

Club Plus Super  
submission to the  
Australian Government  
review of regulation,  
governance,  
transparency and  
competition in  
superannuation

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## **About Aegis Consulting Group**

Aegis is an independent advisor to government, corporate and non-government organisations on:

- Public Policy
- Economics
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- Strategy

Aegis was established in 2002 and has an international team of consultants in Sydney, Cairns, Singapore and London.

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## EXECUTIVE SUMMARY

This submission from Club Plus Super (CPS) is in response to the Federal Government's review of the regulation, governance, transparency and competition in superannuation. CPS welcomes the consultation process and the opportunity to participate. Key points about CPS are that:

- it is the superannuation provider for the registered club, hospitality and related industries and has over \$1.9 billion in assets;
- in 2013, the membership of the fund was just over 100,000 people and 17,737 employers participated in the fund;
- as at 31 December 2013, it had delivered returns of 17.23 per cent for 2012/13 (31st out of 81 funds surveyed), and an average of 7.50 per cent over the previous 10 years (15<sup>th</sup> out of 53 funds surveyed);
- in 2013 it had delivered returns above the industry average calculated by the Australian Prudential Regulatory Authority (APRA);
- it has implemented measures to improve member services and benefits and lifted member satisfaction over the last 6 years from below 45 to 80 per cent; and
- it is recognised by independent rating agencies as one of Australia's lowest cost and best value funds.

### Better Regulation, Governance and Transparency

CPS is strongly of the view that the current regulation of fund governance adequately balances relevant policy, member benefit and fund management priorities. Moreover it considers that there is no systemic failure within the fund nor are new standards required to improve its governance.

In relation to the proposals for the mandatory appointment of independent Directors, CPS considers that it is clear from the work of the Productivity Commission<sup>1</sup> and the previous *Review into the governance, efficiency, structure and operation of Australia's superannuation system* (Cooper Review) that there is no majority support within the superannuation industry for this approach, and there is no strong evidence that this step is necessary to improve the governance and performance of superannuation funds.

It is also clear that the current self-regulatory approach which APRA supports is working effectively in relation to the use of independent Directors. For example of the not for profit entities (industry funds) with equal representation which can offer products to the general public, 21 or about 54 per cent have Boards with an independent Director.

With respect to Board renewal, CPS acknowledges that renewal is important to generate diversity, but also considers that this must be balanced with the need for Boards to retain corporate knowledge and expertise, particularly in the complex area of superannuation. This is why CPS agrees with the self-regulation approach adopted by APRA.

The CPS experience is a good example of the success of self-regulation. Between 2006 and 2013 the number of Board members has reduced from 16 to 8, and there have been five changes of directors over the last four years. The Board chair is rotated annually between employer and employee representatives. In line with the previously mentioned process (self-regulation), the Board appointed its first fulltime employee, the current CEO in November 2007. CPS now has 21 full time staff who have greatly enhanced the fund in terms of services to members and governance without changing the fund's low fee structure. CPS has successfully maintained its low fee structure due to the Board policy of Board reduction, low Director fees and an effective and robust budgetary process.

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<sup>1</sup> Review of the Superannuation Industry (Supervision) Act 1993 (2001) and Review of Default Funds in Modern Awards 2012

For smaller industry funds, such as CPS, it is imperative that regulation does not adopt a 'one size fits all' approach. Imposing mandatory standards which reduce self-regulation can disadvantage smaller funds in a competitive market. If new legislative standards are introduced:

- organisations should be offered the capacity to maintain flexibility and determine governance arrangements that suit them best. A key way to achieve this is by allowing exemptions or exceptions from legislative standards, where appropriate and justifiable, against set criteria; and
- they should be ideally implemented over at least a 5 year period to enable organisations to adapt and incorporate them with negligible impact of costs and resources.

CPS supports proposals to enhance the transparency of funds and Board decision making, as this is essential to maintain confidence in the superannuation system. However any changes to enhance transparency should deliver benefits for consumers that far outweigh the associated costs for funds.

## Improving Competition

In the view of CPS, the current Fair Work Commission (FWC) model to promote competition for default fund superannuation in modern awards is sufficient to balance employee and employer benefit. As the current model has only recently begun it is too early to assess its effectiveness in promoting competition. It would not be prudent to consider further reform until the current model has been properly evaluated over an appropriate time scale. There are a number of key issues to consider when assessing competitiveness in the market for default fund superannuation.

- Consistent with the intent of the Hilmer reforms and National Competition Policy, competition should not be considered an end in itself, but rather as a means to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with other social objectives.
- The Regulatory Impact Statement (RIS)<sup>2</sup> that accompanied the Stronger Super reforms is an important guide when considering competition issues because it discussed in detail the costs and benefits of different approaches to improving competitive outcomes in the industry. The RIS concluded that superannuation default funds should be regarded as different to other markets which are subject to competition on the basis that:
  - funds cannot be traded freely because superannuation forms a key part of the Australian safety net and workplace relations system and members are relatively inactive in managing their funds; and
  - there is a risk that where employers are choosing default funds for employees, the choices of employers may not always necessarily align with the best interests of their employees.

For these reasons the RIS did not support a fully contestable model above the current FWC model.

- While in the CPS experience, employers act in the interests of their employees, CPS acknowledges that this a risk in the default fund market that separates it from other competitive markets. This risk may be exacerbated where financial services providers which own or have interests in retail funds use their economies of scale to offer employers discounts on financial service products as an incentive to choose a retail fund as their employees default fund.

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<sup>2</sup> Australian Department of Education, Employment and Workplace Relations, Regulatory Impact Statement: Default Superannuation Funds in Modern Awards, 2012

- A wide range of employer and employee representatives, such as the Australian Industry Group and Australian Council of Trade Unions supported the current model, and particularly the creation of an Expert Panel within FWC. This was because of their general agreement that superannuation contributions are deferred wages and inherently an industrial matter, and therefore FWC is the most appropriate body to list default funds in modern awards.
- A fully contestable market may also reduce the demand for funds to deliver better services. This is because there would be limited incentives for funds to innovate and improve the quality of their product for employees if there is no specific criteria or assessment process, including that the fund meet the best interest of members covered by their particular award.
- A fully contestable market may increase costs for employers. The consultation undertaken by the Productivity Commission (PC) as part of its review of default funds in modern awards indicated a widespread view amongst employers that a fully contestable market, where any MySuper fund could be listed in an award, would significantly increase the complexity for employers in relation to selecting a default fund for their employees. The PC found that many smaller employers prefer the simplicity of selecting a fund specified in a modern award, rather than selecting from potentially hundreds of funds in the market.<sup>3</sup> If superannuation reforms result in added costs and burdens for employers they may not be supportive of change. This may particularly be the case if employers are still adapting to recent reforms.
- Prior to the current FWC model being introduced, retail funds faced higher barriers to entry in relation to default funds in modern awards. However this has not led to any evidence of market failure, such as competitive disadvantages for retail funds or reducing benefits to employees, which requires regulatory intervention. Some key points to note are as follows.
  - The default fund in modern award market is small and represents only between 6 and 10 per cent of all superannuation contributions for APRA regulated entities. This means that activities within it are unlikely to have any adverse effect on the total superannuation market.
  - The current distribution of assets across fund types indicates healthy competition between retail funds (26.1 per cent of assets) and industry funds (20.1 per cent of assets) and large and smaller funds (31.4 per cent of assets).
  - In 2013, retail funds maintained the highest number of members in every age group except for those under 35.
  - Over the last ten years industry funds have on average performed considerably better than retail funds to the benefit of fund members, including employees in default funds in modern awards. Industry funds have performed better than the average of all superannuation entities regulated by APRA.

