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ONLINE AND MAIL

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To whom it may concern

Issues Paper: Superannuation Efficiency and Competitiveness

PwC welcomes the opportunity to comment on the Productivity Commission's issues paper on the efficiency and competitiveness of the superannuation system in Australia.

An efficient and competitive superannuation system is critical to the economy and relevant to every Australian. We support the Government's request for the study to be undertaken and commend the Productivity Commission on its comprehensive review and its willingness to consult with the community to inform its views.

As one of Australia's leading professional services firms, we believe we are well placed to share our perspectives on the important issue of superannuation. Our firm's national superannuation practice has deep experience in the superannuation industry and across the financial services sector more broadly.

Our firm takes its role in the community seriously. We are committed to positively contributing to the Australian community and supporting and enabling initiatives that will strengthen the future prosperity of our country.

Our high level feedback is overleaf. I would welcome the opportunity to discuss our views further.

Kind regards

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Opportunities for improved efficiency and competition in our superannuation system

- **Overall comment.** We believe there are opportunities for improved efficiency, stability and sustainable growth of the superannuation system across the following areas: streamlining the regulatory environment and related costs; improving governance; improving fund effectiveness through a continued focus on long term investing; extending tax rollover relief and removing barriers to annuities. Detail on these areas is below.
- **Streamlining regulation**. Whilst rationalising the number of regulators involved in the industry could be difficult, we believe an opportunity exists for regulators and funds to work together more efficiently to reduce duplication, confusion and costs. Streamlining the operations of regulators would help ensure consistent prudential regulation and the applicability and consistency of rules for all superannuation products. If the present regulatory framework is to remain in place, we encourage regulators to work to reduce duplication and, when performing reviews of funds, ensure their approach is consistent and avoids duplication of areas of focus. We would also suggest more consultation on the practical implication of regulatory and other policy changes to ensure the costs of implementation are considered in a holistic manner.
- **Regulation of self-managed super funds (SMSFs).** The recent, rapid growth in the popularity of SMSFs has meant that they now form a significant part of the superannuation system. We would encourage the Productivity Commission to undertake a review into this area, with a specific view to considering the adequacy of SMSF consumer protections. Depending on the outcome of that review, it might be preferable for the regulation of individual SMSFs to be transferred from the Australian Taxation Office to the Australian Securities and Investments Commission. Further, it might be necessary for the Australian Prudential Regulatory Authority to be given an oversight and policy development role to prevent a build-up of systemic risks related to SMSFs (eg, excessive leverage).
- **Rationalising products.** Rationalisation and consolidating products provides long-term benefits to super fund members, improves the efficiency of the system and also reduces regulatory risk. We believe that changes to tax law that facilitate product rationalisation would benefit the industry and ultimately, fund members. Under current rules, rationalising legacy products is complex. The cost of even a small rationalisation is substantial as it requires ensuring there is no disadvantage to members as well as appropriate governance, regulatory approval, communication to members, and system and business processes changes. These barriers are significant enough without further regulatory restrictions.
- **Volume and transparency of communications**. An opportunity exists to simplify the volume of data provided to regulators by superannuation funds, as well as the process by which it is provided. Consistent with public company listing requirements, consideration should be given to providing annual accounts, quarterly management accounts and only very limited additional information for supervisory purposes. All other information is readily available from superannuation fund websites. We would also encourage the Productivity Commission to consider the benefits of requiring APRA to develop a website that provides access to 'MySuper Dashboards', rather than publishing performance rankings of super funds (see overleaf for more commentary on performance rankings provided by ratings agencies). We suggest the same approach with 'Choice Dashboards' when they become available.
- **Member engagement.** The Productivity Commission, and super funds, should continue to consider how they can better engage current and potential members in a dialogue about their income in retirement. There are many opportunities to explore. For example, simplifying the process for members who are interested in comparing super funds is a daunting exercise for many Australians. There are almost 250 super funds to consider across a range of fund types: corporate super funds; industry super funds; public sector super funds; retail super funds; as well as a number of self-managed super fund providers. There are also opportunities for super funds to improve the interactivity and readership of their communications to members. We encourage the Productivity Commission to consider how the system could be made more accessible and user-friendly to every day Australians.

