



One Company  
Many Brands



**Suncorp Group Limited**

ABN: 66 145 290 124

36 Wickham Terrace  
Brisbane QLD 4000

Phone: 02 8275 3204

3 August 2012

Default Superannuation Funds in Modern Awards  
Productivity Commission  
LB2 Collins Street East  
Melbourne Vic 8003

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

Dear Commissioners

### **Default Superannuation Funds in Modern Awards – Draft Report**

Suncorp welcomes the Productivity Commission's Draft Report into Default Superannuation in Modern Awards (the Draft Report). A better selection process for default superannuation in modern awards has significant benefits for the community and Suncorp supports the Commission's approach to establishing a fairer, more competitive, selection process.

Suncorp has also had the opportunity to contribute to the Financial Services Council submission in response to the Draft Report 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 including Suncorp WealthSmart, our flagship retail superannuation fund.

### **Our Submission**

Suncorp fully supports a more open, competitive and transparent default superannuation selection process. A significant proportion of Australians currently rely on the default superannuation system to manage and grow their retirement savings and an improved selection process will result in better outcomes for these Australians.

Suncorp broadly supports the Commissions Draft Findings and Recommendations. Our detailed response, enclosed as Appendix A, outlines Suncorp's preferred selection process. Appendix A also includes direct responses to the Commission's Information Requests, and Draft Recommendations.

Yours faithfully

Amanda Crews

**Executive Manager Corporate Affairs**  
**Suncorp Life**

## Appendix A – Suncorp Submission

### Introduction

Suncorp believes that the superannuation market will perform best if members and employers are encouraged to engage in the system and exercise choice. The arguments in favour of default superannuation arrangements often highlight that not all participants have the knowledge or expertise required to engage with their superannuation products. Suncorp believes this argument is valid, but only for a relatively small proportion of the market.

The majority of members and employers have the ability to positively interact with their superannuation, but lack sufficient motivation to engage in decision making. This has been demonstrated by the substantial increase in the number of Self-Managed Superannuation Funds (SMSF) following the global financial crisis. In this case, widespread investment losses provided the motivation to establish an SMSF and ensure investments are aligned with the individual's personal preference.

Suncorp therefore advocates a selection process that encourages member level choice in the first instance and employer choice in the second instance. In the context of this review, employer choice of any MySuper approved fund is Suncorp's first preference and is outlined as Option 1 within the Draft Report. Option 3 in combination with Draft Recommendation 8.2 also aligns to Suncorp's preferred selection model; however a greater focus on encouraging employers to exercise choice would be needed to ensure sufficient contestability is achieved.

Suncorp believes that the selection of a superannuation fund should form a cascade of decision making responsibility. A direct employee choice on their own behalf is the obvious first preference. Failing an active decision by an employee, the next best option is employer choice across the entirety of products on offer. Finally, an industry wide decision in the form of a shortlist of default funds would form the least preferable option.

Recognising that members do not necessarily have sufficient motivation or expertise to make a decision on their own behalf, employer choice is an important level of decision making. Employers typically have greater motivation and knowledge to select an appropriate superannuation fund as compared to members. Suncorp strongly believes that employer choice should be greater leveraged to improve competition and drive improvements in the default superannuation market.

In circumstances where employers do not have sufficient motivation or knowledge, facilitative support should be offered to minimise the decision making burden. This support would preferably be offered in the form of a website that presents relevant product information for employers to simply and quickly choose from all MySuper approved funds.

If required, the shortlist of default funds generated by the independent expert panel under Option 3 can be made accessible via this website, providing employers with the simplest reasonable choice. Importantly, this approach does not remove decision making responsibility from employers, but rather the responsibility is reduced to the lowest impost. The use of a website would also provide simple access to relevant product information alongside fund name, a significant advantage a simplistic fund list within modern awards.

Suncorp suggests this selection process would encourage greater engagement in the superannuation selection process and minimise any undue compliance burden on members or employers that do not wish to participate in the decision making process. Suncorp's direct responses below provide further detail on our preferred selection process.

