



RESPONSE TO STAGE 3: ASSESSING COMPETITIVENESS AND EFFICIENCY

INTRODUCTION

GROW Super welcomes this Inquiry into competitiveness and efficiency in the superannuation system. We are strongly supportive of changes to the system that promote competition and encourage engagement among consumers.

Almost 15 million Australians have superannuation, with a staggering 20 percent of members unable to choose their own fund [Source: Productivity Commission Superannuation Alternative Default Models Report]. That's two million Australians who are unable to exercise genuine member choice because of a deal their employer has struck as part of an enterprise bargaining agreement (EBA).

The default pool is a lucrative one, with 22% of assets held in MySuper default accounts [Source: ASFA 2017]. In the draft report on Alternative Default Models, the Productivity Commission estimates there are 400,000 new default members each year resulting in around \$800 million in funds. Fewer than five per cent of people switch once they are in a fund.

The current system is in much need of an overhaul and the dominance of the large players needs to be challenged to deliver real benefit to consumers. Why do we accept a system that takes \$31 billion in fees but does nothing to help their members understand it?

In launching GROW Super, we have found that people genuinely do want to make the best financial decisions, but they struggle with a deep inertia because they don't feel that they are able to engage with the system or are powerless to take action. This is fueled by the opacity of the superannuation industry and Australia's worryingly low levels of financial literacy, which has created apathy and disenfranchised the very people it is designed to help.

The current default system discourages engagement and does nothing to incentivise funds to innovate, educate or actively engage their customers. It appears many in the industry have even adopted business models that rely on their customers to remain disengaged. In this environment apathy is good for business.

GROW Super is supportive of a more competitive superannuation system that:

1. promotes competition to benefit the interests of consumers through product innovation, enhanced service and improved financial literacy.
2. is removed from the industrial system and alignment with trade unions. This approach is outdated and does nothing to encourage competition or innovation, nor benefit an increasingly flexible workforce.



3. promotes transparency and engagement of members, removing unnecessary barriers to engage with super, promotes enhanced financial literacy for members, and supports consumers to make informed decisions about who and how it is managed.

In this response to Stage 3, GROW has sought to address areas of the Issues Paper where we feel we can provide the most value, particularly on issues of competition, innovation, and engagement. Our submission includes case studies that highlight the issues we have faced as a new entrant to the super system in 2017, and illustrate the systemic issues in the industry that are stifling competition and innovation.

POLICY IMPEDIMENTS

What are the material policy or regulatory impediments to the competitiveness and efficiency of the superannuation system? Please relate your comments to the relevant assessment criteria (in the Commission's assessment framework) and provide evidence of how and to what extent those policy impediments affect performance as measured by the related indicators.

Objective 1: The superannuation system contributes to retirement incomes by maximising long-term net returns on member contributions and balances over the member's lifetime, taking risk into account.

The key risk to Objective 1 is member engagement. Super is one of the most important financial assets most of us will ever have, but people struggle to engage with an opaque system that does nothing to help members actively manage their retirement savings. With the average super balance \$330,000 short at retirement the system clearly isn't working for everyone.

Historically, earnings have not been enough to help people achieve a comfortable retirement. Keeping members ignorant to this issue until it is too late is irresponsible, and the notion that members should leave the management of their money entirely up to "the experts" (ie their fund) is ludicrous. If funds were required to better engage their members, and meet minimum requirements in helping their members actively close their super gap, the system would do a better job of helping Australians achieve a comfortable retirement.

One key way to achieve this is to educate members early on how much they need for retirement (based on their personal goals), help them identify their super gap and provide the tools to help them get there. With the government now broadening tax deductions for voluntary contributions, funds should be actively encouraging their members to contribute more and making it easy for them to do so.



With GROW Super, not only can you manage your retirement savings entirely within an app, you can see your balance in real time, graph where you are now and where you want to go based on your goals, and make regular contributions to help you proactively close the gap.

Our Super Spare Change tool is our app's most popular feature with members voluntarily contributing on average \$48 per month to their super. For a 25 year old, this amounts to more than \$140,000 over 40 years (based on 7.41% rate of return).

Objective 4: The superannuation system provides value for money insurance cover without unduly eroding member balances.

