



Link Administration Holdings Limited
ABN 27 120 964 098

All correspondence to:
Locked Bag A14
Sydney South NSW 1235
Australia

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Superannuation
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 8003

Dear Sir/Madam,

Thank you for the opportunity to make a submission in response to the Productivity Commission's '*Superannuation: Alternative Default Models*' draft report. We duly note that this Inquiry represents the 2nd stage of the broader 3 stage review, under the terms of reference.

With over 25 years' of relevant experience, Link Group is the largest and most experienced provider of administration services in Australia's superannuation industry. We provide a broad suite of services to government, industry, retail and corporate superannuation funds, enabling trustees to connect with members, employers and other service providers. Our scale and experience in the industry leave us well-placed to comment on some of the matters contained in the draft report.

The Commission has made some valid comments on the industry and we agree that there is room for improvement. We have not sought to address each of the models specifically, as there are others better placed than us to make that assessment. However, we offer general commentary on matters that should be considered in any model. Our detailed submission is attached, but in summary, our top 10 points are:

- 1. Give StrongerSuper Time to Work** - The industry has just implemented StrongerSuper, the most significant change to the superannuation system since the introduction of the Superannuation Guarantee (SG) in 1992. Importantly, MySuper is specifically designed to provide for the disengaged and the transition period does not end until 1 July 2017. StrongerSuper needs to be given time to achieve its purpose.
- 2. Stop Tinkering with the System** - Persistent tinkering by Government is causing members to lose confidence in the system. Constant change increases costs (reduces member net returns), thwarts efforts to educate members and ultimately has a deterrent effect on member engagement. A period of relative stability, free from regulatory change, would give the industry a chance to realise the benefits of its significant investment in Stronger Super.
- 3. Improving Fund Performance is More Important than 'Choice'** - Improving fund performance to maximise net returns for members is more critical than 'choice'. This should be the Commission's focus. MySuper licenses could be periodically renewed and funds held to account on strategy, efficiency and performance in order to be eligible to be a 'default fund'?

4. **Increase the Superannuation Guarantee (SG) to 12% ASAP** - Increasing the SG rate to 12% will do more to maximise retirement savings than any alternative default model. This initiative should be brought-forward as soon as possible.
5. **Encouraging Consolidation is More Important than Proliferation** - In our experience, 'one account' is an unrealistic ideal and will not reduce existing secondary accounts in the system. Despite best efforts, secondary new accounts will inevitably be created. Misplaced trust in a 'one account' policy will remove a necessary impetus for individuals to become engaged in the system, which will perpetuate rather than solve the problem. Therefore, consolidation of underperforming accounts is a more important objective in reducing account proliferation.
6. **A Central Clearing House is Unnecessary** - Employers are now using automated SuperStream channels. Introducing a central clearing house would be disruptive, increase costs, introduce risk and send the wrong messages to market. The proposal is anti-competitive and unnecessary.
7. **Insurance is Essential** - Insurance is an essential element of the superannuation system. Given the Commission's *'overarching objective to promote the wellbeing of the Australian community as a whole'*, it is incumbent on the Commission to object to insurance being excluded from assessment criteria.
8. **Merger Disclosure is Counter-Productive** - Mandatory disclosure of merger considerations is not in the best interests of members. It would add cost and ultimately hinder fund consolidation. The law already provides protection for members.
9. **Excluding Non-Monetary Factors from Assessment Criteria Will Produce Systemic Risk** - Concentrating too heavily on low costs may produce undesirable outcomes, such as: no investment in information security, reduced investment in innovation, technology and core platforms, watering down of key risk management controls in administration, less communication with members and employers. All of which will all have detrimental long-term impacts on the system.
10. **Allow Market Forces to Work** - We submit that it would be best to provide a relatively stable period, free from Government interference, to allow the industry to make its own adjustments within the existing system framework, than to overhaul it with a new model that will prove disruptive and costly. This would give the industry a chance to realise the benefits of SuperStream.

Thank you again for the opportunity to provide this submission. Should you have any questions, concerns or require assistance in any way, please do not hesitate to contact me.