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<sup>3</sup>Productivity Commission, Review of Default Funds in Modern Awards 2012; p143

# 1. ABOUT CLUB PLUS SUPER

## Coverage<sup>4</sup>

Club Plus Super (CPS) has been a superannuation provider for the registered club, hospitality and related industries for over 25 years. In 2013, the membership of the fund was just over 100,000 people and 17,737 employers participated in the fund.

The popularity of and participation in the fund has grown steadily over time and in 2012/13 about 24 per cent of CPS contribution revenue consisted of transfers from other funds, an increase in this income source of about 4 per cent from 2011/12.

Employees and employers in the club industry rely heavily on CPS to fulfil their obligations and rights under the superannuation system. For example, around 80 per cent of all employees of clubs are members of CPS.

## Products and Performance

In 2013 total CPS revenue was over \$411 million and before tax its accrued benefits were over \$384 million. Its total assets in 2013 totalled over \$1.9 billion<sup>5</sup>.

CPS has two main products, Club Plus Super and Club Plus Pension. Within these main products there are a range of investment options ranging from cash to high growth. The balanced investment option is also the MySuper option.

In 2013 CPS was one of the first funds to become MySuper authorised by the Australian Prudential Regulatory Authority (APRA) following superannuation reforms introduced by the former Federal Government.

CPS has a normal rating with APRA and is platinum rated<sup>6</sup> for all its accumulation and pension products.

According to independent market rating instruments, CPS is amongst the five lowest cost funds in Australia<sup>7</sup> and its directors' fees are 30 per cent lower than the industry average<sup>8</sup>.

As at 31 December 2013, CPS had delivered returns of 17.23 per cent for 2012/13, and an average of 7.5 per cent over the previous 10 years<sup>9</sup>. In 2012/13 CPS delivered a 13 per cent return on its MySuper/Balanced option and a 14.4 per cent return on its Club Plus Pension Balanced option<sup>10</sup>.

These results compare favourably with annual average industry-wide rates of return for funds with more than four members of 13.7 per cent for the year ending 30 June 2013 and 6 per cent for the 10 years to 30 June 2013<sup>11</sup>.

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<sup>4</sup> CPS Annual Report 2013

<sup>5</sup> Ibid

<sup>6</sup> Rating by independent rating agency, SuperRatings

<sup>7</sup> Ibid

<sup>8</sup> McGuirk survey

<sup>9</sup> SuperRatings, Fund Crediting Rate Survey, December 2013

<sup>10</sup> CPS Annual Report 2013

<sup>11</sup> Australian Prudential Regulation Authority, Annual Superannuation Bulletin for the Year to 30 June 2013, 8 January 2014

## Default Fund

The industrial award system is an important, but not the only source of revenue for CPS. About 50 per cent of CPS members participate in the fund through their industrial awards and 50 per cent are non-award members<sup>12</sup>.

However of the contributing members who are employees of clubs, almost all maintain CPS as their default fund<sup>13</sup>.

## Member Focus and Services

Like many industry smaller funds, CPS must continue to improve services and benefits for its members and participating employers in order to maintain its competitiveness. Over the last 5 years CPS has introduced or commenced the development of a myriad of service improvements including<sup>14</sup>:

- removed switching fees;
- expanded the range of investment options;
- introduced binding death benefit nominations;
- refreshed on-line services for members to improve access to information and fund portability;
- launched a clearing-house for participating employers, which enables them to pay all their employees in one transaction regardless of super fund;
- introduced a new Direct Investment Option (DIO), an online platform that enables super and pension members to invest in term deposits, S&P/ASX 300 listed shares and exchange traded funds (ETFs); and
- introduced its own financial planning arm (CPFP).

The long term commitment of CPS to continually improve member services and benefits has contributed to the increase in transfers from other funds and its consistent recognition as one of Australia's best value super funds<sup>15</sup>.

As part of its commitment to member services, CPS conducts regular customer satisfaction surveys and annually reviews its approach to member services. In 2013 CPS achieved an 80 per cent customer satisfaction result. When surveys were first introduced six years ago, member satisfaction levels were less than 45 per cent. The substantial increase in member satisfaction over this time demonstrates the success of the commitment of CPS to focus on member services and benefits.

## Board Composition

The Board of CPS comprises equal representation of four member representatives and four employer representatives. The chair of CPS rotates between the member and employer representatives each year.

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<sup>12</sup> Advice from CPS

<sup>13</sup> Ibid

<sup>14</sup> CPS Annual Report 2013

<sup>15</sup> Chant West, an independent rating agency



## 2. RESPONSE TO PART 1 – BETTER REGULATION

In the view of CPS, regulation should aim to achieve an appropriate balance between the following key objectives.

- Promoting market competition.
- Protecting the interests of consumers.
- Promoting business innovation and flexibility.

These objectives can be difficult to appropriately balance. For example, in the superannuation market it may be tempting to seek reform to the nomination of default industry funds in awards in order to reduce perceived barriers to entry for retail funds. But equally it is necessary to consider the impact on consumers if the participation of retail funds in awards reduced the capacity of industry funds to offer the kind of consumer benefits, such as more comprehensive life and income protection insurance and lower fees that by comparison are superior to retail funds.

For smaller industry funds increased competition in the award based default fund market may decrease revenue opportunities, and therefore reduce their capacity to fund continuous improvement in consumer service and benefits. This may lower the competitiveness of smaller industry funds, and over time result in a market dominated by large retail and industry funds only, thereby reducing consumer choice.

The difficulty of appropriately balancing these objectives and avoiding unintended consequences can be managed by:

- the full assessment of the impacts of any regulatory proposals;
- consideration of achieving policy objectives via non-regulatory means;
- ensuring that regulation avoids a 'one size fits all' approach, particularly in markets where there are competitors of various size and capacity. This can often be achieved by creating standards in legislation, but catering in regulations for evidence based exceptions or exemptions from standards; and
- effective ongoing monitoring and review of the impact of regulations.