## Direct Comment on Draft Findings, Recommendations and Information Requests

Suncorp broadly supports a number of the Commission's draft recommendations, comments below are only made where we believe further refinement could improve the overall selection process.

### **Draft Finding 7.1**

*There is no case for the selection and ongoing assessment of superannuation funds for listing as default funds in modern awards to involve any prescriptive criteria over and above those used by the Australian Prudential Regulation Authority in authorising MySuper products.*

Suncorp supports this draft finding. As stated in our original submission, the MySuper assessment criteria have been designed to ensure that a default superannuation product meets a sufficiently high standard to protect member interests. As such, additional prescriptive criteria beyond MySuper are unlikely to add substantial value to the default superannuation in modern awards selection process and are therefore not required.

### **Draft Recommendations 4.1, 4.2, 4.3, 5.1, 5.3, 5.4, 6.1, 6.2, 6.3**

*The selection and ongoing assessment of superannuation funds for listing as default funds in modern awards should have the best interests of members as the primary objective. The following factors should, at a minimum, be taken into consideration, but not as prescriptive criteria.*

- *The appropriateness of the MySuper product's investment return objective and risk profile for employees to whom the superannuation provisions in that modern award apply (as a primary factor) (4.1).*
- *The fund's expected ability to deliver on the MySuper product's investment objectives (as a primary factor) (4.2).*
- *The appropriateness of the fees charged by the MySuper product, given its stated investment return objective and risk profile (4.3).*
- *Whether governance structures are, as far as legislative requirements allow, consistent with meeting the best interests of members (5.1).*
- *The mechanisms put in place by fund trustees to deal with conflicts of interest, and the transparency in disclosing those conflicts (5.3).*
- *The likelihood of members being switched to higher cost divisions of the fund, or facing significantly higher fees for features of their policies (such as insurance), upon exiting their current employment (5.4).*
- *The compatibility of the fund's insurance offerings with the characteristics of employees to whom the superannuation provisions in that modern award apply (6.1).*
- *The quality of member- and fund-specific intra-fund advice (6.2).*
- *The administrative efficiency of the fund, according to a set of benchmarks determined by the Australian Prudential Regulation Authority (or another appropriate body) in consultation with the industry (6.3).*

To the extent that a shortlist of superannuation funds is necessary, it is important that these funds be rigorously assessed. These assessment factors are comprehensive and form a reasonable basis for fund comparison purposes. Suncorp supports the use of these factors in an open, transparent and contestable decision making process.

Suncorp would further advocate for the inclusion of member education programs as a secondary factor. Member education is important to improve long term outcomes of the superannuation system and should be taken into

consideration when determining if a superannuation fund should be granted default status. The Draft Report states that member education has not been included due to<sup>1</sup>:

**Cost** – *Member education costs will ultimately be borne by fund members via higher fees.*

Suncorp offers an extensive member education service via our Suncorp WealthSmart product. We have found that member education can be delivered via our existing customer contact channels at minimal additional cost. Use of online education modules, workplace seminars and our customer service call centre, allows Suncorp to offer a low cost member education program.

In addition, the proposed selection process will favour funds with lower member fees, introducing a strong incentive to minimise fees which in turn will ensure that the costs of member education do not exceed the benefits. Funds will only provide member education programs when the cost to does not unduly increase member fees.

**Commercial Disincentive** – *Funds might have a disincentive to provide education that could result in members transferring to a different fund.*

Suncorp has found strong commercial benefits from our member education programs. Member education increases brand loyalty which in turn increases engagement and retention rates. After participating in our education program members are more likely to choose an investment option suitable to their circumstances and are more likely to consolidate other funds to Suncorp WealthSmart. Both of these actions have positive commercial outcomes for our business.

**Outcomes** – *Academic research questions whether financial education actually leads to greater member engagement.*

Suncorp's experience indicates that member education does generate higher levels of engagement. We have found members are more likely to interact with Suncorp following education by accessing their online accounts, contacting our call centres or seeking financial advice. Member education has positive outcomes for both the member and the superannuation fund.