Yours sincerely,

Suzanne Holden
Chief Executive Officer
Fund Administration
Link Group

ABOUT LINK GROUP

Link Group operates in 11 countries around the world. We have annual revenues of \$775 million and employ over 4,000 people. Our major activities are providing:

- administration services to Superannuation funds in Australia
- administration services to Kiwi Saver funds in New Zealand
- Registry and Analytics services to Listed Companies in Australia, Hong Kong, New Zealand (NZ), India, South Africa, Germany, France, Dubai and the UK.

International activities account for just under 10% of our revenues. In all the countries outside of Australia and NZ where we operate, widespread admiration is expressed regarding the Australian superannuation system. The positive attributes are recognised as being:

- mandating compulsory contributions by employers covering all sectors of the economy
- allowing for additional contributions by members
- providing a wide range of Investment choice
- providing for Insurance coverage within a member account
- most accounts are defined contribution, thus minimising the impact on employers and Governments evidenced in Defined Benefit regimes.

Some jurisdictions have moved to a system where members must make contributions on a matching basis in order to receive employer contributions. Hong Kong, UK and Canada are examples of this.

In addition, Link group is uniquely placed to comment on the PC report given we:

- manage 10 million Superannuation member accounts in Australia
- process \$15 billion of contributions to member accounts per annum from 300,000 employers
- manage \$400 billion of funds in member accounts
- handle over 7 million queries from members and employers per annum (phone, email and letters)

We have seen major changes in the administration of Superannuation accounts. The major administration functions are performed by in house teams. Link Group and others compete against these funds by providing outsourced services. Some funds perform certain functions in house and outsource others. In short, the administration market is dynamic and fluid.

Link Group has been at the forefront of driving efficiencies on behalf of our client funds, their members and employers. An annual capital expenditure budget of around \$35 million is designed to provide:

- ever increasing data security requirements
- business continuity and disaster recovery
- digital tools to allow members and employers to self serve
- analytics tools allowing funds to provide better services to members and employers
- reporting tools for Trustee to manage interfaces with Stakeholders such as APRA

We have been leading the way with member and employer solutions allowing members to manage their accounts and for employers to meet their SGC and other obligations.

Our comments on the Commission's draft report are concentrated on practical matters which we believe are very important in maintaining the integrity of the system.

1. HOW LINK GROUP ADDS VALUE AND LOWERS COSTS WITHIN THE SYSTEM

Link Group's commitment to the Australian superannuation industry has been rewarded with the achievement of scale, which enables us to retain expert staff and continue to invest heavily in long-term infrastructure, core platforms, new technology and information security, that our competitors and individual funds are simply unable to responsibly match.

As these significant costs are shared across all of our clients (not re-borne and replicated within each fund as might be the case in self-administered funds), we are able to offer secure, high quality products and services, while reducing per member fees and system-level costs.

As a commercial organisation, we continually look for efficiency improvements. In competing for contracts, we are regularly under pressure to tighten service level agreements, enhance our service offerings and to limit fees. These kinds of pressure are rarely exerted on in-house administered funds. Our clients and their stakeholders are the beneficiaries of these activities, which enable our clients to maintain their competitive edge.

We deliver efficiency and enhance benefits to members and employers through investment in digital innovation (such as e-Membership cards for smart phones) that foster engagement.

Our clients benefit from our experience of administering a number of diversified funds, which results in constant control improvements that a fund may not otherwise experience, contemplate or invest in, if they were operating on their own.

These 'non-monetary' factors are important to the long-term integrity, stability and improvement of the superannuation system. It is critical that they are taken into account in any assessment criteria. Any erosion of these factors (such as would occur if they were excluded from default fund assessment criteria) will reduce productivity in the long-term.

Link Group provides 'SCH Online', a proprietary clearing house integrated with our core record keeping system and employer access sites of our clients. SCH Online enables:

- trustees to build and maintain relationships with their sponsoring employers
- employers to easily meet SG obligations in a cost effective, efficient way
- validations designed to reduce the risk of account proliferation
- Fund members to receive contributions faster (direct credit and straight-through processing) while bypassing unnecessary Gateway fees

Link Group also offers enhanced data analytics services, which reducing unnecessary waste by enabling trustees to:

- identify transactional risk flags
- understand behavioural patterns to better service members and employers
- conduct more efficient targeted marketing campaigns to the appropriate audience, relevant to members

2. ROLE AND OBJECTIVES OF THE COMMISSION'S INQUIRY

In respect of this inquiry, we note that the Commission:

- 2.1. Has been tasked with developing workable models for a formal competitive process to allocate default superannuation members to products and determining if and how competition might make choice simpler or to lower the risk of not exercising choice.
- 2.2. Not been tasked with forming view on whether alternative models are better or worse than current default arrangements or the merits of the current default arrangements.
- 2.3. Has adopted a broad interpretation of what constitutes a formal competitive process for the default market, defining it as 'any new alternative model that permits open participation, encourages rivalry between funds to the benefit of members, and involves products being selected for members based on merit.'
- 2.4. Adopted the following qualitative criteria to assess each of the proposed models:
 - o **Member benefits** - Create incentives for funds to maximise long-term net returns
 - o **Competition** - Encourage contestability and rivalry to drive innovation, cost reductions and more efficient long-term outcomes for members
 - o **Integrity** - Promote integrity in the selection and delivery of default products, and the ongoing behaviour of superannuation funds
 - o **Stability** - Avoid instability leading to significant systemic risk
 - o **System-wide costs** - Minimise overall system-wide costs
- 2.5. Has completed its study to develop criteria to assess the efficiency and competitiveness of the superannuation system (Stage 1).
- 2.6. Is required to complete its Inquiry to develop alternative models for allocating default fund members to products (Stage 2) by August 2017.
- 2.7. Will commence its inquiry to review the efficiency and competitiveness of the super system (Stage 3) post July 2017.

3. PERCEIVED ISSUES IDENTIFIED BY THE COMMISSION

We acknowledge that the Commission has identified a number of key issues and we offer the following commentary:

3.1. *'The core problem in superannuation is sheer complexity of decision making coupled with compulsion.'*

We agree that complexity within the superannuation system is a problem, but point out that it is largely Government-driven. Constant tax and regulatory change has caused the complexity. This reduces the ability of members to understand the system and their confidence in it.

We do not agree that compulsion is a problem. On the contrary, it is internationally regarded as a highlight of the Australian system.

3.2. *'Default arrangements...can also stifle competition and innovation that would otherwise occur when consumers make active decisions, and discourage individuals learning about a sizeable asset held on their behalf.'*

In our experience, rather than stifling competition, most funds are aggressively determined to attract new members and employers. Funds that are not chosen as default funds still actively market to members in the system to defect. These competitive dynamics lead to member engagement and innovation as each fund battles to grow their membership (whether by default or defection). Evidence of this is the year on year increase in marketing expenditure.

3.3. *'The absence of strong member engagement can dull competitive pressure on superannuation Funds, regardless of the presence of many Funds in the market.'*

As a general concept, we do not agree that engagement will necessarily improve outcomes. Further, there is no evidence of dull competitive pressure in the superannuation industry. Pressure can come from various sources and is not limited to member engagement. Superannuation trustees owe a fiduciary duty to act in the best interests of members. Arguably, the obligation is heightened when the member is not engaged. In our experience, trustees take their roles as fiduciaries very seriously and continuously look to improve their offerings. This in turn drives us to improve our services. Ancillary service providers also apply competitive pressure, which drives incumbents and competitors to rise to the challenge. On closer inspection, the Commission will find there is fierce competition in the supply chain of the superannuation industry, irrespective of member engagement. Additionally, competition for the sake of it, is not helpful and can be costly, which is ultimately borne by members. We submit that the Commission's principal concern should be whether or not members are benefitting from expenditure and exertion in the industry. It's only inefficient if doesn't add value to members.

3.4. *'Information problems can create a risk of unhealthy and wasteful competition in the form of superfluous product differentiation and inducements, excessive advertising and product proliferation.'*

We agree with the Commission's concern, as this will be the likely consequence of increasing competition. None of the proposed models address this issue. Although it may be argued that default Funds will not need to market to get new members, they may still need to market in order to attract other employers, to retain default members and to attract defection from other Funds. Similarly, non-default Funds will continue to market members already in the system.

