

13 July 2018

By email: [super@pc.gov.au](mailto:super@pc.gov.au)

Ms Karen Chester  
Deputy Chair  
Productivity Commission  
Canberra ACT 2600

Dear Ms Chester,

## **Re: Inquiry into the Assessment of the Efficiency and Competitiveness of the Superannuation System**

Thank you for the opportunity to make a submission to the Commission's inquiry into the competitiveness and efficiency of the Australian superannuation system and your latest draft report dated April 2018. Deloitte Touche Tohmatsu (Deloitte) strongly supports any efforts being made by the Government and the Productivity Commission to improve our superannuation system which will ultimately result in a higher level of confidence and outcome for the 12 million Australians who have accounts in the system.

Deloitte is a major provider of superannuation advisory services to employers and the trustees of all forms of superannuation funds. The services we provide that are relevant to this submission include:

- a. Benchmarking;
- b. Administration, asset consultant and insurance reviews; and
- c. Tender management including default fund selection for employers.

We believe the work we carry out in these areas places us in a unique position to comment on market competitiveness from an unbiased perspective.

In this submission we particularly want to comment on the competitiveness of the system and whether:

- a. That level of competitiveness produces better superannuation outcomes for the members of funds; and
- b. There are barriers to competitiveness that reduce the efficiency of the system.

Deloitte supports the introduction of the member outcome test by the Government and APRA. We believe that the best superannuation outcomes for members cannot simply be measured by the MySuper or balanced option investment returns but rather by a series of criteria including investments but also fees, insurance, member engagement and services provided to name a few.

As I'm sure you can appreciate these criteria can change significantly over a reasonably short period of time due to both market conditions and the actions of trustees. During the GFC we saw funds, over a period of less than six months, go from first to fourth quartiles on the various league tables due to their underlying investments, especially in illiquid assets.

In Draft Recommendation 2 - "Best in Show" Shortlist for New Members, the Productivity Commission has recommended a shortlist of up to 10 superannuation products should be presented to all members who are new to the workforce. As the recommendation states, members would not be prevented from choosing

another fund however it is reasonable to assume, based on the experience to date with default funds, that the overwhelming majority of members would choose one of these 10 funds.

At Deloitte we are concerned with two aspects of this:

- a. Firstly, the need to have a shortlist of 10 funds. At a peak there were over 4,500 funds in Australia. Today as a result of competitive pressures and the licencing regimes of APRA and ASIC we have less than 120 funds. Even in the past week two smaller industry funds, AustSafe and Combined, have announced their intentions of merging with larger funds. The reasons for these mergers are not relevant but it is clear that the superannuation industry continues to rationalise as smaller funds find it increasingly difficult to meet with the regulatory and licencing requirements. APRA, in particular, set the standard with the MySuper licences and it is this standard which we believe is most appropriate in determining whether funds should be allowed to be default funds. If there is a belief that “the bar has not been set high enough” then we suggest that APRA be asked to apply stricter and stringent standards to the funds they supervise. This, we believe, is a more effective way of monitoring the industry and acting in members’ best interests than determining a “top 10” list which has the potential to both become quickly dated and determined on criteria that are too narrow.
- b. Secondly, a shortlist of 10 funds has the strong potential, in our view, of promoting an uncompetitive market with those funds selected having an almost guaranteed growth and source of new members while those funds not selected for the top 10 will face growth pressures that means they will struggle to remain competitive over time. As they will struggle to remain competitive, it will be difficult for them to supplant any of the initially chosen “top ten”. Thus, in our view, rather than promoting a competitive superannuation system the proposal has the highly likely result of a concentrated and less competitive system.

Therefore, while we support the proposition that under-performing funds, if defined in an objective manner, are not offered as default funds we believe that market pressure, together with the powers available to APRA to limit those funds that hold a MySuper licence, will result in a better outcome for funds members than simply limiting the number of funds that can be offered.

Deloitte does not believe that there is a need for an Independent Review of Insurance in Superannuation as proposed in Draft Recommendation 19 provided the industry has satisfactorily demonstrated that it is acting in the best interest of members. From a personal perspective I have seen a significant number of members and beneficiaries assisted financially, over my 36 years of superannuation industry experience. Many of these would not have had any insurance cover, had it not been for the “opt-out default cover” regime. These arrangements have been put in by funds because they have determined there is a need to be met and that, for the overwhelming majority of members, it is in their best interests to have death and disability insurance coverage.

Prior to the introduction of award superannuation in the late 1980s and the introduction of the Superannuation Guarantee in 1991 many employees, especially those in blue collar industries, casuals and the lower paid, had no insurance coverage in the event of death or disability. The small number who did were often sold high cost (as a result of high commissions) and inappropriate insurance. The advent of Award Super and the Superannuation Guarantee extended compulsory superannuation, and death and disability insurance, to the vast majority of employees. While there has been some criticism of insurance in superannuation (and in many cases exaggerated by the media without taking account of all the facts) there is no question that a significant number of fund members, based on APRA statistics, have benefitted from insurance existing within superannuation funds.

With the exception of defined benefit arrangements every fund that we are aware of gives members the opportunity to reduce the level of their insurance cover or opt out completely. Moving to a system that requires members to “opt in” will result in far more confusion than exists in the current system and will guarantee that, inadvertently, there will be many fund members who will remain uninsured or under-insured.

From a social policy perspective, we believe this is not a desirable outcome. For this reason, we suggest that the current basis, subject to the Government's proposed changes for under 25s and small account holders, should be maintained.

Deloitte does support, however, the need for better disclosure to members. We understand that there has been criticism by member advocates that many members do not understand the complexities of insurance coverage within superannuation and therefore we support the need for clearer and more concise definitions of terms like "own occupation", "totally and permanently disabled" and pre-existing conditions" so that members can better consider their personal circumstances and determine whether the insurance cover is appropriate for them. Likewise, if they decide to "opt out" or reduce their cover it needs to be made administratively simple so they are able to carry out their decision and are not put off by the complexities of the process.

In our view, if the regulators are satisfied that the trustees of funds have insurance arrangements in place that are understandable and in the best interests of members then we do not believe there is the need for a review of insurance within superannuation.

In summary we strongly support the concept of a competitive and efficient superannuation system which will drive superior outcomes for members. The current barriers to competition from a fund perspective are gradually being removed through self-selection and more active regulators. A system which creates artificial barriers to competition will not serve in promoting members' best interests. Deloitte commends the Productivity Commission on this Draft Report and supports the majority of recommendations made. We, however, do ask that market forces and strong regulators control competition between funds and not a selection method which has the potential for an uncompetitive industry to develop. Should further commentary be needed I can be contacted.

Yours sincerely,

Russell Mason  
Partner  
Deloitte Touche Tohmatsu