



12 April 2012

Yvette Goss
Default Superannuation Funds in Modern Awards
Productivity Commission
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Dear Ms Goss

Productivity Commission Inquiry into Default Superannuation Funds in Modern Awards

Suncorp welcomes the Productivity Commission's Inquiry into *Default Superannuation Funds in Modern Awards* (the Inquiry) and the accompanying Issues Paper of the same title (the Issues Paper). Suncorp aims to help our customers build and protect their dreams, and is pleased to have an opportunity to contribute to this Inquiry.

Suncorp has also had the opportunity to contribute to the Financial Services Council submission to this Inquiry and supports its content.

The Suncorp Group

Suncorp Group Limited and its related bodies corporate and subsidiaries (collectively 'Suncorp') offer a range of financial products and services in banking (Suncorp Bank), general insurance, life insurance and superannuation (Suncorp Life) across Australia and New Zealand. Suncorp has around 16,000 employees located across Australia and relationships with over nine million customers.

This submission is made on behalf of the Suncorp Life division. Suncorp Life is a specialist provider of superannuation and life insurance products and operates several well-known and respected brands:

- Suncorp WealthSmart – Our flagship superannuation fund, offering a competitive retail superannuation product.
- Asteron Life – Our leading life insurance brand with more than 175 years of experience as a specialist life insurer.
- Guardian Advice – Our financial advice brand supporting thousands of Australians towards achieving their financial goals.
- Million Dollar Woman – Our newest brand offering, day-to-day living insurance in recognition of the value of unpaid domestic work completed by stay-at-home parents.

Executive Summary

Suncorp strongly supports improved competition in Australia's superannuation system. With net Superannuation assets exceeding \$1.3 trillion,¹ it is vitally important that Australian's can rely on a competitive market to deliver protection and growth of their retirement funding.

We believe that the default superannuation in modern awards market (the default market) is currently restricted, and as a result, underperforming. Suncorp contends that a default market based upon the principles of openness, competitiveness and transparency would significantly improve superannuation outcomes for award employees. In this submission, we address these three goals and state what we believe to be the key steps to achieving a high performing default superannuation system for award-reliant employees.

A more competitive default market can be achieved by allowing employers to choose any MySuper approved fund on behalf of employees. Currently, employers are restricted to contributing to a relatively small number of nominated superannuation funds on behalf of their employees. The result of this restriction is that underperforming funds continue to receive contributions, even when employers are aware of other funds offering better service or benefits. We believe that employers should be given the ability to contribute to any MySuper approved fund. Employer choice will significantly improve competition in the default market.

The Issues Paper refers to a concept of 'principal-agent conflict', suggesting that employers have divergent interests from employees and therefore it may not be appropriate to allow employer choice. Suncorp believes employers' and employees' interests with regard to superannuation are closely aligned and strongly rejects the notion of principal-agent conflict. Research also confirms that employers are currently choosing superannuation funds on sound criteria.

Suncorp proposes an 'open' default market can be achieved by allowing access to the market by any MySuper approved fund. We believe it is important that the current requirement to have standing before applying to be a default fund for modern award purposes is removed. We also believe that additional selection criteria beyond MySuper are not required and should not be implemented.

Finally, Suncorp opposes any selection process for default superannuation funds. If, however, a selection process were to remain, this process must be transparent. Transparency can be achieved by requiring Fair Work Australia to provide written decision statements that are publicly reported. The decision should also be subject to review by the Administrative Appeals Tribunal to ensure the selection process remains fair and independent.

¹ *Annual Superannuation Bulletin – June 2011*, Australian Prudential Regulation Authority, 29/02/2012, pg. 34 available: <http://apra.gov.au/Super/Publications/Pages/annual-superannuation-publication.aspx>

Competition

Suncorp believes the current process of nominating default superannuation funds in modern awards, and requiring employers to contribute only to those funds, severely restricts competition in the default market. Due to the nature of the selection process, retail superannuation funds have previously had difficulty in applying to be listed as a default fund in modern awards. This difficulty is evidenced by retail superannuation funds representing only 14% of funds listed in modern awards, despite accounting for nearly 37% of all superannuation funds.²

Where retail funds can compete strongly with industry funds in the 'choice' market, such competition in the default market is currently restricted. Retail funds are essentially locked out of the current default market by the selection process; whereby a small number of funds are nominated and nominations are rarely reviewed. Ultimately, members of these nominated funds miss out on the innovation and enhancements that arise from an open and competitive market.³

It is our belief that regardless of the selection process employed, reducing competition from the entire market to a small number of nominated funds will always result in sub-optimal outcomes for fund members. Suncorp therefore suggests that the selection process should be removed and no default superannuation funds be listed in modern awards. We believe that employers should be allowed the opportunity to choose any MySuper product that best suits the needs of their employees. Empowering employers to choose any MySuper fund will introduce strong competition into the default market.

Research conducted by the Cameron Research Group indicates that employers see retail superannuation funds as a valuable part of an employee benefits package. 17% of medium size businesses (20 to 500 employees) that use a retail fund as their default see superannuation as a part of an 'employee benefits' package, compared to just 9% that use an industry fund.⁴ This research indicates that employers see value in being able to select retail funds, and Suncorp believes that if employers are granted the flexibility to choose any MySuper approved fund under Modern Awards that these numbers would increase significantly.

It is Suncorp's contention that a new layer of competition derived from employer choice will be a key driver of future improvements in the default market. Employers are actively seeking ways to retain staff in today's competitive jobs market. If employers are given the flexibility to choose any MySuper approved fund, many will seek superannuation products offering additional benefits to their employees. We suggest competition for this market will be strong, driving innovation and delivering improved superannuation outcomes for award employees overall.