A [2014 study by Zurich](#) found Australians lack significant knowledge when it comes to life insurance and superannuation, with the vast majority of people never analysing their individual insurance needs. The study found that only 52% of people believed they even had life insurance cover through their super fund, which Zurich concluded to be more indicative of disengagement rather than actual coverage.

In launching GROW Super, we placed a huge emphasis on choosing the best insurance partner for our members. We chose Hanover as our insurance partner to ensure we remained independent and were not incentivised in any way. This partnership has allowed us to provide every single GROW member under 42 years of age with default life and TPD insurance of \$250,000. We also offer competitive income protection cover.

When we built our insurance offering we had three key objectives: competitive premiums, the ability to switch insurance on or off at the touch of a button, and funding of premiums from personal cashflow. Our super spare change feature ensures members can have the best of both worlds, appropriate cover and a funding mechanism to ensure the costs of these premiums don't erode both returns and super guarantee contributions.

Choosing the best insurance product for our members also means we don't have to automatically classify all our members as blue collar workers for insurance purposes, saving members hundreds of dollars in insurance premiums each year.

[Educating our members](#) on the importance of carefully considering insurance as part of their superannuation is a priority for GROW Super. We provide members with easy to understand information on our insurance options and working examples to calculate premiums. Most importantly, we have made it easy for our members to opt in and out of insurance at the click of a button within the GROW Super app, ensuring members are not paying for insurance that they don't need.

The insurance offering we provide through GROW Super is straightforward and easy for members to understand, and goes a long way in helping them understand how premiums can



impact their balance. Providing transparency over premiums and coverage, easy tools to opt in and out of insurance, and not automatically classifying all workers as blue collar are simple and easy changes all funds should be required to implement to improve outcomes for members and protect member balances.

CASE STUDIES

GROW Super has provided the following case studies to address issues of contestability, member behaviour, and insurance:

CONTESTABILITY

Why do we accept a system that allows employers to choose our super fund?

The argument that Australians do not need more choice when it comes to superannuation is flawed.

Super choice needs to be exactly that: the opportunity for all Australians to **choose** who manages what is likely to be their most important financial asset. Currently 20 per cent of members do not get this opportunity due to restrictions within their workplace agreements. A large proportion of these members are young people who are unaware of their supposed right to choose who manages their superannuation.

Consumers must be protected in the decision-making process, and supported by their employer and fund with education and meaningful engagement. Extending genuine member choice to all employees will help to promote transparency, competition and fairness across the superannuation industry, resulting in better outcomes for consumers in the form of greater product innovation, transparency on fees, improved services, and better education to support consumers to make informed decisions about their superannuation.

While GROW supports employers being able to select a default provider, this should be separate to any third party agreements the employer may have, such as agreements with a union, company or not-for-profit, as part of an enterprise agreement, or kickbacks provided to the employer through insurance or other financial products.

Funds who manage money on behalf of consumers must be transparent about their relationships with third parties (such as trade unions and financial institutions) and incentives provided to the employer, particularly where the products are not necessarily in the best interest of the employee or provide any benefit to them.



Case study – Super choice is not super “choice”

One of the driving forces behind GROW Super is transparency. We do not take commissions or kickbacks, and we're paid by our members and our members only. Since launching GROW in May 2017, we have seen the direct impact of this unfair and outdated regulation. GROW Super has been contacted by a number of potential members who have been unable to open an account with GROW because of restrictions in their employee agreements. Employers must be required to honour super choice and pay directly to their employees' fund of choice.

Brooke is a 25 year old English teacher from Sydney. Brooke works at an all boys Catholic school in Sydney's inner west. When Brooke started work at the school, she chose one of two Catholic super funds available to Catholic teachers in NSW. She had no idea these were her **only** options, and she already had two other super funds from previous jobs.

Until this year, Brooke has admittedly given little thought to super. In fact, she happily admits she promptly tossed any mail from her super fund in the bin without opening it. In her words, she “doesn't understand it anyway”.

Brooke discovered GROW Super via a Facebook friend and immediately downloaded the app. “All of a sudden, superannuation was the most important thing on my to-do list”, Brooke said. Brooke says she was shocked by how far away she was from “comfortable retirement”, and was hooked on the simplicity of the app, particularly the super spare change tool that helps her to actually do something about growing her balance.

