectively decide which private sector funds survive and which do not.</i></p> <p><i>If implemented, the likely outcome over the medium term would be significantly fewer superannuation funds in the market. This would result in less competition, and less pressure to innovate and reduce fees. We question if this is in the best interests of members.</i></p> <p><i>Additionally, the proposal amounts to complete removal of the default fund selection process from the industrial relations sphere. We note that superannuation is a condition of employment, and represents deferred wages. As such, it is entirely appropriate that the industrial relations arbiter, the Fair Work Commission, is involved in the default fund selection process. For this reason, as well as the other reasons outlined above, we do <b>not support</b> the recommendation in its current form.</i></p>
<p><b>Recommendation 3</b></p> <p>The Australian Government should establish an independent expert panel to run a competitive process for listing superannuation products on the online shortlist. This panel should select from products submitted by funds that meet a clear set of criteria (established beforehand by the</p>	<p><i>The obvious question arising out of this recommendation is how would the Government select an expert panel that is truly independent. We consider it would be very difficult for the Government to identify industry experts, who are not affiliated in some way with a sector of the industry. This would leave the process open to suggestions of bias and conflicts of interest.</i></p>

<p>panel) and are judged to deliver the best outcomes for members, with a high weighting placed on investment strategy and performance.</p> <p>The panel should have flexibility to select up to 10 products, with the exact number at the discretion of the panel based on the merit of each product and what is most tractable for members, while maintaining a competitive dynamic between funds for inclusion.</p> <p>The panel should be comprised of independent experts who are appointed through a robust selection process and held accountable to Government through adequate reporting and oversight.</p> <p>The process should be repeated, and the panel reconstituted, every four years.</p>	<p><i>Making judgements on the basis of past performance is fraught with danger, as past performance is not a reliable indicator of future performance.</i></p> <p><i>As outlined in response to finding 12.1, we also consider that funds participating in a competitive tender will take the focus and resources away from delivering the best outcomes for members, and will incur additional unproductive cost. We do <b>not support</b> the recommendation in its current form.</i></p>
<p><b>Recommendation 4</b></p> <p>The Australian Government should legislate to allow APRA to apply the MySuper outcomes test.</p> <p>Authorisation rules for MySuper should be further strengthened to require funds to:</p> <ul style="list-style-type: none"> <li>a) obtain independent verification — to an audit-level standard — of their outcomes test assessment, comparison against other products in the market, and determination of whether members’ best interests are being promoted, at least every three years</li> <li>b) report to APRA annually on how many of their MySuper members switched to a higher-fee choice product within the same fund.</li> </ul> <p>Funds that fail to meet these conditions — or persistently underperform (for five or more years) an investment benchmark tailored to their asset allocation by a material margin, as determined by APRA — should have their MySuper authorisation revoked.</p> <p>After implementation, the Australian Government should commission an independent review, every five years, of the effectiveness of the MySuper authorisation rules (including the outcomes test) at meeting their objectives.</p>	<ul style="list-style-type: none"> <li>a) <i>If the outcomes test requirements are introduced, APRA will undoubtedly be taking a keen interest in the results. We consider that the recommendation to require audit level review, is excessive, and would incur additional unnecessary cost, and we do <b>not support</b> it.</i></li> </ul> <p><i>This also raises other issues around the proposal to require funds to compare outcomes results to other funds. It cannot be expected that each fund would calculate outcomes results for other funds. It is also not clear that each fund will have access to the outcomes results of other funds to enable effective comparison. In a competitive market, it may also not be appropriate for other funds to gain access to the detailed metrics which exist within their competitors. This may provide insights into issues which are for the Trustee of that fund and APRA to discuss, but which should not be in the public domain.</i></p> <p><i>The potential inconsistencies which may exist in the proposed comparison of outcomes results raises concerns about similar problems arising as now exist with the RG97 fee and cost disclosure regime.</i></p> <ul style="list-style-type: none"> <li>b) <i>It is unclear what the purpose of such a requirement would be. All funds are required to disclose the fees and costs associated with investing in various options, as well as the cost of switching (if any). The decision and responsibility for switching is that of the member. This recommendation represents a proposal for further micro management of the industry, and we do <b>not support</b> it.</i></li> <li>c) <i>We consider that the suggestion that APRA could withdraw a fund’s MySuper authorisation to be severe, and should only be considered in extreme</i></li> </ul>

