

13 April 2012



Default Superannuation Funds in Modern Awards  
Productivity Commission  
LB2 Collins St East  
Melbourne VIC 8003

**Email:** [default.super@pc.gov.au](mailto:default.super@pc.gov.au)

Dear Sir/Madam,

**Re: Default Superannuation Funds in Modern Awards**

BT Financial Group (BTFG) welcomes the opportunity to provide comments on the Productivity Commission's inquiry into Default Superannuation Funds in Modern Awards.

BTFG has actively contributed to, and strongly supports, the Financial Services Council (FSC) submission to the Productivity Commission on this important topic. We agree with the FSC's view that the current arrangement of nominating specific default superannuation funds in Modern Awards does not serve the best interests of employees, employers or the community at large. We believe that an open and contestable market will benefit more Australians in retirement by increasing competition, innovation and choice.

**1. An open, competitive default superannuation market will benefit all Australians**

When the then Minister for Superannuation and Corporations Law, Senator the Honourable Nick Sherry announced the Super System Review in May 2009, one of the key areas of focus was "promoting effective competition in the superannuation system that leads to downward pressure on costs".<sup>1</sup> While we believe that the Stronger Super reforms will increase superannuation standards, they do not yet achieve the aim of increasing competition in the superannuation market place.

Competition requires multiple parties, acting independently, to compete for the business of a third party. Competition encourages firms to deliver products or services as efficiently as possible to win and retain business. The current Modern Award design limits multiple parties from competing for business and rewards affiliations over superior products and pricing that may benefit individual superannuation members.

The Super System Review stated in its final report that up to 80% of members either actively or inactively rely on their employer's default superannuation arrangements to determine where their employer contributions are directed.<sup>2</sup> While we strongly believe in individual consumer choice as a mechanism to promote competition, the percentage of members that

<sup>1</sup> Senator the Hon Nick Sherry, Ministerial Announcement, 29 May 2009, Scope 1.3

<sup>2</sup> Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System – Final Report, Part One, Page 9

rely on the default fund makes it clear that employers have critical role in driving competition in the superannuation sector.

We believe allowing employers to select a default superannuation fund most aligned to their employees needs, will bring an important level of competition into the superannuation market place. Active employer decisions will force default superannuation funds to carefully consider how they price and service members. Competition allows for poor performers to be punished by the market, as employers move towards funds that have established themselves as consistent performers.

*Where competition is allowed, it drives better member outcomes*

Where companies are permitted to select a default fund for their employees, market participants can compete to offer the most efficient pricing and services possible to win the business. Some recent examples where BT has competed and won the default business shows how an open and competitive market can benefit members:

- Employer A approached BT to participate in a competitive tender process for an employer fund with 375 members. BT won the tender with fees that were 4% lower than the leading industry fund and over 14% and 32% lower than the two key industry funds aligned to the sector. Clearly the ongoing savings for members will ultimately improve their retirement income.
- Employer B was referred to BT after years of poor administration and investment management performance with its current default fund. BT competed for the business and was informed that we were selected even though we were not the most competitive on price. BT was chosen for a combination of its proven track record on administration and investment management, together with total plan fees which were 3% lower than the incumbent fund. The decision of the employer shows that price alone is not the only indicator of value for members and employers. A well run fund with solid performance after fees and taxes is also crucial.
- Finally BT recently competed for the default business of Employer C and was able to outbid the incumbent industry fund. The impact on the average employee with a balance of \$50,000 was a reduction in total annual fees of 7%.

The examples outlined above demonstrate how a competitive superannuation default market can benefit members and ultimately their retirement incomes. We would welcome the opportunity to meet with the Productivity Commission on a confidential basis to discuss examples such as those outlined above in more detail.

We also believe that more competition in the default superannuation sector will also encourage providers to innovate on important member services. For example, better fund design to ensure that more default members have the right level of insurance cover for their stage of life. In addition, superannuation trustees who better engage with their members will support the financial literacy of their membership and deliver better retirement outcomes for these members.

The introduction of MySuper, commencing on 1 July 2013, will provide the right environment for the Government to open up the default market to competition. The MySuper legislation will ensure that all default superannuation funds must meet new minimum standards, that are much higher than before, as well as being easily comparable through standardised fees and APRA reporting.

**Recommendation:**

We recommend, in the interests of members and to create a more competitive superannuation market place, that the law be amended to ensure that any MySuper products can be selected by an employer as an eligible default superannuation fund, removing the need for specific funds to be named in Modern Awards.

The implementation of our recommended change should coincide with the commencement of the MySuper reforms on 1 July 2013.

**2. A guide should be produced to help employers select a default fund**

Expanding the universe of possible default superannuation funds in Modern Awards to all MySuper funds will lead to more choice for employers. The commencement of the Stronger Super reforms at 1 July 2013 will assist employers to transition to more open superannuation market place. Specifically:

- MySuper will give employers comfort that all eligible default funds meet a minimum legislative standard and are closely monitored by APRA.
- SuperStream will ensure that all superannuation funds will accept contributions in a consistent and electronic manner.
- New APRA standards will mandate a greater level of fund reporting to Government that will be available to assist employers to compare funds.

In addition to these important reforms, we believe that the Government can provide employers with the additional comfort they need to select the most appropriate default fund for their employees. Support for employers could best come in the form of an APRA guide for employers providing employers with some essential guidance on what to consider when selecting a default superannuation fund for their employees.

**Recommendation:**

We recommend that APRA produce a guide for employers that helps them identify the key items to consider when selecting a default fund for their employees.

**3. Governance standards of MySuper funds must be best practice**

As we believe that all MySuper products should be eligible for employers to choose as default funds, the governance standards that apply to these superannuation funds must be of the highest order.

With the exception of superannuation, APRA currently requires that regulated entities have both an independent Chair and that the majority of directors are also independent.<sup>3</sup> The Australian Stock Exchange also believes that independence of the majority of directors and the Chair is best practice.<sup>4</sup>

Good governance provides beneficiaries with greater confidence that board decisions are made in their best interests.

We believe all members deserve superannuation funds which adhere to best practice governance standards. As such, the Government should allow APRA to introduce prudential

<sup>3</sup> APRA, Prudential Standards APS 510, section 16 and 17

<sup>4</sup> ASX, Corporate Governance Principles, Recommendations 2.1 and 2.2

standards requiring superannuation fund boards to have an independent Chair and the independence of the majority of directors.<sup>5</sup>

**Recommendation:**

We recommend that superannuation fund boards be required to have a majority of independent directors and an independent Chair.

BTFG has a great deal of experience in meeting both the needs of individual fund members and our employer clients who use our corporate and small business superannuation products. We would welcome the opportunity to meet with the Productivity Commission to discuss our experiences and to share some confidential material on how allowing more competition will lead to better member pricing and delivery of quality member and employer services.

Yours sincerely

Melanie Evans  
Head of Superannuation & Platforms  
BT Financial Group

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<sup>5</sup> APRA Discussion Paper, Prudential standards for superannuation, September 2011, section 3.4.1 and 3.4.2