4. THE EFFECTS OF GOVERNMENT TINKERING

The Commission noted:

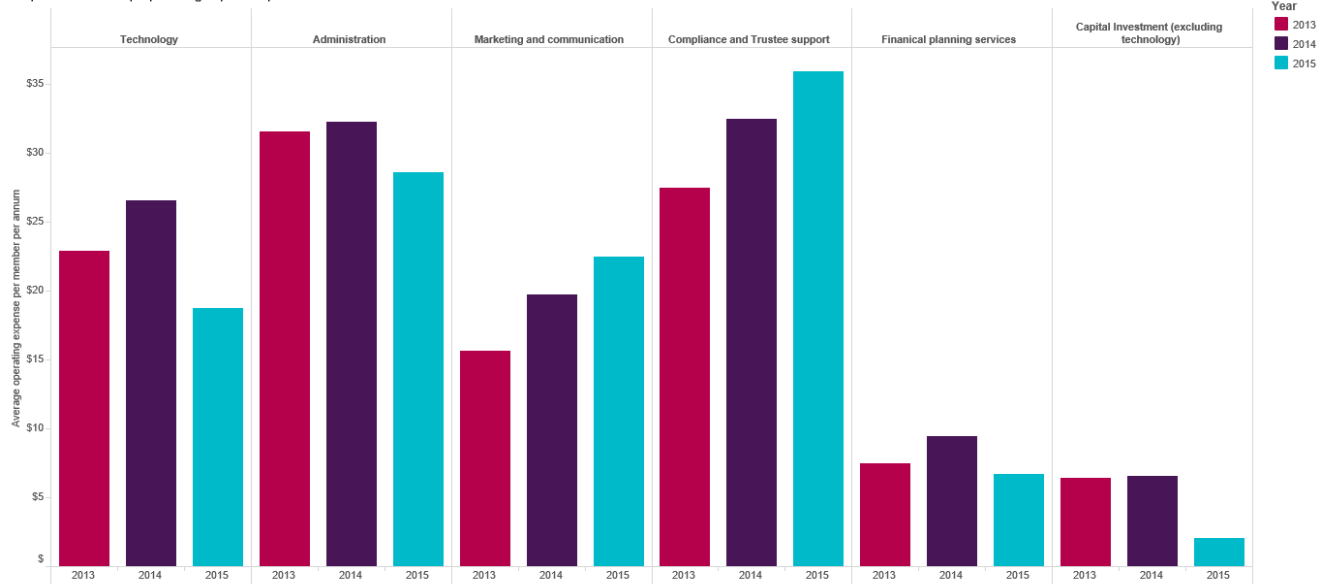
'This Inquiry is... a wake-up call to the entire industry, which some claim has become complacent with a steady flow of mandated contributions from disengaged members, and as an industry has failed to improve its scale and efficiency and deliver better outcomes for members (despite the MySuper reforms).'

We acknowledge the Commission's criticism of the industry and agree there is room for improvement. However, a balanced appraisal should note that StrongerSuper has not been given enough time to perform its purpose. It should also acknowledge that the industry has weathered the Global Financial Crisis and that both system complexity and a significant proportion of costs are Government (not industry) driven. Constant change and tinkering with the rules has increased cost, caused it to be overly complex, stifled attempts by Trustees to educate members and caused members to lose confidence in the system.

- 4.1. Significant capital has been expended to implement StrongerSuper, which is still relatively new. We are starting to see the realisation of efficiency gains via SuperStream. MySuper is specifically designed to cater for the disengaged. It is clear that there will be long-term benefits but it needs to be given time to work. Further intervention/interference from Government before it has been given a chance to achieve its purpose, is unwarranted and will negate the benefits of StrongerSuper.
- 4.2. Constant change by Government of tax and other regulations are responsible for the complexity and a significant amount of the costs within the superannuation system. For example, the industry is still recovering the costs from implementing SimplerSuper, BetterSuper, StrongerSuper, enhanced governance, changes to disclosures including prescriptive PDS and costs disclosure regimes, APRA reporting, USM changes, LMR re-reports, removal of anti-detriment payments, surcharge, fund capped and contribution limits, excess tax notices, voluntary and compulsory release authorities etc. The changes are not necessarily unwarranted, but do increase costs and diminish members' confidence in the system.
- 4.3. Complexity is not limited to choosing a Fund, but extends also to fundamentally understanding superannuation. This complexity is exacerbated by constant change, which creates distrust and further disengages members.
- 4.4. Perceived cost reductions flowing from StrongerSuper are overstated. The inefficiencies of the paper-based system have now been addressed by SuperStream, but costs have moved, rather than being completely eliminated. In the administration space there are new Gateway fees, while reduced administration staff costs are negated by the need for more specialised (and therefore, more expensive) IT, security and digital based-roles and necessary hardware and software that support these functions. A lot of members still favour physical forms and letters, over e-communications, meaning mail-houses and document management centres persist. Many in-house administered Funds have disproportionate fees that outsourcing can significantly improve. Notwithstanding, Administration costs as a percentage of FUM continue to decrease; efficiency savings that are being realised and are being passed onto funds/members.