After opening a GROW account and attempting to consolidate her super, Brooke was (politely) advised by her school's payroll office that she could not have her super guarantee contributions paid to GROW Super.

Frustrated that she is not allowed to choose her own fund, Brooke has gone to great lengths to exercise her right to choose. GROW was able to consolidate two of Brooke's old accounts but she is still required to manually transfer her super from her Catholic fund to GROW each year, leaving a minimum amount in her old fund. “This whole experience has made me so angry. Why should I have to pay hundreds of dollars in fees each year to an account I don't even want and a fund that makes no effort to help me understand and manage my super?”



MEMBER BEHAVIOUR AND KNOWLEDGE

The current average super balance is \$330,000 short of where it needs to be in retirement. If people were more engaged in their super and actively encouraged to monitor their account, the gap would be much less than this.

SuperStream has made technology like the GROW Super app possible, however not all funds are maximising the available technology to streamline and improve processes for their members. GROW Super members can find and consolidate their super at the touch of a button and track super guarantee contributions from their employer.

Using push notifications, GROW members are notified if a monthly or quarterly superannuation payment is late or missing. This is an automatically generated push notification sent to the member's phone.

This technology greatly increases the transparency of employer contributions and motivates members to monitor their super guarantee payments. Employers are currently required to include contributions on payslips, however contributions are generally paid quarterly and employers are not required to provide any evidence that the contributions have in fact been paid. This makes it difficult for employees to track payments.

CASE STUDY: Super guarantee. Guaranteed

The ATO estimates that as many as 11% of employers are not fulfilling their super guarantee obligations. While the GROW Super app can't confirm that employers have not met their super guarantee obligations, using tools such as push notifications does put super front of mind for employees who can then check in with their employer if they see a discrepancy. We envisage this feature will greatly reduce the incidence of underpayment of super guarantee contributions for GROW Super members. While we are likely sometime away from the ATO having oversight of super guarantee underpayment, there is no reason other funds could not implement similar features for their members when a discrepancy is identified.

Caitlin is one of the estimated tens of thousands of Australians affected by unpaid super guarantee.

Caitlin is 22, lives in Brisbane and works as a Marketing Account Manager in her first full time job since finishing university in 2015.

After downloading the GROW Super app, Caitlin discovered her employer had not been paying her superannuation, owing more \$5000 in super guarantee contributions. When she



went to consolidate her super using the app, her existing fund was showing an account balance of \$0.

Caitlin called her fund only to be told that no contributions had ever been paid into her account.

Caitlin approached her employer who initially claimed he had been paying her super. He only conceded he had not paid any contributions after Caitlin produced evidence of her \$0 balance. He has since paid all her super owing.

Caitlin said she had no idea her employer had been failing to pay her super for so long.

“Every month my payslip was showing the super contribution amount so I just assumed it was being paid directly into my fund. Neither my fund or my employer ever led me to believe otherwise.

“If I hadn’t downloaded the GROW Super app, who knows if I would have ever discovered the problem, and if I had it may have been too late.”



CURRENT DEFAULT ARRANGEMENTS

How do the existing default arrangements create incentives for funds to maximise long-term net returns and allocate members to products that meet their needs? How could the existing arrangements be improved to achieve this goal?

The current default arrangements protect large, substandard, generic funds that rely on the default model via enterprise agreements. The current system also places too much emphasis on the employer who has no obligation to choose a fund based on the best interest of their employees.

While GROW supports that all funds be eligible to compete for the default pool, eligible funds should be required to meet minimum criteria in relation to:

1. Performance based on net returns (i.e. returns net of fees). Assessing either returns or fees independently is not a good indicator of fund performance. It encourages index tracking via low cost products, rather than investment developed via sound economic theory invested via potentially higher fee figures.

2. Compliance with single touch payroll and SuperStream products. Funds should also be assessed on their compliance with the requirements of single touch payroll and SuperStream products. Under this model, funds would be judged on their responsiveness to fund transfer requests, ensuring that fund technology is sufficiently advanced to ensure that member requests are met in terms of fund movement and consolidation.

The current system was established more than 25 years ago, when people were more likely to spend an entire career working in a single industry. It was also built on a paper-based system, where switching funds or paying super guarantee contributions into multiple funds would have increased the administrative burden for employers.