² Figures derived from *Quarterly Superannuation Performance – December 2011*, Australian Prudential Regulation Authority, 08/03/2012 Pg. 8 available: <http://www.apra.gov.au/Super/Publications/Pages/quarterly-superannuation-performance.aspx>

³ See commentary: *Super: retail outshines industry funds*, Australian Financial Review, 22/03/2012, available:

http://afr.com/p/national/super_retail_outshines_industry_YpiOymvUAmcm4RhqduZTSK

⁴ *The Australian Medium Sized Business Market for Superannuation: 2011*, Cameron Research Group, May/June 2011, pg. 12

Principal-Agent Conflict

The Issues paper refers to principal-agent conflict arising from employers making decisions on behalf of employees. The suggestion is that employer interests significantly diverge from employee interests with regard to superannuation, and that if granted the ability to choose any MySuper fund employers would consider their own interests ahead of their employees. This is a notion that Suncorp strongly rejects.

Research from the Cameron Research Group has found that, when presented with a list of dimensions, employers rated 'low fees' as the most important variable. Approximately 75% of respondents stated that this is 'very important', followed by above average returns (62%).⁵ These figures indicate that employers are primarily evaluating superannuation funds based on fees and performance, which in Suncorp's opinion closely reflects the best interests of their employees.

As noted earlier today's competitive jobs market encourages employers to offer improved employment conditions. It is our belief that many employers (particularly small businesses) will seek superannuation products that best meet the needs of their employees and will increasingly use superannuation as an employment benefit to attract and retain staff.

The MySuper approval process will also provide a safety net to protect against potentially conflicted decisions. MySuper approved products will be rigorously assessed by the Australian Prudential Regulation Authority and deemed suitable as default funds against a range of criteria. Therefore, regardless of the fund chosen by the employer, employees are guaranteed to be placed in a suitable default fund.

⁵ Ibid. pg. 12

Openness

Suncorp supports recommendation 1.3 of the review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System (the Cooper Review) which stated:

The relevant legislation should be amended so:

- (a) only MySuper products are eligible to be nominated; and
- (b) all MySuper products are able to be nominated,

for 'default fund' purposes in awards approved by Fair Work Australia.⁶

It is our opinion that granting all MySuper products eligibility to be nominated as a default fund achieves the aim of developing an 'open' market. Suncorp does not believe that additional selection or eligibility criteria over and above MySuper are necessary.

MySuper approval is sufficient because:

- Applicants will be assessed against a broad range of criteria designed to ensure funds meet the Government's new standards for default superannuation funds.
- The MySuper approval process will be administered by the Australian Prudential Regulation Authority, which possesses the necessary technical expertise and experience to scrutinise applications.
- The implication of requiring additional assessment criteria is that award employees have higher superannuation requirements than non-award employees.
- There is no value obtained by duplicating the MySuper approval process.

Overall, the MySuper approval process will ensure funds meet the Government's high standards for default superannuation funds. As such, any additional selection process only serves to introduce inefficiency and bias.

Suncorp strongly believes that the default superannuation system should perform to the same high standard for all Australians, regardless of their employment type. The notion that additional selection criteria are necessary for award employees as compared to non-award employees is one that Suncorp rejects.

To support and promote open competition, Suncorp suggests that modern awards should make it clear that employers are empowered to choose any MySuper approved superannuation fund, unless their employees have made an alternative choice.

⁶ *Super System Review Final Report*, June 2010, pg. 11

Transparency

Introducing transparency into the selection process (if such a process were to remain) will ensure that the default superannuation system delivers the best possible outcome for employees. Suncorp suggests transparency can be achieved by developing a written, reviewable and reported decision making process.

Decision Statement

Fair Work Australia (FWA) should be required to publish written decisions statements explaining why an application to be listed as a default fund in modern awards was successful or unsuccessful. The publication of decision statements is a simple yet effective tool for ensuring the decision process remains transparent over time. Particularly, these statements should be:

- Timely – the statement should be provided as soon as practicable after a decision to allow the parties involved to consider the reasoning and respond accordingly.
- Detailed – the statements should be of a similar standard to those already provided by FWA with regard to industrial disputes. Specifically, information relied upon in making the decision should be included or directly referred to.
- Public – the statements should be made publically available on the FWA website to allow easy access by any interested person.

Reviewable Decisions

Suncorp believes that decisions made by FWA with regard to default superannuation funds in modern awards should be reviewable by the Administrative Appeals Tribunal (AAT). A key attribute of any fair process is to allow external, independent review of decisions. The AAT has a long standing reputation for providing a fair and independent review of Government decisions, and Suncorp believes the AAT can provide assurance to Government, industry and the public that FWA is administering the new selection process in a competitive, open and transparent manner.

Reporting of Decisions

The provision of regular reports regarding the decision making process, and the default superannuation in modern awards market in general, will assist stakeholders to assess the effectiveness of the process and identify areas of concern over time. Suncorp suggests that FWA should be required to publish an annual report into the default superannuation in modern awards system. Key statistics that should be included in the report are the:

- number of applications received
- number of applications approved or denied
- reasons for denial
- average time taken to assess applications
- longest time taken to assess an application
- estimated number of employees working under awards that had applications denied
- estimated annual dollar value of superannuation contributions made under awards that had applications denied
- number of awards reviewed and not reviewed for default superannuation fund purposes

In all cases these statistics should be provided both in total and broken down by fund type.

Conclusion

Suncorp strongly supports the development of a competitive, open and transparent default superannuation system. We believe that employees will benefit from improved superannuation outcomes if:

- employers can contribute to any MySuper approved fund,
- additional approval or selection criteria beyond MySuper is not used, and
- Fair Work Australia transparently reports on the default superannuation in modern awards market.

Yours sincerely

Annabelle Butler

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Public Policy and Stakeholder Management