- **Simplify the regulatory requirements of pooled superannuation trusts (PSTs).** PSTs are more akin to investment funds than superannuation funds. We believe that the application of the new regulatory and legislative regime (ie, APRA levies, prudential standards and reporting requirements) to PSTs is excessive. The same regulatory approach and costs apply to such investment funds when much of the regulatory oversight is already covered by the superannuation funds that invest through PSTs. It is arguably anti-competitive for superannuation funds that invest through wholesale PSTs to be subject to this level of regulation and whilst the APRA levy on PST's has recently been reduced, other regulatory imposts still exist when compared to funds that invest through collective investment vehicles regulated by ASIC.

- **Long-term annuities.** Long-term annuities are an important part of a superannuation fund's diversified product offering. Whilst there are many benefits to funds and members by increasing the range of annuity products, there are also many barriers to doing so, the majority of which are regulatory. Government has a range of options at its disposal to reduce these barriers and facilitate the development of sound annuity products. For example:
  - Revise the Superannuation Industry (Supervision) Regulations (specifically Regulation 1.06), which are unnecessarily prescriptive and limit the design of these annuities.
  - Remove unfavourable treatment of annuities under the Aged Care and Social Security rules.
  - Issue longer-dated bonds (such as Infrastructure and Social Bonds) so that investment products better match the annuity style products.
  - Allow annuities and deferred annuities to be issued as a component of an account base pension.
  - Change the tax rules on deferred annuities so that, if taken out in the draw-down phase, the product is regarded as a pension (rather than a non-pension) for tax purposes.
  - Develop a clear regulatory regime for variable annuity style products.

- **Impact of 'professional ratings' on superannuation funds.** Superannuation funds and other investment products (ie, managed funds) use ratings on their websites and in marketing materials to attract customers and encourage financial planners to recommend them (many financial planners aren't allowed to recommend a fund unless it has been professionally rated). There are many elements of superannuation funds that ratings agencies look to in order to inform their professional ratings, which typically share a view on a fund's "value for money". Often ratings agencies reference fund flexibility and the choice, and number, of products offered by funds. This has led to many super funds creating new products in order to receive a favourable review from ratings agencies. We encourage the Productivity Commission to review the impact of professional ratings on the behaviours of superannuation funds to ensure that the superannuation system as a whole is consumer-led (not ratings agency-led) and incentivised by consumer engagement, rather than the output of professional ratings.

- **Superannuation fund liquidity.** The current superannuation fund liquidity management regime requires superannuation funds to be overweight in high liquidity assets, such as cash or shares. The upside to this is that it supports super funds' ability to meet the "three day liquidity rule" which requires super funds to be in a position to move their members' funds to another fund within three days (if requested by the member). The downside is that high liquidity assets typically provide low returns (ie, cash) or are highly volatile (ie, shares) whilst low liquidity investments typically provide higher longer term returns. We encourage the Productivity Commission to consider whether the fund liquidity management regime restricts the competitiveness of Australia's superannuation system and review the benefits (and practical use) of the three day liquidity rule.

- **Governance.** Superannuation funds are increasing in size and complexity. Investors need to feel confident that their superannuation wealth is managed and that retirement fund boards are trustworthy and well governed. As such, consideration should be given to the so-called '3/3/3' system, whereby up to a third of directors of each retirement fund board are independent.

- **Casualisation of the workforce.** Australia's superannuation system is currently structured in a way that presumes the majority of the workforce is working permanently. Understanding how changing labour dynamics could affect the competitiveness of the superannuation system now and in the future will be an important aspect of the Productivity Commission's review.

Note. We encourage the Productivity Commission to engage with the Senate Economics References Committee (Committee) on its review of the life insurance industry. Given there are a number of important adjacencies between life insurance and superannuation funds, opportunities to improve the efficiency and competitiveness of the superannuation system may come through in the Committee's review and the submissions it receives from the community. With the Committee's permission, PwC would be very happy to share our firm's life insurance submission with the Productivity Commission.