



18 April 2012

Default Superannuation Fund in Modern Awards  
Productivity Commission  
LB2 Collins Street East  
Melbourne VIC 8003

E-mail: [default.super@pc.gov.au](mailto:default.super@pc.gov.au)

Dear Sir /Madam

### **Default Superannuation Funds in Modern Awards**

ANZ welcomes the opportunity to comment on the Productivity Commission Issues Paper relating to "Default Superannuation Funds in Modern Awards".

ANZ provides wealth products and services in Australia through its Wealth business unit, including investment, superannuation, insurance and advice solutions to suit customers' needs and help them reach their financial goals. We reach our customers through financial advisers, including ANZ Financial Planners, intermediaries, relationship managers or directly.

ANZ's superannuation funds under management is approximately \$40 billion. We have a significant presence in the default superannuation funds market under the umbrella of our OnePath business.

ANZ currently manages in excess of \$13 billion on behalf of over 675,000 default superannuation fund members. Our key default superannuation products include ANZ Super Advantage and OnePath Integra Super, servicing the small to medium employer market, and OnePath Corporate Super, servicing the large employer market. Within this market, ANZ is the superannuation provider for over 25,000 Australian employers.

#### **1. Default fund selection and the MySuper reforms**

The Government has asked the Productivity Commission to design criteria for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards by Fair Work Australia (FWA).

The Inquiry is occurring at the same time as major reform of the superannuation industry through the Future of Financial Advice, and Stronger Super packages, in particular the MySuper reforms. These reforms are intended to deliver better outcomes to superannuation members through simpler products, greater transparency and enhanced competition. As a result employees who find themselves in any MySuper product can reasonably expect that members' interests will be paramount and employer interests will also be significantly improved.

In addition, these reforms may mean that employers' superannuation guarantee obligations become less complex, particularly when it comes to selecting a default fund for their workers.

MySuper seeks to protect the financial interests of default fund members by:

- Lifting standards. Trustees of MySuper products must adhere to a higher level of governance; and
- Making superannuation more transparent. This is achieved through making comparisons more manageable by having a well-known and distinct cohort of MySuper product. The objective of the reform, as given in the Explanatory Memorandum of the MySuper (Core Provisions) Bill, is "to create a new simple and cost effective superannuation product that will replace existing default products. This will enable members, employers and market analysts to compare funds more easily based on a few key differences."

Higher standards will be imposed on trustees including:

- Explicit duties for trustees to promote the financial interests of the beneficiaries of the fund;
- Meeting a scale test to ensure the product has sufficient fund assets;
- The consideration of longer term investment return target over a period of 10 years; and
- The level of risk appropriate to the investments is to be updated annually.

MySuper products will also have enhanced reporting requirements. APRA has already flagged these new reporting requirements in a Discussion Paper issued in September<sup>1</sup> 2011. The Government has supported a proposal for APRA to develop a process for collecting and publishing comparable data which allows APRA to publish long term net returns for MySuper products.

APRA will be the principal regulator of all MySuper products. While a special licensing requirement is not contemplated, all providers wishing to offer MySuper products will be subject to a separate authorisation. For larger employers with over 500 employees, a separate authorisation process is also likely to be introduced. Offering a MySuper product when not authorised to do so will attract heavy penalties.

*What will these reforms mean for ANZ?*

ANZ Wealth currently has five products and approximately 675,000 members who will be affected by the MySuper reforms. The cost of compliance is significant. We are still considering our options on how to ensure compliance with MySuper that could cause the least amount of disruptions to our members and employer customers leading up to the MySuper start date of 1 July 2013. The selection of default funds in modern awards will be a significant factor in these considerations insofar as it dampens incentives to invest to attract new customers and new opportunities.

The possibility of new markets and new customers is a key driver of price competition and of new investments and innovation. This is true for all superannuation funds (be they retail funds or industry funds) which expend resources to market, compete and distribute their products, as well as to maintain their existing customer base. It is also central to why we consider

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<sup>1</sup> See Section 1.2.4, APRA Discussion Paper, Prudential Standard for Superannuation 28 September 2012.

competition is important factor in driving optimal outcomes for members (both existing and prospective) and employers.

## **2. ANZ's recommended approach**

The current process for nominating default funds under Modern Awards is documented in the Issues Paper. In particular we note the Commission's observation that the lack of standing for superannuation funds prevents them from applying to FWA to be included under an Award unless they have the support of a party that does have standing. This can benefit funds listed in an award by limiting their exposure to competition.

The FWA's predecessor, the Australian Industrial Relations Commission (AIRC), publicly stated that it did not have the expertise to select appropriate funds<sup>2</sup>. This is highlighted in the AIRC's response to correspondence from then Minister for Superannuation, the Hon Senator Nick Sherry, who wrote to it requesting that fund performance be considered when selecting default funds.

Rather than appoint FWA as decision-maker in an area where it does not have expertise, ANZ recommends that under the Modern Awards process all MySuper compliant products should be able to compete for business in the default superannuation market. This would effectively mean there is one criterion for inclusion as a default fund under Modern Awards – compliance with MySuper. Funds are either eligible because they are MySuper compliant, or they are not.

Allowing all MySuper compliant funds to compete for business in the default superannuation market would avoid:

- The need to design criteria for superannuation default arrangements that may be complex and duplicate regulatory reforms that are already well in progress. There are a number of selection criteria discussed in the Issues Paper. ANZ does not believe these are necessary particularly in light of the MySuper and other superannuation reforms; and
- The need to reshape the role of the FWA for the purpose of administering a set of selection criteria for default funds when APRA is already experienced, independent and capable of doing this.

Under this approach, decisions about default funds would be made at the employer or workplace level instead of at the industry level. Different employers and employees will have different needs when it comes to superannuation. Large companies may have several divisions and different levels of workers and management each representing specific demographic groups and subgroups. Large and small employers within different industries will have different needs, different administrative capacities and even different investment needs. Providing greater choice will enable these differences to be addressed in the selection of a default fund.

Critically, this approach should also enhance competition by removing the barrier of the number of MySuper compliant products that are eligible for selection. This should be of benefit to employers and employees as default funds compete on

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<sup>2</sup> The AIRC, predecessor to Fair Work Australia, issued a statement on 28 March 2008 in response to a request by then Minister for Superannuation and said "We do not think it is appropriate that the Commission conduct an independent appraisal of the investment performance of particular funds. Performance will vary from time to time and even long term historical averages may not be reliable indicator of future performance. We are prepared to accept a fund or funds agreed by the parties, provided of course that the fund meets the relevant legislative requirements." <http://www.fwa.gov.au/awardmod/databases/general/decisions/2008aircfb717.htm>

price and service offerings. It should also promote investment in MySuper compliant products and the sector more broadly.

If you have any questions about any of the matters raised in this letter, please contact Allan Hansell on (02) 9234 7698. We would welcome an opportunity to meet with you to discuss in more detail our experience in the default superannuation fund market since the introduction of modern awards.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Johnston', with a long horizontal flourish extending to the right.

**Michael Johnston**  
**Head of Government and Regulatory Affairs**