Today, we are considerably less likely to remain in a single industry for life, let alone one job, and many more are likely to be self-employed. The rise in the “gig economy” (where people choose flexible work over the standard 9 to 5 or permanent employment) means that mandatory superannuation selection is outdated, as greater fluidity in the labour market will inevitably lead to greater dispersion of superannuation. Technology has also significantly advanced to a point where almost all administration for superannuation has, or can be, digitised, streamlining the process for employers, individuals and funds.

GROW strongly endorses changes that ensure default funds continue to meet an individual’s needs as their circumstances change over a lifetime, such as having a family or taking time out from the workforce. The responsibility must be on the super fund to ensure they make it easy for members to engage with their super, regardless of their life stage or personal situation, and



individuals must be provided with enough information about their fund to make informed decisions about their choice of fund at any point in their life. This may include nudges or tailored communication as members reach certain life stages to encourage them to review their fund and insurance cover to ensure it's continuing to meet their personal needs.

What is the evidence that existing default arrangements encourage open participation (contestability) and rivalry between funds for the default market (competition for the market)?

Almost 15 million Australians have superannuation, with a staggering 20 percent of members unable to choose their own fund [Source: Productivity Commission Superannuation Alternative Default Models Report]. That's two million Australians who are unable to exercise genuine member choice because of a deal their employer has struck as part of an enterprise bargaining agreement (EBA).

The super system must be removed from the industrial system and alignment with trade unions. This approach is outdated and does nothing to encourage competition or innovation, nor benefit an increasingly mobile and flexible workforce.

EBAs eliminate competition for the lucky super funds who are able to negotiate their way into them. The case study detailed above illustrates the frustration of members who are unable to exercise genuine choice of super fund.

What is the evidence that there is competitive pressure that drives innovation, cost reductions and more efficient long-term outcomes for members? How could the existing arrangements be improved to achieve this goal?

As a new entrant, GROW aims to bring a new voice to the industry with new ideas and energy to drive change. As we grow and achieve scale, we hope our innovative approach to technology, marketing and engaging our members will pressure the industry to evolve and improve their offerings to benefit their members.

The entire industry as a whole should be driving each other to deliver a better customer experience, and that ties into the kinds of product offerings that we all bring to market. Improving financial literacy and transparency of information should be the industry's core focus. At the moment, funds are not attempting to engage their members because they don't really have to. But technology is giving consumers more power, with more information available at their fingertips, and oversight of where their money is being invested.



How do the existing default arrangements promote accountability and integrity in the selection and delivery of default superannuation products? How could the existing arrangements be improved to achieve this goal?

While consolidation has become simpler as a result of SuperStream technology, very few funds are maximising the technology to benefit consumers. A recent survey conducted by the Association of Superannuation Funds of Australia (ASFA) on behalf of Decimal Software found that less than 30 per cent of 15 major super funds had started implementing an “enhanced mobile experience” for their members.

With the popularity of mobile devices, and the available technology, there is no reason that real time superannuation balances and management tools should not be commonplace in the super industry. ASFA estimates the super industry has spent over \$2-3 billion implementing regulatory changes over the past few years. GROW Super has built a fully compliant app for a tiny fraction of that cost.

GROW would like to see the government create a central hub for all super members that:

1. Allows members to login and direct their employer to pay superannuation to their chosen fund, using single touch payroll technology. This could be done as an improvement to the MyGov system, via interface with one touch payroll.
 2. Allows members to change their superannuation fund without the need for lengthy forms or negotiation between their existing and/or chosen new fund.
 3. Aims to improve financial literacy by providing easy to use tools and information to compare and analyse available choices of fund, and to better understand the elements of a truly high performing fund, net of fees.
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ALTERNATIVE DEFAULT ARRANGEMENTS AND TRANSITION ISSUES

For the alternative models presented by the Commission, what would be the key transition issues and risks for:

- ***Members***
- ***Funds***
- ***Employers***
- ***Government?***

Model 1: Assisted employee choice

The Commission itself notes that this model could impose barriers on new funds entering the market (page 135 of the Stage 2 Draft Report) and reduce competition while forcing funds to significantly increase spend on marketing to (a) advertise their existence on the shortlist, and (b) promote themselves if they are not.