	<p>circumstances. The scope of the proposal in its current form is too broad, and we do <b>not support</b> it. Non reporting to APRA on switching activity would certainly not constitute sufficient grounds to revoke a MySuper authorisation.</p>
<p><b>Recommendation 5</b></p> <p>The Australian Government should legislate to:</p> <ul style="list-style-type: none"> <li>a) require trustees of all superannuation funds to use and disclose a process to assess, at least annually, their board's performance relative to its objectives and the performance of individual directors</li> <li>b) require all trustee boards to maintain a skills matrix and annually publish a consolidated summary of it, along with the skills of each trustee director</li> <li>c) require trustees to have and disclose a process to seek external third party evaluation of the performance of the board (including its committees and individual trustee directors) and capability (against the skills matrix) at least every three years. The evaluation should consider whether the matrix sufficiently captures the skills that the board needs (and will need in the future) to meet its objectives, and highlight any capability gaps. APRA should be provided with the outcomes of such evaluations as soon as they have been completed</li> <li>d) remove legislative restrictions on the ability of superannuation funds to appoint independent directors to trustee boards (with or without explicit approval from APRA).</li> </ul>	<ul style="list-style-type: none"> <li>a) <i>It is noted that the AIST Governance Code will require disclosure on the fund website of a summary of the process to be followed by the fund in conducting annual Board and Director performance reviews, as well as confirmation that the performance review process has been conducted each year. We <b>support</b> the extension of this requirement across the industry.</i></li> <li>b) <i>We note that it is expected that all APRA regulated funds already maintain a skills matrix, to enable compliance with the APRA fit and proper requirements. We strongly disagree with the proposal that the skills of Directors be published on fund websites. As highlighted elsewhere in this submission, there is a high level of member disengagement across the industry. If members are not engaged with their own account, they are certain not to be engaged with the skill set of the Directors on their Board. Are members expected to analyse the information and come to an assessment as to whether the skill set of Directors on the Board is sufficient? The adequacy of the skills of Directors is a prudential matter for the Board and APRA, not a matter for members. This aspect of the recommendation is <b>not supported</b>.</i></li> <li>c) <i>The AIST Governance Code will require disclosure of a summary of the Board and Director performance review process. Other than applying that requirement across the industry, we consider no further action is required, so this aspect of the recommendation is <b>not supported</b> in its current form.</i></li> <li>d) <i>We consider that it should be the prerogative of each Board to decide if they need to appoint one or more independent Directors. Therefore, we <b>support</b> this proposal. We have outlined above in response to finding 9.2 our opposition to any proposal to mandate the appointment of independent Directors.</i></li> </ul>
<p><b>Recommendation 6</b></p> <ul style="list-style-type: none"> <li>a) That funds report to APRA when they enter into a Memorandum of Understanding (MOU) with another fund in relation to a proposed merger.</li> <li>b) Where a proposed merger does not proceed, the relevant funds should be required to advise APRA why the merger did not proceed,</li> </ul>	<ul style="list-style-type: none"> <li>a) <i>In practice, it is expected that most if not all APRA regulated funds would already be consulting with APRA on proposed mergers, often before an MOU is signed. As a result, while we don't object to the proposal, we consider this aspect of the recommendation will serve little purpose. We <b>support</b> this aspect of the recommendation.</i></li> <li>b) <i>We <b>support</b> this aspect of the recommendation, subject to protection of any commercial in confidence matters that should remain confidential, and which would</i></li> </ul>