Increased education is needed to improve member engagement and knowledge of superannuation. Suncorp encourages the Commission to include member education in the assessment of default super funds.

Under Suncorp's preferred selection process, once a list of default funds has been determined, this list would be provided to employers via an employer choice website and not within modern awards. This approach is to place emphasis on employers exercising choice and provide product information in addition to fund name.

### **Draft Recommendation 6.3**

Suncorp believes the APRA is well placed to conduct industry consultation regarding administrative efficiency and we support APRA's involvement in this regard.

---

<sup>1</sup> Draft Report, pg. 106

### **Draft Recommendation 7.1**

*The process used in the selection and ongoing assessment of superannuation funds for listing as default funds in modern awards should adhere to the following principles.*

- *Best interests of members — there is an explicit focus on members' interests.*
- *Contestability — all funds have an equal chance to put forward their case for consideration.*
- *Transparency — relevant information is made publicly available and potential conflicts of interest are declared.*
- *Procedural fairness — all parties have the right to put forward their case for consideration to an unbiased umpire.*
- *Minimum regulatory burden — each party involved incurs the minimum cost and inconvenience compatible with achieving the aims of the process.*
- *Avoidance of instability — the broader superannuation system is not destabilised.*
- *Consistency with other policies — the process aligns with other relevant policy directions, including the Stronger Super and Future of Financial Advice reforms.*

Suncorp supports the principles outlined within this draft recommendation. In particular, the focus on the best interests of members and improved contestability is welcomed.

Increased competition in the Default Superannuation market is integral to improving the outcomes for members of default funds. Suncorp highlights that the 'avoidance of instability' principle is phrased to place emphasis on stability, at the potential detriment of competition.

This principle appears to be targeted at avoiding the circumstances experienced in Chile, where significant competition in the Superannuation sector led to high churn rates that adversely affected the stability member investments. It is important to avoid introduction of a similar instability to the Australian system, however, it is also important to improve competition.

Some level of "instability" is required to allow default contributions to move between funds and drive commercial competition. Suncorp proposes that this principle would be more effective if the emphasis was placed on *sustainability* as opposed to *instability*. Although a relatively minor adjustment in phraseology, this change will articulate that there must be balance between increased competition, and unsustainable customer churn rates.

Suncorp suggest the principle be amended to:

*"Sustainability - the long term sustainability of the superannuation system is not unduly impacted"*

### **Draft Recommendation 8.1**

*All funds that are authorised to offer a MySuper product (and exempt public sector superannuation schemes) should be able to apply to be listed in an award and have the application considered on its merits. An applicant's case should be outlined and assessed against the factors for consideration identified by the Commission. Other factors could be taken into account for individual awards at the decision maker's discretion.*

Suncorp strongly supports this Draft Recommendation. Allowing all MySuper authorised funds to apply for listing in modern awards is a significant improvement as compared to the current system and Suncorp looks forward to implementation of this recommendation.

### **Draft Recommendation 8.2**

*Employers selecting default funds for employees to whom the superannuation provisions in modern awards apply should be able to choose a fund not listed in the relevant award. However, in this circumstance, employers should be required to justify their choice, if called upon, by demonstrating that:*

- *the factors for consideration identified by the Commission were taken into account when making the decision*
- *their employees are at least no worse off than if the employer had chosen a fund listed in the relevant award.*

Suncorp views this Draft Recommendation as an important change in improving competition in default superannuation. A significant proportion of business owners have the motivation and required knowledge to select a default superannuation fund suitable for their employees. As noted in our original submission, employers have objectives that are closely aligned to those of employees and Suncorp strongly supports employer choice of any MySuper approved fund.

Suncorp recognises that the Commission's concerns related to employer choice outlined within the assessment of Option 1 and offers the below response:

- **Members' Best Interests** - The Draft Report notes that employers may not necessarily have the interest or expertise to make a decision in the best interests of members (p. 152).