- 4.5. As efficiencies are realised, we are seeing increased activity in marketing and fund communications marketing as well as improvements in member and employer services, as funds compete for members and employers. These increases might be a leading indicator of increased competition in the industry.
- 4.6. However, due to constant regulatory change, expenditure is increasing elsewhere in the system, particularly in regulatory compliance. We refer to the following graph from Rice Warner's 'Expense Benchmarking Report for 2015':

Graph 6. Peer Group operating expenses per member – trends



The graph shows how the major expense components have trended over the last three years for the Peer Group.

We submit that this is evidence in support of the argument that:

- efficiencies have been realised in technology and administration;
- those efficiencies are being offset by increases in regulatory and governance costs;
- there is competition occurring in the market (for both members and employers), evinced by increase in marketing and communications; and
- that investment in innovation is suffering.

Introduction of a model that concentrates too heavily on low fees will only exacerbate this problem. There are only limited areas in which costs can be reduced and the likely outcomes are less security, less oversight, less risk management controls, less investment in technology, innovation and compliance activities, and increased marketing. The combination of which will cause long-term detriment to the industry.

- 4.7. While some of these issues have been briefly discussed on page 4 of the summary report, we submit they have not been given appropriate emphasis. The Commission should acknowledge the impact of Government-driven cost on efficiency in the superannuation system and exercise its independence to condemn the constant and persistent iterative changes noting the increase cost and erosion of confidence in the system that results in alienation/disengagement of members.

5. ACCOUNT PROLIFERATION

“Overall, account proliferation is one of the superannuation system’s worst systemic failings and warrants more than the incremental remediation to date.”

We acknowledge the Commission’s comment and note the following in response:

- 5.1. Removal of duplicate accounts will not reduce costs at the system-level because fees will merely be redistributed amongst remaining accounts.
- 5.2. It is our experience in administering accounts since introduction of the SIS Act that, despite all best efforts, it is inevitable that new ‘duplicate’ accounts will inevitably be created. A stringent new default allocation model, even if flawlessly implemented, will not eradicate this inherent practical reality.
- 5.3. Adoption of a new alternative default model will cause individuals to think that they do not need to do anything because the Government has chosen for them. This only compounds, fosters and perpetuates the problem; disengaged members not consolidating.
- 5.4. Default superannuation models are an extension of antiquated ‘well-intentioned paternalism’ that the Commission criticised in its report. While a new default model may have a placebo effect, ultimately it will not produce the behavioural engagement change that is required. New accounts provide an impetus for members to become engaged in the system. This has not worked in the past because consolidation was so difficult, but that is no longer the case.
- 5.5. We are in the digital and information age, which offer modern solutions to historic problems. Efficient digital consolidation platforms and information campaigns will negate account proliferation and will reduce unnecessary accounts in the system for all members, not just the ‘first-timer pool’.
- 5.6. With adoption of technology, PDS reforms, the introduction of SuperStream and the new legislative framework (incorporating enhanced ATO reporting, the Data Standards and 3 day mandatory rollover provisions), many of these problems have recently been addressed. MyGov enables members to easily identify where accounts are held. The ATO provides a quick and easy method of initiating rollovers. Trustees offer customised digital methods to consolidate accounts, which drives competition. The Data Standards have improved compliance with rollover requests, the speed in which rollovers take place and are allocated to member accounts. Consolidation is now easier and faster than ever.
- 5.7. We are now starting to see reversal of those long-term trends. The ATO has noted this reduction, as well as the recovery of member monies in the lost and unclaimed categories. It further notes that while not highly visible at the aggregate level, in combination this signals a reversal of the account proliferation trend:
 - Since 2013, around 1.38m accounts to the value of \$6.5b have been consolidated by members using the ATO’s online facility
 - Activity preceding the 2014 USM reporting shows consolidation through direct member interaction with funds has increased significantly
 - The number of Lost Super accounts has declined by nearly 90% (or 5.2m accounts with \$7.1b in value), which represents 15% reduction in the total number of member accounts since 2010.