For smaller industry funds, such as CPS, it is imperative that regulation does not adopt a 'one size fits all' approach.

### 3. RESPONSE TO PART 2 – BETTER GOVERNANCE

#### Overview

In the view of CPS, regulation aimed at improving governance of industry funds should seek to achieve an appropriate balance between various objectives, including:

- recognising that funds and their members benefit from funds being managed by directors with substantial experience in superannuation and the industry involved . This is particularly relevant because superannuation is a complex area, and corporate knowledge to properly understand its strategy, operation and impacts can only be accumulated over a long period of time;
- the need for Board renewal to promote innovation, new thinking, global connectivity and gender and ethnic diversity that reflects corporate Australia and the community;
- the right mix of independent and employer and employee sponsored directors where necessary to improve Board performance; and
- the flexibility of organisations to determine their own Board arrangements consistent with their respective needs and accepted corporate governance regulations and principles.

Consistent with its view about better regulation expressed in section 2, CPS considers that there should not be a 'one size fits all' approach to the regulation of Board governance. The *Superannuation Industry (Supervision) Act 1993* (SIS Act) creates obligations for Boards.

It is generally appropriate for legislation to create standards, however in order to provide organisations with flexibility and the capacity to determine the governance arrangements that suit them best, regulations/policies and/or guidelines should enable organisations to seek exemptions or exceptions from legislative standards, where appropriate and justifiable, against set criteria.

There is ample precedent for provision of exemptions or exceptions to legislative standards where it is appropriate and meets the needs of organisations. For example key components of national competition policy and law that governs the behaviour of public and private organisations and their Boards across the economy includes the capacity of:

- governments to maintain anti-competitive legislation where they can prove the benefits outweigh the costs; and
- organisations to seek authorisations from the Australian Competition and Consumer Commission to maintain anti-competitive practices where justified.

In essence this approach creates a sensible balance between self-regulation and the application of standard rules governing organisational behaviour.

Achieving this balance is often important to the competitiveness and effectiveness of smaller organisations in markets, which may not have the resources or need to implement the same rules in every circumstance as larger organisations.

Nevertheless, new standards should only be introduced if there is a compelling case for them to improve governance and address systemic failures. CPS considers that this case does not exist.

## Independent Directors (Questions 2-6)

In the view of CPS, legislation or regulations that mandate the appointment of independent directors to superannuation trustee Boards is not consistent with the need to ensure an appropriate balance between standard rules of governance and the need for organisations to have flexibility to meet their own needs.

Legislation or regulations to mandate the appointment of independent directors may be justified if there is:

- majority support for this in the superannuation industry; and/or
- compelling evidence that this is necessary to improve the governance and performance of superannuation funds.

However it is clear from the work of the Productivity Commission<sup>16</sup> and the previous *Review into the governance, efficiency, structure and operation of Australia's superannuation system* (Cooper Review) that neither of these conditions exists.

### Superannuation Industry Views

During the 2012 Productivity Commission review of default funds in modern awards, there were wide ranging views about what constitutes good governance in the superannuation industry. In relation to the nature of Boards, many review participants preferred equal representation of employer and employee representatives, while others claimed that the appointment of independent directors would lead to better governance<sup>17</sup>.

In essence there was no consensus amongst participants however key points that were made included the facts that:

- the equal representation model is a representative governance structure which enables member interests to be prioritised and diversifies control of funds by shareholders and stakeholders<sup>18</sup>;
- there is a substantial body of independent research that shows that the equal representation model has delivered superior performance and relevant products which meet the needs of employers, employees and the general public who join industry funds<sup>19</sup>;
- the equal representation model was consistent with the OECD's governance guidelines for pension funds<sup>20</sup>;and
- the notion of independence can vary to include independent of management, sponsoring organisations, and/or subject matter experts and there is minimal consensus about what it actually means<sup>21</sup>.

### Evidence from Previous Reviews

In its 2001 review of the SIS Act, the Productivity Commission supported the equal representation of employer and employee representation on superannuation trustee Boards. It considered that equal representation rules<sup>22</sup>:

- provided a balanced representation of employer and employee interests;
- were conducive to active member interest in the prudent management of funds; and
- provided benefits that exceeded the cost of finding and appointing members who are capable of undertaking trustee duties.

<sup>16</sup> Review of the Superannuation Industry (Supervision) Act 1993 (2001) and Review of Default Funds in Modern Awards 2012

<sup>17</sup> Productivity Commission, Review of Default Funds in Modern Awards 2012; p96

<sup>18</sup> Industry Funds Forum submission to PC Review

<sup>19</sup> Industry Super Network submission to PC review

<sup>20</sup> Australian Council of Trade Unions submission to PC review

<sup>21</sup> Cbus submission to PC review

<sup>22</sup> Productivity Commission, Review of the Superannuation Industry (Supervision) Act 1993 (2001); p113

The practical experience of CPS affirms this view expressed by the Productivity Commission. The CPS Board has maintained equal representation of employer and employee representatives throughout its 25 year history and over this time has overseen strategies that have delivered fund growth, improved fund performance and continuously enhanced customer service and responsiveness. These results have been recognised in the market through a range of awards from independent rating agencies.

While achieving these outcomes, the Board has also considered the value of an independent Director, but the cost of attracting a Director with suitable experience has always exceeded the proposed benefits that person could bring. For example, CPS has been recognised as one of the best value funds due partly to its Directors fees being below the industry average. The salary demanded by an experienced independent Director may alter this for no discernable improvement in Board governance.

An important reality for industry funds like CPS is that its Board appointments are controlled by its shareholders, which is not unusual for public and private companies. Arguably it would be an unwelcome precedent for government legislation to supersede the power of shareholders to control the appointments to Boards.

The Cooper Review recommended that the equal representation model be replaced by a governance structure that included a minimum number of independent directors on the basis that the<sup>23</sup>:

- equal representation model imposed rigidity on fund governance practices and reduced accountability, without ensuring the representation objective on which it was predicated; and
- best practice in corporate governance required the presence of independent directors.

The Cooper Review recommended this approach even though<sup>24</sup>:

- in an overall sense, it did not find any significant evidence of systemic trustee governance failure;
- there was no consensus within the superannuation industry about the need for and value of independent directors; and
- there was strong evidence from submissions by participants, and the independent assessment of fund performance over many years, that industry funds governed by the equal representation model had delivered superior performance for the benefits of members, compared to other types of funds.

These recommendations of the Cooper Review do not form part of superannuation reforms to date.

