

Dear Deputy Chair

The FSC took on notice a question during public consultation on alternate default superannuation models.

The question related to whether, based on the expected number of new entrants to the labour market and their anticipated contributions, FSC member organisations would be likely to participate in either of the fee based auction model or the multi criteria tender model should they be implemented. As you are aware the FSC does not support either of these models.

The feedback I received was that should the multi criteria tender model be implemented there would likely be a high level of participation amongst our members, at least for the first tender. However, participation would be expected to reduce over time as a result of:

- The cost associated with developing a new default product each tender if the organisation had been unsuccessful at the previous tender; and
- Potential negative experiences from the operation of previous tenders, such as opaque decision making or inappropriate weighting of product features, which may deter parties from participating in future tenders.

In relation to the fee based auction, there were a significant number of members who advised that they would be less likely to participate in an auction if one were held, particularly relative to the tender option. The reasons for their concern included:

- Current MySuper products are designed to provide a range of features that deliver value to members that also incur a cost. As a result many MySuper products would be unlikely to win a tender based on fees alone; and
- To participate in a fee based auction organisations would likely have to develop new MySuper products designed to minimise costs, including index hugging investment strategies, or through providing minimal servicing to consumers. FSC members are concerned these products would be low quality and a risk to their reputation, and as such are disinclined to develop them and bring them to market.

I hope this information is of assistance. Please feel free to contact me if you have any further questions.

Regards

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**Financial Services Council**