Suncorp contends that the majority of employers do possess the necessary interest and expertise to make a decision in their employee's best interests. In addition, the shortlist of funds generated under Option 3 will provide additional support to those employers with insufficient interest, expertise or time to select a default superannuation fund. Importantly, this Draft Recommendation will enable additional flexibility for employers seeking to provide better superannuation support for their employees.

Suncorp supports restricting employer choice to only MySuper authorised funds. MySuper approval indicates that the fund has been assessed as suitable to receive default contributions and provides an important safety net against member funds being contributed to sub-optimal funds. Additional measures to ensure employer choice is made in members' best interests are discussed below.

- **Contestability** – The Draft Report suggests there may be a lack of demand-side pressure from employers (p. 152).

Superannuation is a significant expense for businesses which typically drives higher employer engagement as compared to employees. Market research<sup>2</sup> conducted by the Cameron Research Group indicates that 50% of medium sized employers (20 to 500 employees) assess their superannuation fund's performance and service. In addition, 26% have a formal superannuation policy committee.

Suncorp is confident demand from employers for better superannuation is high and will significantly increase once employers are empowered with greater choice.

- **Transparency** – The Draft Report suggests that transparency surrounding decision making will remain an issue under employer choice (p. 153).

Suncorp contends that transparency between the decision maker and funds would be better under employer choice as compared to choice by an independent panel. This is largely a result of the one-to-one contact that would occur under employer choice. This, however, would not increase transparency for other parties such as employee representative groups and Government.

As such, Suncorp supports requirement of employers to justify their decision when called upon. This requirement would allow interested parties to request review of an employer's decision, thus introducing transparency.

- **Procedural Fairness** – The Draft Report suggests it is difficult to assess procedural fairness of employer choice (p. 153).

---

<sup>2</sup> The Australian Medium Sized Business Market for Superannuation : 2011, Cameron Research Group, May/June 2011, n=405

Suncorp agrees that procedural fairness would be difficult to assess, but does not have any reason to suspect that procedural fairness would become a significant issue under Option 1. With an increased number of decision makers, the likelihood of 'unfair' or biased decision is lower. In addition, any potential 'unfair' decision would have a lessened impact upon all stakeholders as compared to a centralised decision making body.

- **Minimum Regulatory Burden** – The Draft Report notes that it would not appear practical or desirable to require employers to choose a superannuation fund.

Suncorp believes that employer choice is highly desirable, but recognises the Commission's concern regarding a requirement to choose. As such, Suncorp advocates the establishment of an employer choice website. This website should present the product information required by employers to make a straightforward and informed choice between superannuation funds. In addition, the list of funds generated under Option 3 could be added to this website to provide further relief where necessary.

Suncorp strongly believes that the selection process should aim to promote employee choice as the first preference, employer choice as the second preference and as a last option, choice from a list of pre-determined funds. This approach would encourage greater choice at a level closer to employers (with reduce principal-agent conflict) without creating an undue regulatory burden for employers.

- **Avoiding Instability (Sustainability)** – The Draft Report suggests that employer choice would create a high rate of switching and introduce instability into the system.

Suncorp suggests that the same four and eight year cycle proposed under Option 3 could be applied to employer choice. Regulations could require employers to remain with the same superannuation fund for at least four years, unless an application is made to the relevant regulatory body to justify an early change of fund. This would serve to limit the rate of switching without locking in employers to unsuitable funds for set time periods.

In addition, to ensure ongoing assessment of funds, an employer's choice of fund could expire every eight years. Upon expiry, employers would be contacted by their existing fund and advised to visit the employer choice website to reselect a superannuation fund.

- **Consistency with other policies** – The Draft Report suggests that employer choice runs counter to Future of Financial Advice (FOFA) reforms that aim to reduce conflicts in financial decisions.

Suncorp agrees that decision making should be made by those that receive the benefit. As such, employee choice is the first preference and should be encouraged. In circumstances where employees refuse to choose, Suncorp believes employer choice under an open market is preferable to the current selection process.