More recently the Productivity Commission has determined that *“there is a lack of compelling evidence to suggest that any one model of board structure should be viewed as clearly preferable in all cases”* and does not consider that a particular structure should be mandated and applied to all superannuation funds. It also considers that mandating board structures without a sufficient evidentiary basis may have an adverse impact on competition for default listing<sup>25</sup>.

Instead the Productivity Commission is broadly supportive of APRA’s approach which is not to mandate any particular structure for superannuation fund boards, but inform Boards of the potential benefits of having independent directors where appropriate<sup>26</sup>.

Furthermore the Productivity Commission considers that the Stronger Super reforms have dealt with many of the most pressing governance issues (such as those relating to conflicted loyalties, remuneration and the competence of trustees), and accordingly there is no need to revisit many of these issues in the near future<sup>27</sup>.

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<sup>23</sup> Productivity Commission, Review of Default Funds in Modern Awards 2012; p97

<sup>24</sup> Ibid; p91-101

<sup>25</sup> Ibid; p102

<sup>26</sup> Ibid

<sup>27</sup> Ibid; 103

The outcomes and conclusions of regulatory agencies from the reviews of superannuation Board governance that have preceded the current Discussion Paper indicates that there is little evidence to support new legislation or regulations that mandate the appointment of independent Directors.

### Current Board Structures

Superannuation entities are registered to offer the public access to their funds (public offer license) or not (non-public offer license). Prior to 2006, entities that were originally created for a particular employer or associated employers in industries were licensed as non-public. However with the removal of restrictions, almost 60 per cent of registered superannuation entities (RSE) licensees held public offer licenses by 2013. About 85 per cent of superannuation assets are held by RSEs with public offer licenses<sup>28</sup>.

Some of the discussion during the Productivity Commission review of default funds suggested that for industry funds open to the public it was no longer appropriate to have only equal representation of employers and employees on Boards. The Government’s proposal to mandate the appointment of independent directors may be informed by this issue.

Table 1: Prevalence of Independent Directors on Boards of RSEs<sup>29</sup>

Employee and employer representation	Public offer licensee			Non-public offer licensee		
	For profit entities	Not for profit entities	Total	For profit entities	Not for profit entities	Total
Boards with equal representation	-	39 (21 of these have an independent director)	39	-	64 (14 of these have an independent director)	64
Boards without equal representation	45	3	48	-		
<b>Total</b>	<b>45</b>	<b>42</b>	<b>87</b>	<b>-</b>	<b>64</b>	<b>64</b>

Of the not for profit entities (industry funds) with equal representation which can offer products to the general public, 21 or about 54 per cent have Boards with an independent Director. Accordingly, proposals by the Government to mandate the appointment of independent Directors are not needed to shift industry funds towards good governance.

Of the not for profit entities with equal representation which are not able to offer products to the general public 14 or 21 per cent have Boards with an independent Director. This could be regarded as a reasonably prevalent, given that these funds are limited to employees in particular industries and historically linked to employers in particular industries. The proportion of Boards that involve independent Directors reflects the value of the current APRA approach which favours self-regulation and has led to a solid base of Boards with such Directors.

Any changes to Government policy should build on and promote this model of self-regulation, given its success to date.

<sup>28</sup> Australian Prudential Regulation Authority, Annual Superannuation Bulletin for the Year to 30 June 2013, 8 January 2014

<sup>29</sup> Ibid

## Board Renewal and Performance Appraisal (Questions 8-9)

Currently APRA has no specific tenure limits for directors or individual trustees. Rather, APRA asks each fund to have a renewal policy that includes an explicit statement about the maximum term the fund licensee considers appropriate for its directors. APRA permits funds to develop policies that allow for flexibility for term extensions of individual directors 'where appropriate and justifiable'<sup>30</sup>.

This is an appropriate approach to balance the need for industry standards and the capacity of organisations to self-regulate based on their own needs. This approach is supported by the Productivity Commission on the basis that it recognises there are *"important trade-offs between the benefits of renewal and the benefits of having experienced board members"*<sup>31</sup>.

In the view of CPS it is critical that the Government maintains the flexible approach adopted by APRA and supported by the Productivity Commission. CPS does not support mandated maximum terms for Directors.

In the case of CPS the long tenure of its most experienced Directors has been a critical factor in the performance of the fund and commitment to member benefits and services. The complicated nature of superannuation and its impacts means that trustees with long term and substantial experience in the industry are usually required to guide Boards in their strategic decision making. Directors with long experience are often most adept at improving the effectiveness and focus of Boards.

While benefiting from the presence of Directors with long term experience, there are a range of natural and policy checks and balances that enable CPS to deliver Board renewal where appropriate. These include:

- the shareholders determine the effectiveness of trustees;
- there have been five changes of directors over the last four years, which have been brought about by Shareholders and the Board itself;
- between 2006 and 2013 the number of Board members has reduced from 16 to 8; and
- the chair of the CPS Board is rotated annually between employer and employee representatives.

This approach has worked well and delivered improved benefits and services for members.

To equip the CPS Board to operate effectively it undergoes intensive training of an average of 40 hours per year, with a minimum requirement of 15 hours training each year. The effectiveness of the Board is also aided by the fact that its members bring different professional skills and expertise such as law, journalism, public service and banking.

To assist shareholder consideration of Board effectiveness, CPS has been regularly undertaking Board performance reviews.

The experience of CPS highlights the fact that a commitment to members and the viability of funds via an equal representation model is an effective incentive for Board performance and good governance. It is unlikely that mandated legislative standards for Board renewal would deliver an increased commitment to members, however it may compromise the capacity of Boards to rely on trustees with long term experience.

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<sup>30</sup> APRA guidelines

<sup>31</sup> Productivity Commission, Review of Default Funds in Modern Awards 2012; p104

## **Implementation of Change (Questions 10-12)**

Based on the discussion above, CPS is strongly of the view that the current regulation of fund governance adequately balances relevant policy, member benefit and fund management priorities. Therefore CPS believes that there is no case for changes to current regulation.

However, if changes are to be implemented, it is imperative that the industry be offered adequate time to adjust to and incorporate them. One of the problems with earlier reforms was that the industry was not provided with adequate time to adapt to change, resulting in unnecessary cost, diversion of resources and burdens on fund planning.

Accordingly, any legislative or regulatory changes should be implemented over a minimum 5 year transitional period. This is especially because:

- organisations, and particularly smaller organisations like CPS, will need appropriate time to incorporate changes into their operations and decision making;
- arguably, the previous Federal Government implemented changes too quickly and without appropriate consultation, which created unforeseen and unplanned regulatory burdens for organisations; and
- there is ample precedent for this transition period in other sectors of the economy which have been asked to absorb regulatory change, such as manufacturing, primary industries and energy.