<p>as well as the members' best interests consideration that informed the decision.</p>	<p><i>be unlikely to yield insights. However, we note other industries are not subject to this requirement.</i></p>
<p><b>Recommendation 7</b></p> <p>The Australian Government should legislate to make permanent the temporary loss relief and asset rollover provisions that provide relief from capital gains tax liabilities to superannuation funds in the event of fund mergers and transfer events.</p>	<p><i>This recommendation is in the best interest of members and we support it.</i></p>
<p><b>Recommendation 8</b></p> <p>The Australian Government should legislate to:</p> <p>a) ensure that accounts are sent to the ATO once they meet a definition of 'lost'</p> <p>b) empower the ATO to auto-consolidate 'lost' accounts into a member's active account, unless a member actively rejects consolidation</p> <p>c) allow a fund to exempt a 'lost' account from this process only where the member has provided an explicit signal that they want to remain in that fund (prior to the account meeting the definition of 'lost')</p> <p>reduce the 'lost inactive' activity threshold from five to two years</p> <p>require that all accounts held by Eligible Rollover Funds, regardless of their lost status, are sent to the ATO</p> <p>prohibit further accounts being sent to Eligible Rollover Funds.</p>	<p>a) <i>We consider that it may not be in the best interests of the member to have their account transferred to the ATO, as if their account remained within the fund, they would continue to have investment earnings applied to their account, and would retain insurance. Neither of these would occur upon transfer of the account to the ATO. It should be noted that although a member may be lost in a fund's records, if they subsequently became disabled or died, the member or their beneficiaries are still eligible to claim on any insurance cover which they may have in place, provided premiums have been paid. We do not support this aspect of the recommendation in its current form.</i></p> <p>b) <i>This does not seem to make sense, as if the lost account is held by the ATO, why would the member reject consolidation, and opt to have their account held by the ATO (subject only to nominal earnings), and without the protection of insurance? This requires reconsideration. The option of rejecting consolidation only makes sense if lost accounts were retained by the funds. Other than the 'positive acts' exemption addressed below, we do not support this recommendation in its current form.</i></p> <p>c) <i>We support this aspect of the recommendation. However, we note the proposal contained in the 2018/19 Federal Budget would not allow consideration of 'positive acts' for the transfer of inactive accounts to the ATO. This highlights the issue of inconsistency in some parts of actual and proposed regulation.</i></p>
<p><b>Recommendation 9</b></p> <p>a) That all funds be required to introduce a simple single page dashboard for all superannuation products, and for choice product dashboards to be mandated by 1 July 2019.</p>	<p>a) <i>As we outlined in response to finding 5.3, MySuper dashboards already exist, but have been accessed by only a small minority of members, and so have not proven to be an effective tool to facilitate product comparison. Any proposals to enhance MySuper dashboards or to introduce choice product dashboards is unlikely to be effective, in the absence of increased member engagement. This is particularly the case given the report's observation that there exists approximately 40,000 investment options available in choice products. It would be completely</i></p>

<p>b) That ASIC also publish all existing MySuper and product dashboards on a single website.</p>	<p><i>overwhelming to members for the choice sector to produce choice dashboards that address the fees and costs of all these investment options.</i></p> <p><i>While there may be some merit in having a simple summary of each superannuation product made available, there should be a focus on increasing financial literacy and engagement. Without this, the introduction of choice product dashboards will add cost, but will serve very little benefit. In its current form, we do <b>not support</b> this aspect of the recommendation.</i></p> <p>b) <i>Even if ASIC published all dashboards on one website, it is unrealistic to expect members to be able to assess all available products and make informed decisions. This is due to the volume of products (particularly in the choice sector) and the complexity of superannuation, which would make meaningful interpretation and comparison of this information by members, very difficult. We do <b>not support</b> this aspect of the recommendation. This proposal highlights the importance of effective and accessible advice.</i></p>
<p><b>Recommendation 10</b></p> <p>a) The Australian Government should require the ATO to present the relevant (single page) product dashboard on a member’s existing account(s) on its centralised online service.</p> <p>b) The Government should also require all superannuation funds to actively provide their members with superannuation product dashboards when a member requests to switch from a MySuper product to a choice product within the fund. This should include:</p> <ul style="list-style-type: none"> <li>• the dashboard for the MySuper product</li> <li>• the dashboard for the choice product the member wants to switch to.</li> </ul>	<p>a) We <b>support</b> this aspect of the recommendation.</p> <p>b) <i>This proposal is impractical. This implies there would need to be a two stage switching process, whereby the member lodges a switch request, but the fund cannot process it until the dashboards are supplied, and presumably the member would need to subsequently confirm they either do or don’t want the switch to proceed. This will cause delays and inevitable frustration from members.</i></p> <p><i>It should be recognised that costs and performance of different investment options are already disclosed in PDS’, so members should already have considered these factors when deciding to switch. There needs to be some acceptance of member responsibility for making decisions. This aspect of the recommendation is <b>not supported</b>.</i></p>
<p><b>Recommendation 11</b></p> <p>The Australian Government should require the ATO to guide all superannuation members when they reach age 55 to:</p> <ul style="list-style-type: none"> <li>• the ‘Retirement and Superannuation’ section of ASIC’s MoneySmart website</li> </ul>	<p><i>It should be noted that many funds already refer members to these types of external resources. However, it is not the role of the ATO to be promoting consumer guidance, as this is more appropriately performed by ASIC. The report in various contexts refers to confusion and overlap in the roles of various regulators. This proposal would only add to that confusion. While it may be appropriate for ASIC to undertake this task, we do <b>not support</b> this recommendation in its current form.</i></p>