6. EMPLOYERS AND CLEARING HOUSES

We submit that introducing a centralised clearing-house such as in New Zealand is inherently anti-competitive and ultimately undesirable for the following reasons:

- 6.1. Through the introduction of uniform data and payment standards and legislated timeframes, SuperStream has already started to address inefficient contribution processing, which now occurs within 3 business days.
- 6.2. Having any single monopolised provider introduces concentration risk, key person risk and is inherently anti-competitive.
- 6.3. The ATO currently provides a clearing house free of charge to small businesses. Larger employers have a market of clearing houses, fund portals and payroll providers to choose from and negotiate with.
- 6.4. There is significant risk in putting a regulator in the middle of industry processes, as we have experienced with SuperMatch and SuperTic services. Recent outages illustrate how this can adversely impact the entire industry.
- 6.5. It will be expensive for Government to develop and maintain, with no guarantee of success. The formulation and development of the data and e-commerce elements of the SuperStream standard was a very large undertaking in its own right. Over an intensive two-year period, the ATO collaborated closely with practitioners in the super fund, administration, clearing house, payroll and employer communities in an effort to define the new standard.
- 6.6. It would erode confidence in the system. The Government has only just established the new framework under the Data Standards. The market responded accordingly by delivering competitive channels (for example, Quick Super, Click Super, SuperChoice, MYOB, SCH-Online, Small Business Clearing House, etc.) which are largely free to members.
- 6.7. A great deal of heavy lifting has been done by payroll software companies, clearing houses and other intermediaries in adjusting their solutions to fit this new reality. A similar effort has also been undertaken by funds either on their own behalf or through their administrators and other business partners. Changing now will extinguish these expensive efforts and sends the wrong message to the market. It penalises and deters providers from investing their resources to develop innovative products and services, for fear that Government will change its mind in a whim.
- 6.8. Employers have just settled into this new operating rhythm. We would estimate that >95% are now making contributions through complying and electronic channels, with most making use of very efficient payroll and Clearing House portals. Changing now will be unnecessarily disruptive and would be expensive for employers to de-link recently established payroll integrations. This would also discourage employers from becoming early adopters change.
- 6.9. The status quo is starting to operate well, and will only continue to improve, with normal evolutionary tweaks.

7. INSURANCE

The Commission has stated:

'it should also be self-evident to trustees that the Government's stated objective for the superannuation system does not envisage insurance as an essential element of the system.'

Insurance is an essential element of the system and we encourage the Commission to object to this conclusion.

- 7.1. Although the Government wants to exclude insurance from any assessment criteria, we respectfully submit this is an erroneous short-sighted view and not in the best interests of members or taxpayers. In the Commission's own words, it has:

'an overarching objective to promote the wellbeing of the Australian community as a whole'

and:

'importantly, and unlike poor consumer choices in other markets, these costs extend beyond the employee to also be borne by future taxpayers, to the extent that they result in higher... Pension reliance.'

We think it is incumbent on the Commission to re-raise the concern with Government in its final report.

- 7.2. Insurance is a critical component of superannuation system that benefits all of society. It meets the sole purpose test and the stated aims of provision of income in (involuntary) retirement. It should form part of any criteria for selecting a default fund.

- 7.3. *'The Commission will assume that the trustee chooses to bundle the default superannuation product with insurance, subject to meeting their fiduciary and legislative obligations, but the models do not involve comparing the quality or price of bundled insurance.'*

If any element is left out of the assessment criteria, it will merely displace measured fees into unmeasured components. In vertical integration models, costs can easily be manipulated to suit the particular assessment criteria, resulting in selection of only ostensibly 'good' candidate products and an uneven playing field.

8. RESPONSE TO PROPOSED SOLUTION PRINCIPLES

8.1. *'Increase the availability and quality of information or limit choice to a smaller set of better products.'*

Improving fund performance to maximise net returns for members is more critical than 'choice'. This should be the Commission's focus. Significantly underperforming funds should be held to account by regulators and as well as the market. MySuper licenses could be periodically renewed and funds held to account on strategy, efficiency and performance in order to be eligible to be a 'default fund'? Reducing complexity of the system would also help to alleviate the information problem.