The Productivity Commission's objective is to improve competition and encourage greater product innovation, however this proposed model benefits large existing players, and is anti-competitive. While it is proposed that all funds be assessed on their merits, inevitably the large existing funds will be approved as default providers as the administrative burden associated with not doing so will outweigh any concerns around their quality and viability.

This model will favour existing large funds and does not promote product innovation or funds acting in the best interest of consumers. The administrative cost associated with applying for such a shortlist would also disadvantage new and smaller funds who do not have the resources larger funds retain for government relations and policy work.

It will likely result in substandard products that do not adequately provide insurance or result in the best long-term performance for members. A model overseen by a governing body lends itself to lobbying from larger players to be included on the small list of default providers. The model also puts too much emphasis on fees, rather than performance and does not take into account the changing life stages of individuals.

Most importantly, this idea is simply a patch for a larger problem of financial literacy and engagement. Changes to the default system should be focused on education and improving financial literacy. Super funds should be held to the same account as the banking industry. This model treats people like idiots who are incapable of making an educated choice in selecting their own fund that both meets their needs and aligns with the life goals and values.



Model 2: Fee-based auction

GROW Super fundamentally rejects a default model where funds compete for the default pool based purely on fees.

Choosing a fund based on fees is ignoring the fundamental element of what makes a successful superannuation fund: **performance**. Funds competing for access to the default pool should be assessed on performance based on net returns. This model won't promote product innovation, improved financial literacy or enhanced customer service, as funds deliver substandard, low performing products to justify a cheaper fee.

This model also favours large existing funds who will likely bid for the default pool based on lower fees, with the intent of up-selling customers to higher fee products once they have them onboard, after all less than five percent of people switch funds once they are in one.

The generalisation that fees are a predictor of net performance is dangerous. While this may be true of some funds, providing this as general advice is irresponsible and does not take into account life stages, balance and an individual's long term financial goals.

Model 3: Multi-criteria tender

This model proposes that funds compete for the default pool via a tender assessed on multiple criteria including, long term net returns, member satisfaction, investment strategy and governance, quality of member services, engagement and advice, fees and transparency, and innovation.

The model is intended to benefit consumers by focusing on competition, member satisfaction and long-term net returns.

Like any tender process, the outcome is subjective, however GROW would be supportive of a tender approach so long as all criteria is equally weighted in the following areas:

- Innovation
- Net returns
- Financial education
- Compliance with SuperStream
- Insurance and ability to easily adjust cover
- Ability to make voluntary contributions online, without the need for paper forms.

Model 4: Assisted employer choice (with employee protections)

This model is based on the idea that employers are better placed to choose a default fund for their employees, than individuals themselves.



The Productivity Commission believes this model will increase the likelihood of people being placed in higher quality products, and will promote healthy competition between funds to achieve default fund status.

While most employers want to do the best by their employees, they are not necessarily well placed to choose the best product for their employees. We don't let our employer choose our bank account or mortgage for good reason. Why are they best placed to choose who manages our biggest financial asset?

This model also does nothing to promote competition, with larger funds providing kickbacks and incentives to employers to be chosen as their default fund, which are likely to be of benefit to the employer as opposed to the employee.

For this model to be considered as an option, funds should be held accountable to reach the same criteria as the multi-criteria tender (model 3) above. This should include long term net returns, member satisfaction, investment strategy and governance, quality of member services, engagement and advice, fees and transparency, and innovation. We believe that superannuation funds should meet minimum requirements across all of these criteria, regardless of whether they are to be selected by the employer or employee.



ABOUT GROW SUPER

Like most Australians, we were completely disillusioned with superannuation.

We wanted a platform that was simple (and on an app, because it's 2017). We wanted to be able to take control of our contributions, to grow our future wealth. We wanted to be able to invest our money into industries that matter to us. And importantly, we wanted our friends, family and those around us to take an interest in their super, and how it actually works.

We couldn't find a super fund that made sense. So we created one. Welcome to GROW.

GROW Super is Australia's only entirely digital superannuation fund, allowing members to visualise and manage their retirement from the palm of their hand. Tools and features include one-touch consolidation, options for users to invest money in industries they are passionate about, and the ability to automatically save spare change.

Visit www.growsuper.com for more information.