## **4. RESPONSE TO PART 3 – ENHANCED TRANSPARENCY**

Enhancing the transparency of funds and their Boards and their decision making is an important issue to maintain confidence in the superannuation system. The Government's proposals are sensible and CPS supports them.

However it is important to note that additional requirements can result in extra costs for funds, particularly because of the complexity in dealing with a diverse range of consumers. Accordingly any changes to enhance transparency should deliver benefits for consumers that are quantifiable and far outweigh the associated costs for funds.



## 5. RESPONSE TO PART 4 – IMPROVED COMPETITION FOR DEFAULT FUNDS IN AWARDS

### Superannuation and Competition Policy (Questions 27-31)

The competitiveness of any market relies on both demand and supply side competition. Demand side competition is optimal when consumers are fully empowered and interested to take the time to examine and choose between offered products and services. Supply side competition relies on the range of organisations offering goods and services and the extent to which these organisations have incentives to compete on price, quality and innovation. Incentives for suppliers to be competitive usually rely on the extent and nature of consumer demand<sup>32</sup>.

While competition is an important objective it should not be regarded as an end in itself<sup>33</sup>. Consideration of options to facilitate competition should be fundamentally guided by the following key principle:

*“Competition policy is not about the pursuit of competition per se. Rather it seeks to facilitate effective competition to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with other social objectives. These accommodations are reflected in the content and breadth of application of pro-competitive policies, as well as the sanctioning of anti-competitive arrangements on public benefit grounds”<sup>34</sup>*

This principle is very relevant to the policy treatment of superannuation default funds. The social and workplace relations policy purpose of the superannuation system means that it as a whole, and in particular superannuation default funds, are very different from other goods and services traded in financial services and other markets.

While some companies in the superannuation market may advocate for greater competition, it is critical to note that their existence and activities are a by-product of this social policy intention, not the reason the superannuation system exists. Thus consideration of appropriate policy options should prioritise public benefit, not the commercial agendas of some market competitors.

The Regulatory Impact Statement (RIS)<sup>35</sup> that accompanied the Stronger Super reforms is an important guide when considering competition issues because it discussed in detail the costs and benefits of different approaches to improving competitive outcomes in the industry.

The RIS concluded that there are two specific reasons why superannuation default funds should be regarded as different to other markets which are subject to competition. These are that:

- funds cannot be traded freely because superannuation forms a key part of the Australian safety net and workplace relations system and members are relatively inactive in managing their funds; and
- there is a risk that where employers are choosing default funds for employees, the choices of employers may not always necessarily align with the best interests of their employees<sup>36</sup>.

<sup>32</sup> Productivity Commission, Review of Default Funds in Modern Awards 2012; p148

<sup>33</sup> This is the fundamental principle underpinning the recommendations in the Hilmer Reforms which led to the development and implementation of national competition policy in 1996. Those reforms were instrumental in restructuring the Australian economy and boosting productivity. But at no time did the Council of Australian Governments consider that NCP was an end in itself.

<sup>34</sup> Australian Government, The Hilmer Review of National Competition Policy, Final Report, 1993; pxvi

<sup>35</sup> Australian Department of Education, Employment and Workplace Relations, Regulatory Impact Statement: Default Superannuation Funds in Modern Awards, 2012

<sup>36</sup> Australian Department of Education, Employment and Workplace Relations, Regulatory Impact Statement: Default Superannuation Funds in Modern Awards, 2012;p44



In the experience of CPS, participating employers are fully committed to the interests of their members and choose funds accordingly. However, this may partly result from the fact that participating employers are all involved in the same industry and share experiences, lessons and approaches for the benefit of the industry as a whole.

In a fully competitive market it can be expected that retail funds would increase their promotion, marketing and other efforts to lift their participation in the default fund market, and that this would be part of the strategic business planning of financial services providers and banks that have relationships with or interests in retail funds. Targeting employers across industries who are clients of financial services providers may be an integral part of this strategy.

As many banks and financial services providers have wealth management businesses which enjoy commercial relationships with or interests in retail superannuation funds, they may have the economies of scale to offer a range of discounts which retail superannuation funds can leverage to increase market share. While this is not inappropriate per se, it can create risks that employers may be attracted to choose retail funds as default funds for reasons other than what is in the best interests of employees.

### **Current Policies to Promote Competition<sup>37</sup>**

In the view of CPS, the current Fair Work Commission (FWC) based model to promote competition is sufficient and meets the objectives for a contestable superannuation system for awards and appropriate balance of employee and employer benefit.

As the current model has only recently begun to be implemented, the timing of this Review makes it too early to assess its effectiveness in promoting competition in relation to default funds in modern awards. It would not be prudent to consider further reform until the current model has been properly evaluated over an appropriate time scale.

To promote competition in the selection of default funds in modern awards the previous Federal Government introduced a series of reforms which were designed to appropriately balance the interests of employees and employers. Getting this balance right is particularly important because the nature of default funds means that employees are relying on funds chosen by their employers.

There is general acknowledgement that the previous Government recognised that historical precedent in the industrial system may have inequitably favoured some funds and created barriers for other funds seeking entry as default funds in modern awards. As a result the Productivity Commission examined the issue resulting in legislation that aligned with one of the options recommended by the Productivity Commission, but which required some additional regulatory management to ensure the interests of employees and employers was appropriately managed.

The option adopted by the previous Government enables any authorised MySuper fund to apply to be a default fund in a modern award under a two-step process. Under this process:

- an Expert Panel created within the Fair Work Commission (FWC) will consider applications from MySuper funds seeking listing as a default fund in a modern award against legislated criteria and make recommendations to a FWC Full Bench on the MySuper funds to be included as default funds. The Expert Panel will consider applications in conjunction with the FWC review of modern awards which is to occur every 4 years commencing on 1 January 2014; and

<sup>37</sup> Ibid and Productivity Commission, Review of Default Funds in Modern Awards 2012

- the FWC Full Bench will determine and select the funds to be listed as default considering the Expert Panel's report, the views of the industrial parties and the overarching objective of best meeting the interests of the relevant employees in that award.

This process amended the previous status quo which completely restricted the provision of default funds in modern awards to those funds that had precedent and historical status based on the industrial system. While some funds objected to the restriction of standing at the FWC hearings to industrial parties, the reforms enabled any party to gain standing if they won the support of an industrial party. This was considered appropriate given the social and workplace relations policy intention of the superannuation system. The capacity of any party to seek standing before the FWC full bench is consistent with the recommendation of the Productivity Commission that any party have standing before the Expert Panel.

Although the reforms increased the capacity of funds to compete, the Fair Work Act 2009 was not amended to lift the number of default funds listed in awards above 15. This was because of the need to reduce costs to employers associated with having to choose between default funds.