8.2. *'Members who do not exercise choice should be allocated to a default product only once.'*

In theory, 'one account' is a laudable goal but in our experience is an unachievable ideal, for the following reasons:

- Data integrity in payroll and the superannuation systems is improving but is not flawless. This will continue to result in inadvertent creation of secondary accounts.
- It is not compulsory for an individual to quote his or her TFN. Some quote exemption codes in lieu of TFN. There is a practice in the itinerant work force for cohorts of people to all quote the same TFN. Meaning that not all employers or trustees will have TFNs, or correct TFNs recorded. Therefore, using a TFN as the pivot will not solve the problem.
- It is fraught with the risk of having one member's contributions being applied to another member's account. It is this fear that has caused multiple account creation in the current system. This inherent risk is not removed by the proposed models, which will only compound the problem, as they amplify member complacency.
- This approach is contingent on universal use of a centralised online information service, which does not currently exist. Even if a system were developed to enable members or employers to prevent secondary account creation, they are unlikely to be used by members and employers, for the same reasons they are not engaged currently.
- Creating a new legal obligation will not solve the issue because enforcing compliance is near impossible. For example, SuperStream introduced an obligation on employers to submit minimum mandatory data when remitting contributions. However, we still find in practice many employers do not comply with this requirement and submit contributions with incomplete information. In addition, there are still employers who do not make SG contributions. Enforcing these existing obligations has proven difficult for regulators.

For these reasons, we are doubtful of the practicality of this proposed solution.

8.3. *'There should be a government-run centralised online information service, with universal participation by employees and employers, to facilitate more efficient allocation of default members to products.'*

Please refer to our comments set out Section 6.

8.4. *'Freedom to make choice is necessary to realise the benefits of competition.'*

We disagree for the reasons set out Section 3.

- 8.5. *'Member outcomes would also benefit from more transparent disclosure by funds regarding merger considerations, to hasten the exit of underperforming funds.'*

Mandatory disclosure of merger considerations is not in the best interests of members. It would add cost and ultimately hinder fund consolidation. The law already provides protection for members through the mandatory Significant Event Notice regime, 'no worse off' tests for Successor Fund Transfers and best practice is prescribed in the ATO's Involuntary Superannuation Account Transfer (ISAT) protocol.

- 8.6. *'The key benefit of restricting the new default allocation models to the first-timer pool is the immediate 'circuit breaker' of reducing wasteful account proliferation.'*

Please refer to our comments set out in Section 5 and 8.3 above.

- 8.7. *'A fund whose product 'wins' default status for contributions of new default members would have to extend the same fees and service terms to its existing members in the default product.'*

It is our understanding of the law, as it currently stands, that all members in a MySuper product must be accorded like for like treatment. This should naturally follow to avoid product subsidisation which might make a default product appear more attractive than it really is.

- 8.8. *'Importantly, the quality or range of ancillary services per se should not be the main driving factor in selecting default products under any of the allocation models. Funds should primarily compete on long-term net returns and fees for a threshold level of service.'*

Past performance is not a reliable indicator of future performance. Future long-term net returns are unknown and are necessarily based on assumptions. The temptation then is to focus on what is controllable (i.e. lowering costs). Superannuation is a long-term product that should be about providing a benefit/value. Concentrating too heavily on low costs may drive systemic risk. Ignoring non-monetary factors may cause a race to the bottom on costs, which will increase the risk of:

- no investment in information security;
- reduced investment in innovation, technology and core platforms
- watering down of key controls in administration
- reducing (trustee) insurance cover limits or premiums
- aggressive tax strategies
- reduced resourcing
- slower processing times and service levels
- internal and external fraud against members
- less communication with members and employers

All of which will leave members at higher risk than would otherwise be the case. More concerning is the fact that it will ultimately detriment the system in the long-term and future members will bear the costs of returning the system back to one of quality and integrity.

- 8.9. *'The baseline of unassisted active choice is not an alternative model in its own right.'*

We agree that 'no model' is not a model at all, and would represent a significant backward step.

- END -