Employers derive a benefit of decision making when that decision leads to employees being placed with more suitable superannuation funds with better returns, service or insurance. Employers are in direct contact with employees each and every day and Suncorp therefore believes they offer a better level of decision making as compared to an industry-level decision making panel.

The potential for conflicted decisions is addressed by the requirement to have employers make their decision in the best interests of their members, justify that decision and demonstrate that employees are at least no worse off under their choice of fund.

- **Regular Assessments** – The Draft Report states that employers would not be obliged to assess their choice of fund at any time.

Suncorp suggests that an eight year expiry could automatically occur, similar to the expiry under Option 3. Employers who have nominated a default superannuation fund could be contacted by that fund every eight years to advise their decision is due for renewal. Employers would then be directed back to the employer choice website to make their decision.

Overall, Suncorp believes that employer choice can be appropriately regulated to offset the concerns raised by the Commission. The underlying support of the default list generated by Option 3 is necessary for employers that do not wish to exercise a free market choice can achieve an appropriate regulatory balance in the selection process.



### **Information Request**

*The Commission is seeking feedback on which body, under each of the options presented below, would monitor compliance with the requirement that employers choosing a fund not listed in the relevant award justify their choice if called upon, and how they would do so.*

Suncorp suggests the Superannuation Complaints Tribunal (SCT) is an appropriate body to monitor compliance with employer decision making requirements. The SCT has the requisite experience and capacity to determine if employers have been compliant and if a decision has left an employee 'worse off'. Upon receipt of complaint by a member or their representatives, the SCT would determine if employer's had made an appropriate decision in the circumstances.

Employers should be encouraged, but not required, to justify their choice at the time of the decision making. The employer choice website could provide a simple online form that prompts employers to outline the core reasons behind their decision and allows for brief commentary by the employer. This decision statement would minimise later regulatory burden and allow the SCT to consider the employers decision making in determining future complaints.

It is important to minimise any disincentive to employer choice, in order to promote contestability in the market. As such, Suncorp suggests that the 'no worse off' test should aim to test whether the employer could have reasonably expected their decision to leave their employees worse off at the time. This will ensure consideration is given to the quality of the decision, not the outcomes of that decision which are outside of the employer's control.

In addition, because employers would only be permitted to choose from the pre-approved MySuper funds, Suncorp suggests legal safe harbour should be provided to employers. It should be reasonable for an employer to rely on the MySuper approval process and be confident that a choice of any MySuper fund would not result in a future legal liability. The SCT remedy for an employer choice that could be reasonably expected to leave employers worse off should be to direct the employer to a nominated default superannuation fund and prohibit future fund choice.

### **Draft Recommendation 8.5**

*There should be an ongoing assessment of the list of superannuation funds in modern awards to ensure that any demonstrably unsuitable, unauthorised or non-existent funds are removed as required. In addition, a wholesale reassessment should occur every eight years at which time the full selection process would be repeated and all funds that wish to be listed in awards would need to apply or reapply. Mid-way between each reassessment, a light-handed interim assessment should be undertaken, at which time funds could be removed from, but not added to, awards.*

Suncorp supports this recommendation and views it as a key improvement over the current system. There is no case for continuing to direct default contributions to an underperforming fund. The timelines of wholesale reassessment every eight years, and light-handed review every four years, is an appropriate balance between ensuring ongoing performance and maintaining sustainability of the system.

### **Information Request**

*The Commission is seeking feedback from participants on the relative merits of Options 3 and 4.*

Suncorp considers the additional cost of establishing a new body (Option 4) is not warranted simply to create a perception of independence. Ultimately, it is the membership of the panel and the quality of the decision making that will have the greatest influence over the perception of independence, not the body or name under which the panel operates.

Suncorp would encourage the Commission to further detail the process through which the independent expert panel might be appointed in the final report. The opportunity for public comment on potential panel members would be appreciated.