A wide range of employer and employee representatives, such as the Australian Industry Group and Australian Council of Trade Unions supported the then Government's approach and particularly the creation of an Expert Panel within the FWC. This was because of their general agreement that superannuation contributions are deferred wages and inherently an industrial matter and therefore the FWC is the most appropriate body to list default funds in modern awards.

### Reasons for Current Regulatory Intervention<sup>38</sup>

It is tempting for some superannuation companies to advocate for a fully contestable market where any MySuper fund can be listed as a default fund in modern awards without an assessment against merit based criteria. However, there appear to be sound and objective reasons why the recent reforms did not proceed with this model. These reasons were supported by employer and employee representatives and superannuation funds. These reasons are as follows.

- **The nature of default funds means that a fully contestable market may not lead to any improvement in competition or benefits for employees**

While a fully competitive market would potentially increase the number of providers of default funds, the principal-agent issues inherent to default funds (particularly where employees rely on the default fund because they are not engaged with their superannuation to the extent normally needed to exercise proper choice), means that a possible outcome is that competition and innovation would be based on funds trying to offer employers incentives to choose those that are based on employer needs, rather than employee benefits. If realised, this result would not be consistent with the social and workplace relations policy intention of the superannuation system as it would act against the interests of employees for whom the system was created.

The absence of any assessment criteria and/or selection process for default funds could conceivably result in an unequal balance between employer and employee interests. This would be a perverse policy outcome, particularly given the legislative purpose of superannuation.

While there is criticism of industry funds for being too aligned with industrial parties based on precedent in the industrial system, there are also concerns about the close relationships between retail funds and banks and wealth management companies, with most retail funds being owned by these financial services providers. In a fully contestable system, retail funds have natural competitive advantages because the financial services

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<sup>38</sup> Ibid

companies which own them may provide banking and other services to these same employers. If this is the case, financial services companies and the retail funds they own could work together to offer employers a range of financial services related incentives to choose a retail fund as the default funds in awards.

A fully contestable market may also reduce the demand for funds to deliver better services. The RIS that accompanied the recent reforms concluded that *“under a fully contestable model there are limited incentives for superannuation funds to innovate and improve the quality of their product for employees...due to the absence of any specific criteria or assessment process, including that the fund meet the best interest of members covered by their particular award”*<sup>39</sup>.

#### ▪ A fully contestable market may increase costs for employers

The consultation undertaken by the Productivity Commission as part of its review of default funds in modern awards indicated a widespread view amongst employers that a fully contestable market, where any MySuper fund could be listed in an award, would significantly increase the complexity for employers in relation to selecting a default fund for their employees. This added complexity may be particularly acute for small and medium sized businesses which are unlikely to be well resourced in relation to superannuation administration. The Commission found that many smaller employers prefer the simplicity of selecting a fund specified in a modern award, rather than selecting from potentially hundreds of funds in the market.<sup>40</sup>

Some employers felt very strongly about this issue. For example, in its submission to the Commission, the Australian Hotels Association argued that *“it is important that the number of funds listed in awards remains limited to prevent overwhelming employers with excessive options for default funds. It is unrealistic to expect employers to spend the time examining the relative merits of potentially dozens of different superannuation funds.”*<sup>41</sup>

One of the main reasons that employers expressed concerns about a departure from the current model of selecting default funds was that, in a fully contestable market, their search costs associated with comparing a wide range of funds would increase significantly. Search costs for employers include the administration time and activities needed to notify all relevant employees that their superannuation will be directed to a different fund, assessing and comparing available default funds, enrolling their employees in funds and facilitating the change in funds for employees<sup>42</sup>. The search costs would rise where employers were not fully informed or able to understand the choices and differences between available superannuation funds.

If superannuation reforms result in costs for employers, they may not be supportive of change. This may particularly be the case if employers are still adapting to recent reforms.

### Need for Further Government Intervention to Address Market Failure

As discussed above, the current model of selecting default funds in modern awards is based on the fundamental need to ensure that the superannuation system is benefiting employees foremost, and also enabling employers to easily understand and make choices about default funds for their employees without unnecessary administrative cost. This approach is consistent with the original legislative intention of the superannuation

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<sup>39</sup> Australian Department of Education, Employment and Workplace Relations, Regulatory Impact Statement: Default Superannuation Funds in Modern Awards, 2012;p43

<sup>40</sup>Productivity Commission, Review of Default Funds in Modern Awards 2012; p143

<sup>41</sup> Australian Hotels Association Submission in relation to Default Superannuation Funds in Modern Awards; p9

<sup>42</sup> Australian Department of Education, Employment and Workplace Relations, Regulatory Impact Statement: Default Superannuation Funds in Modern Awards, 2012;p36

system which is to operate as part of workplace relations arrangements and deliver financial security for workers in their retirement.

The superannuation system does not exist for the benefit of fund providers and therefore it is inappropriate for government to intervene in the system to improve competition to an extent that may benefit some providers, such as retail funds, but not deliver any discernable benefits or reduce benefits for employees and employers.

Any case for government intervention in markets beyond regulatory arrangements to deliver legislative intention, such as is the case with the current default fund model, should be determined on the evidence based need to address market failure.

In relation to default funds market failure may occur if the inability of some funds, such as retail funds, to be listed as default funds in awards was distorting the market to an extent that:

- provided industry funds with an unfair advantage in terms of overall market share over time compared to retail funds; and/or
- reduced the benefits to employees.

Evidence from APRA and the Productivity Commission examined in this section indicate that these outcomes are not present in the market.

### Size of Default Fund Market

At present there are 122 modern awards of which 109 list a default superannuation fund or funds. There are 66 distinct funds listed by APRA that participate in these awards. Of these 46 are industry funds, 11 are retail funds, 6 are public sector funds and 3 are corporate funds<sup>43</sup>. The number of industry funds reflects the fact that many default funds are provided for employees in particular industries. The CPS is one such example.

The Productivity Commission estimates that about \$6 billion and maybe more than \$9 billion in superannuation contributions are made to default funds annually, but there is no accurate data on how many employees covered by awards actually choose a default fund<sup>44</sup>. In 2013 total contributions in the superannuation system for APRA regulated entities was \$87.6 billion<sup>45</sup>. Based on the Productivity Commission assessment of contributions to default funds each year, default funds represent between 6 and 10 per cent of total superannuation contributions for APRA regulated entities.

The relatively small share of estimated default fund contributions to overall superannuation contributions for APRA regulated entities would suggest that the absence of a fully contestable market for the selection of default funds in modern awards is unlikely to have a significantly distorting effect on competition and consumer choice in the superannuation system overall.