<ul style="list-style-type: none"> <li>the Department of Human Services' Financial Information Service website.</li> </ul>	
<p><b>Recommendation 12</b></p> <p>The Australian Government should legislate to extend MySuper regulations limiting exit and switching fees to cost-recovery levels to all new members and new accumulation and retirement products.</p>	<p><i>It is noted that exit fees and switching fees are already restricted to cost recovery for MySuper products. Restriction of exit and switching fees to cost recovery basis reflects the user pays nature of these activity based fees, and it is reasonable that members are only charged the actual cost associated with processing these transactions. This recommendation is supported. However, it is also noted that the 2018/19 Federal Budget proposes to abolish exit fees completely.</i></p>
<p><b>Recommendation 13</b></p> <p>The Australian Government should require superannuation funds to clearly inform, on an annual basis, all members who are subject to trailing financial adviser commissions. This information should include the amount of commissions paid and a notice that trailing commissions are now illegal for new members.</p> <p>All funds should publicly disclose the extent of trailing commissions and number of affected members in their annual reports and provide this information to ASIC.</p>	<p><i>Not for profit funds such as QIEC Super and Club Super do not charge any trailing commissions. We support any initiatives which increase the visibility to members of any ongoing trailing commissions they are paying.</i></p>
<p><b>Recommendation 14</b></p> <p>Insurance through superannuation should only be provided to members under the age of 25 on an opt-in basis. The Australian Government should legislate to require trustees to obtain the express permission of younger members before deducting insurance premiums from these members' accounts.</p>	<p><i>Given the relatively low levels of member engagement across the industry, we believe only a small minority of young members would opt-in to insurance. We consider that insurance provides invaluable security, and that insurance should continue to be provided on a default basis to all members. There are countless examples of young members suffering disablement, and the receipt of an insurance payout has provided them with desperately needed financial security to receive the ongoing treatment they require, and the payout has also been a critical substitute for lost income. Similar issues apply to any dependants in the event of the member's death. Without insurance being in place, these members and their dependants would face great insecurity. Funds already disclose the ability to opt-out of insurance, but potentially additional campaigns could be conducted to further highlight to members that this option is available to them.</i></p> <p><i>Additionally, if members under 25 were to be provided insurance on an opt-in basis, this would represent a significant loss of premiums to insurers. It should also be recognised that in an opt-in regime, there is an increased risk of selection against the insurer, thus increasing the risk of claims. Consequently, and in accordance with the principles of insurance pricing, insurers are likely to increase premiums. This in turn runs the risk of some remaining insured members deciding to cancel their cover, which would further</i></p>



	<p><i>reduce and concentrate the pool of insured members, which would risk further premium increases. This has the potential to become a vicious cycle, threatening the viability of some insurance pools.</i></p> <p><i>This recommendation is <b>not supported</b>.</i></p>
<p><b>Recommendation 15</b></p> <p>The Australian Government should legislate to require trustees to cease all insurance cover on accounts where no contributions have been obtained for the past 13 months, unless they have obtained the express permission of the member to continue providing the insurance cover.</p>	<p><i>Consistent with our response to recommendation 14, we consider that insurance provides invaluable security, even for members whose accounts are not actively receiving contributions. Instead of making cancellation of insurance the default position where no contributions have been received to the account for 13 months, we believe a more appropriate solution would be for funds to contact members in this category and advise them of the option to cancel cover if they wish. The insurance would remain in place unless the member requests cancellation. As a result, this recommendation is <b>not supported</b>.</i></p>
<p><b>Recommendation 16</b></p> <p>a) That Trustees should be required to articulate and quantify the balance erosion trade-off they have made in relation to group insurance, and to disclose it on the fund website annually.</p> <p>b) That Trustees be required to disclose in their annual report why the default level of insurance and premiums is in members' best interests.</p> <p>c) That Trustees be required to have a calculator on their website showing how premiums may impact members' balances at retirement.</p>	<p>a) <i>As highlighted elsewhere in this submission, there is a relatively high level of member disengagement across the industry. If members are not engaged with their own account, they are certain not to be engaged with the balance erosion trade-off the Trustee of their fund has made in relation to group insurance. It is completely unrealistic and fanciful to think that any more than a tiny minority of members would look at this information and understand it. The issue of balance erosion trade-off in relation to group insurance is a matter for the Trustee and APRA. In the unlikely event any members were to have questions in relation to this matter, responses could be provided individually. This aspect of the recommendation is <b>not supported</b>.</i></p> <p>b) <i>The issue of disclosing why default insurance and premium levels is in member's best interests, could be included in annual reports. However, how much information is appropriate? Trustees could potentially include significant amounts of information about alternative insurance benefit designs which may have been considered, and their respective pricing, and why the final benefit design was selected, but would this really serve any benefit to members? This aspect of the recommendation is <b>not supported</b>.</i></p> <p>c) <i>Regarding the issue of an insurance calculator, we consider that if such a calculator is to be mandatory, it should be produced by ASIC, and then there will be a better chance of obtaining consistency across the industry. Additionally, it would then remove the cost on each fund and its members of producing their own calculator. In its current form, this aspect of the recommendation is <b>not supported</b>.</i></p>

<p><b>Recommendation 17</b></p> <p>That it be a mandatory condition to obtain or retain MySuper authorisation, for Trustees to adopt the insurance in superannuation, voluntary code of practice.</p>	<p><i>The first observation to make is that by making adoption mandatory, it is no longer a voluntary code of practice. We consider that adoption of the code presents challenges, and while QIEC Super and Club Super have resolved to adopt all elements of the code which are assessed to be in the best interests of members, it should not be a condition of MySuper authorisation. This recommendation is <b>not supported</b>.</i></p>
<p><b>Recommendation 18</b></p> <p>The Australian Government should immediately establish a joint regulator taskforce to advance the <i>Insurance in Superannuation Voluntary Code of Practice</i> and maximise the benefits of the code in improving member outcomes. The taskforce should monitor and report on adoption and implementation of the code by funds, and:</p> <ul style="list-style-type: none"> <li>a) provide guidance on and monitor enhancements to strengthen the code, particularly implementation of standard definitions and moving to a short-form annual insurance statement for members</li> <li>b) advise the industry what further steps need to be taken for the code to meet ASIC’s definition of an enforceable code of conduct.</li> </ul> <p>The code owners should be given two years to strengthen the code and make it binding and enforceable on signatories before further regulatory intervention is considered.</p> <p>The taskforce should annually report findings on industry progress on the code. Both ASIC and APRA should be members of the taskforce, with ASIC taking the lead.</p>	<ul style="list-style-type: none"> <li>a) <i>It should be noted that members currently receive a summary of their insurance cover on their Annual Member Statement, and can access their insurance details at any time on funds’ online facilities. It is therefore questioned what additional benefit a short form insurance statement would serve. This aspect of the recommendation is <b>not supported</b>.</i></li> <li>b) <i>It is noted that recommendation 17 was to make adoption of the code a condition of MySuper authorisation (regulated by APRA). There is an inconsistency with this recommendation, and clearly the code should not be enforceable by two separate regulators. As a result, this aspect of the recommendation is <b>not supported</b>.</i></li> </ul>
<p><b>Recommendation 19</b></p> <p>The Australian Government should commission a formal independent review of insurance in superannuation. This review should evaluate the effectiveness of initiatives to date, examine the costs and benefits of retaining current insurance arrangements on an opt-out (as opposed to an opt-in) basis, and consider if further regulatory intervention or policy change is required. The review should be initiated within four years from the completion of this inquiry report, or earlier if the strengthened code of practice is not made enforceable within two years.</p>	<p><i>We do not object to a review of insurance in super, but would highlight that insurance should not be seen only as a source of erosion of retirement balances, but as an invaluable source of security for members. In fact for many members, insurance in super is their only source of security against disablement or death. Consideration should also be given to the impact on taxpayers if insurance was to be removed from super, as far more individuals would be likely to seek support from Centrelink or the National Disability Insurance Scheme.</i></p> <p><i>Provided the review is objective in its outlook, we <b>support</b> the recommendation.</i></p>

## Recommendation 20

That APRA:

- a) require funds to conduct formal due diligence on their outsourcing arrangements every 3 years, to ensure they are providing value for money, with results to be reported to APRA;
- b) report annually on the application of the scale test in bringing about fund mergers;
- c) enhance reporting requirements so that member outcomes are more visible.

a) *We strongly disagree with the outsourcing aspect of the recommendation, for several reasons. Firstly, outsourcing arrangements are already subject to comprehensive oversight and control as such arrangements:*

- *must comply with Prudential Standard 231;*
- *must comply with the Board's Outsourcing Policy;*
- *are overseen by the fund's risk management framework;*
- *are subject to review by internal audit;*
- *are subject to review by external audit;*
- *are subject to oversight by APRA in the course of prudential reviews.*

*Requiring a further tri-ennial due diligence review is excessive, and not required. This would impose additional cost on the fund and ultimately members, for negligible benefit. Secondly, material service providers are appointed via contract. A thorough due diligence will have been conducted prior to appointment, including consideration of cost. If the Trustees become dissatisfied with fee levels, they will have the opportunity to renegotiate, or appoint an alternate service provider, upon contract termination. QIEC Super and Club Super already conduct a comprehensive annual outsourcing review of all material service providers.*

*We note the focus of the report on insurance premiums eroding retirement balances. However, there is not comparable recognition that addition of new Trustee obligations such as this proposal (and others in the report) represents additional cost which Trustees will have to recoup from members. These costs are a source of account erosion, and it needs to be established that such costs actually serve a demonstrable benefit, otherwise imposition of such new requirements cannot be justified. We suggest the Productivity Commission also review the cost impact of regulation on member balances, not just the insurance impact. This aspect of the recommendation is **not supported**.*

b) *We acknowledge that regulators have an interest in the results of fund scale tests, but we don't consider that the volume of fund mergers should be a regulator objective. This aspect of the recommendation is **not supported**.*

c) *We also consider that additional formal APRA product level reporting is unnecessary, as APRA will request the results of outcomes tests anyway. This aspect of the recommendation is **not supported**.*

### Recommendation 21

ASIC should (in addition to draft recommendation 9):

- a) proactively set and enforce standards for the meaningful disclosure of information to members on superannuation products and insurance policies (in addition to product dashboards). Information should be simple, comparable and easy for members to understand
- b) require all superannuation funds to publicly disclose to current and prospective members the proportion of costs paid to service providers that are associated with related-party outsourcing arrangements
- c) proactively investigate (questionable) cases where mergers between superannuation funds stalled or did not proceed
- d) review exit and switching fees faced by existing members, with a focus on whether these fees are related to the underlying performance of the product, and whether they unreasonably impede members moving to products that better meet their needs.

- a) *It is noted that ASIC already govern disclosure requirements. We acknowledge that the recommendation implies that existing disclosure requirements are over complicated. We support this aspect of the recommendation if it represents simplification of existing disclosures as opposed to additional disclosures.*
- b) *QIEC Super and Club Super have no related party service providers, so have no direct interest in this aspect of the recommendation. However, this recommendation implies that appointing related party service providers is a negative, whereas in some cases, a related party may provide services on terms more attractive than available in the wider market (ie. self administered corporate fund). The more important consideration should be whether related party service providers are appointed on arms length commercial terms. This aspect of the recommendation is not supported in its current form.*
- c) *This is inconsistent with recommendation 6, which proposed that Trustees be required to report instances of potential mergers which do not proceed, to APRA. We consider it is a matter for APRA to more appropriately consider, than ASIC. The report in various contexts refers to confusion and overlap in the roles of various regulators. This proposal would only add to that confusion. This aspect of the recommendation is not supported.*
- d) *It is noted that recommendation 12 proposed to make exit fees and switching fees restricted to cost recovery for all new members. Such fees are already restricted to cost recovery for MySuper members. If recommendation 12 is implemented, recommendation 21 becomes redundant. It is also noted that the 2018/19 Federal Budget proposed to abolish exit fees altogether. This aspect of the recommendation is not supported.*

### Recommendation 22

That the Government establish a superannuation data working group, comprising Treasury, APRA, ASIC, ATO, ABS with a view to improve data collection, and with a focus on member outcomes, as well as evaluation of the costs and benefits of reporting changes.

*We note that the amount of data collected by regulators is very extensive. We consider any superannuation data working group should also include industry representation, for a practical perspective of the costs of reporting. In its current form, this aspect of the recommendation is not supported.*