### Market Shares by Fund Type

In June 2013 total superannuation assets were \$1.62 trillion of which \$970.1 billion were held by APRA regulated superannuation entities. The remaining \$506.0 billion is held by self- managed superannuation funds (SMSFs), which are regulated by the Australian Tax Office<sup>46</sup>.

<sup>43</sup> Australian Government, Better Regulation and Governance, Enhanced Transparency and Improved Competition in Superannuation Discussion Paper November 2013; p26

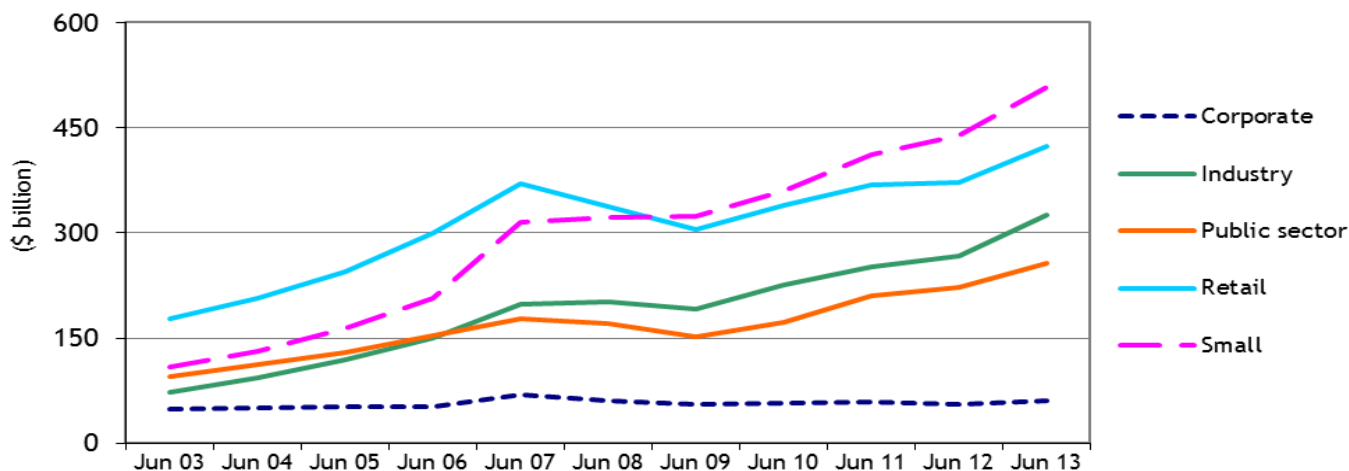
<sup>44</sup> Productivity Commission, Review of Default Funds in Modern Awards 2012; p33-36

<sup>45</sup> Australian Prudential Regulation Authority, Annual Superannuation Bulletin for the Year to 30 June 2013, 8 January 2014

<sup>46</sup> Ibid

Figure A below shows the comparative superannuation assets by fund type over the last 10 years.

**Figure A: Superannuation assets by fund type**



Source: Australian Prudential Regulation Authority

At June 30 2013, retail funds held 26.1 per cent of total assets, industry funds held 20.1 per cent, public sector funds held 15.9 per cent and corporate funds held 3.8 per cent of total assets. Small funds held the largest proportion of superannuation assets, accounting for 31.4 per cent of total assets<sup>47</sup>.

The distribution of total assets across various fund types appears to demonstrate a healthy level of competition between large and small funds and between retail and industry funds. Over the last ten years retail funds have maintained a higher share of total assets compared to industry funds and have grown their share in line with the overall market direction. For this entire period retail funds have grown their market share, despite being subject to the previous arrangements for default funds in awards which largely precluded them.

Accordingly there is not a strong case that the default fund market needs to be fully contestable to ensure that there is adequate competition between retail and industry funds.

### Market Competition

Key indicators of market competitiveness suggest that the lack of full contestability for default fund superannuation has not reduced the competitiveness of retail funds in the overall superannuation market. The nature of the market suggests that full contestability in the default market would further improve the already leading market position of retail funds at the expense of industry funds and particularly smaller funds like CPS.

Over the last 10 years, the number of APRA regulated funds in the superannuation market has been rationalised, with retail funds experiencing a higher rate of rationalisation than industry funds. But as demonstrated by tables 2 and 3 below, this has not reduced the market share or competitiveness of retail funds.

In 2013, retail funds led the overall superannuation market of APRA regulated entities in terms of the number of funds and accounts as well as total assets.

<sup>47</sup> Ibid

Table 2: Distribution of APRA regulated superannuation entities at 30 June 2013<sup>48</sup>

Fund Type	Number of entities	Number of member accounts ('000)	Assets (\$ billion)	Average account balance ('\$000)
Corporate	108	512	61.3	119.7
Industry	52	11,524	324.7	28.2
Public sector	38	3,337	256.9	77.0
Retail	127	14,395	422.8	29.4
Small	512,375	968	508.0	524.9
Pooled superannuation trusts	61		99.4	
Balance of life office statutory funds			45.4	
<b>Total</b>	<b>512,761</b>	<b>30,736</b>	<b>1,619.0</b>	

In 2013 retail funds held the largest number of member accounts in every age group, except for those under 35, where industry funds led. Most significantly retail funds led in the age groups of 35-65 years.

While industry funds may be more popular with younger employees, the leading role that retail funds have with all other age groups indicates that this does not provide industry funds with an advantage with employees as they age. Thus a fully contestable model may reduce the market share of industry funds, and particularly smaller funds like CPS that are still industry based.

Table 3: Member accounts by age and fund type at 30 June 2013<sup>49</sup>

Fund Type	Age groups (thousands)					Total
	< 35 yrs	35 - 49 yrs	50 - 59 yrs	60 - 65 yrs	> 65 yrs	
Corporate	163	207	94	28	19	512
Industry	5,756	3,490	1,540	489	249	11,523
Public sector	726	1,163	796	315	337	3,337
Retail	4,656	5,449	2,493	1,007	789	14,395
<b>Total</b>	<b>11,301</b>	<b>10,309</b>	<b>4,923</b>	<b>1,839</b>	<b>1,394</b>	<b>29,767</b>
Fund Type	Age groups (percentages)					Total
	< 35 yrs	35 - 49 yrs	50 - 59 yrs	60 - 65 yrs	> 65 yrs	
Corporate	32%	40%	18%	5%	4%	100%
Industry	50%	30%	13%	4%	2%	100%
Public sector	22%	35%	24%	9%	10%	100%
Retail	32%	38%	17%	7%	5%	100%
<b>Total</b>	<b>38%</b>	<b>35%</b>	<b>17%</b>	<b>6%</b>	<b>5%</b>	<b>100%</b>

<sup>48</sup> Ibid

<sup>49</sup> Ibid



Table 4: Number of superannuation entities - trends<sup>50</sup>

Fund Type	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Jun 2008	Jun 2009	Jun 2010	Jun 2011	Jun 2012	Jun 2013
Corporate	1,405	962	555	287	226	190	168	143	122	108
Industry	106	90	80	72	70	67	65	61	56	52
Public Sector	42	43	45	40	40	40	39	39	39	38
Retail	232	228	192	176	169	166	154	143	135	127
Small	279,584	296,813	315,924	356,309	381,332	403,899	418,431	444,587	479,091	512,375
Pooled superannuation trusts	143	130	123	101	90	82	79	77	67	61
<b>Total</b>	<b>281,512</b>	<b>298,266</b>	<b>316,919</b>	<b>356,985</b>	<b>381,927</b>	<b>404,444</b>	<b>418,936</b>	<b>445,050</b>	<b>479,510</b>	<b>512,761</b>

## Benefits to Employees

If the dominance of industry funds as default funds in modern awards was resulting in a detriment to employees compared to investment returns they could receive from retail funds, then there may be a need for further government intervention to promote competition. In 2013 industry funds held 67.2 per cent of assets in their default investment strategy, whereas retail funds held 19.3 per cent of their assets in this category of investment<sup>51</sup>. Thus the implications for fund members could be significant if industry funds performed worse on average than retail funds.

However, this is not the case because over the last 10 years industry funds have on average performed considerably better than retail funds to the benefit of fund members, including employees in default funds in modern awards. Industry funds have performed better than the average of all superannuation entities regulated by APRA. It is estimated that industry funds have outperformed retail funds by 1.7 per cent each year in the 10 years to 30 June 2012, returning 7.5 per cent annually compared to 6.4 per cent for retail funds<sup>52</sup>.

Table 5: Comparative superannuation rates of return 2004-2013<sup>53</sup>

	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Jun 2008	Jun 2009	Jun 2010	Jun 2011	Jun 2012	Jun 2013	2004 - 2013	
											Average ROR	Volatility
<b>All entities</b>	12.2%	12.2%	13.3%	14.5%	-8.1%	-11.5%	8.9%	7.8%	0.6%	13.7%	6.0%	9.5%
<b>Corporate</b>	12.2%	12.8%	14.0%	15.3%	-9.3%	-8.2%	9.4%	8.0%	1.7%	12.3%	6.5%	9.0%
<b>Industry</b>	13.4%	13.2%	13.1%	16.0%	-6.0%	-11.7%	8.5%	9.0%	0.9%	14.4%	6.7%	9.5%
<b>Public sector</b>	13.9%	14.1%	14.9%	15.1%	-5.8%	-12.3%	9.8%	8.9%	1.7%	14.2%	7.0%	9.7%
<b>Retail</b>	10.8%	10.6%	12.4%	13.4%	-10.2%	-11.5%	8.7%	6.5%	-0.5%	13.1%	4.9%	9.4%

Based on the relative performance of industry and retail funds, it is not evident that full contestability would improve benefits for employees. In the case of CPS, its above average performance in 2013 and over the preceding 10 years suggests that employees are able to receive significant benefits from smaller industry based default funds.

<sup>50</sup> Ibid

<sup>51</sup> Ibid

<sup>52</sup> Research by Chant West as referred to in the Australian Financial Review, 'Industry supers urged to oppose boards plan' 13 Jan 2013; p4

<sup>53</sup> Australian Prudential Regulation Authority, Annual Superannuation Bulletin for the Year to 30 June 2013, 8 January 2014

## 6. CONCLUSION

The evidence and issues assessed in this paper suggest that there is no compelling case for the current proposals in relation to superannuation fund governance or further regulatory intervention to improve competition in the market for default funds in modern awards.

It is not clear that the benefits to members of the proposals in relation to governance outweigh the costs to funds, or that a move away from the current self-regulation model that is supported by APRA, would deliver significantly better results than has and is being achieved by funds on a voluntary basis in keeping with their specific needs.

Imposing mandatory standards on smaller funds, like CPS, that add unnecessary costs and reduce flexibility but do not achieve any significant extra benefits for members, is likely to reduce the competitiveness of smaller funds.

For example CPS has already delivered higher than average returns for members in 2013 and over the last 10 years; has implemented a range of measures to improve member services and flexibility which have led to a doubling of customer satisfaction rates; and is recognised by the market as one of the best value and lowest cost funds in Australia.

This has been achieved partly because of the CPS Board's focus on best practice governance and member benefits. It is not clear how a mandatory approach to governance can improve this to the extent that is worth removing the flexibility of CPS to make decisions to suit its own needs. Larger funds with greater resources are likely to adapt to mandatory standards more easily than smaller funds, and this could inevitably reduce the competitiveness of smaller funds, like CPS.

Based on the available evidence, there is no market failure that warrants further government intervention to improve competition in default funds in modern awards. The historic barriers to entry for retail funds in relation to modern awards have not resulted in competitive disadvantages for retail funds in the overall superannuation market.

In fact over the last 10 years, retail funds have consistently led their industry fund competitors in terms of total assets and number of members across all age groups except for those under 35. This is likely to be partly because the default fund market represents only between 6 and 10 per cent of the total superannuation market and therefore any anti-competitive activities have had minimal wider impact.

Any perceived barriers to entry have not reduced member benefits because industry funds have on average consistently outperformed retail funds for the last 10 years. Where full contestability reduces the competitiveness of industry funds, and particularly smaller funds like CPS, it may reduce member benefits. This may occur because employers choose default funds for their employees and in a fully contestable market, superannuation funds may focus on developing incentives (such as discounts on all financial services products) to attract employers, rather than delivering employee benefits. This outcome would be inconsistent with the fundamental purpose of the superannuation system.

The Regulatory Impact Statement that accompanied the Stronger Super reforms concluded that there was a real risk that a fully contestable market would actually reduce the quality and development of innovative products to benefit employees.

Ultimately the superannuation system exists for a social and workplace relations policy purpose to assist employees in their retirement and consistent with the principles underpinning National Competition Policy, this



purpose should take precedence over the notion that competition should be pursued as an end in itself. This is particularly the case where a fully contestable model may reduce the competitiveness of funds that deliver the maximum benefits for employees.

The current FWC model to promote competition in the market for default funds has only recently been introduced and it is prudent to evaluate its impact over time, rather than impose new changes on the industry. The current model has widespread employer support because it avoids imposing the degree of costs on them that would occur in a fully contestable market. The current model is evidence based and intended to increase competition without disrupting the balance between employer and employee interests.

The risks that a fully contestable model would undermine this balance is high and should be avoided, particularly if the benefits to members are unlikely to significantly increase.