ANZ Response to Productivity Commission Inquiry

Assessing Competitiveness and Efficiency of

Australia's Superannuation System

September, 2017

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1. Executive Summary

ANZ welcomes the opportunity to comment on the Productivity Commission Inquiry, 'Assessing Competitiveness and Efficiency of Australia's Superannuation System'.

The Inquiry represents an opportune moment to examine the state of our superannuation system and ensure it is indeed optimising outcomes for all superannuation members.

For many Australians, superannuation will provide their income in retirement in place of, or in combination with, the age pension. Australia's superannuation system represents a significant public good both for individual members and the broader economy. For this reason, maintaining public confidence in the system as a whole remains paramount.

This confidence is, however, being undermined.

Increasingly, proposals or recommendations aimed at reforming superannuation policy and improving the system for members have become mired by 'inside' debates between 'retail' and 'industry' superannuation funds, with each seen to be ostensibly protecting and/or improving a perceived strategic, commercial or regulatory advantage.

The current system has unquestionably delivered benefits and savings to members. However, mechanisms designed to protect individuals aren't intended to optimise retirement incomes and may also be:

- entrenching *disengagement* through regulation that effectively implies *'it's ok not to worry about superannuation'*;

- creating *rigidity* that leads to a proliferation of multiple accounts for individuals by default; and

- *unresponsive* to innovation and changes in the workplace as well as demographic shifts.

The key challenge is to develop and implement consumer-centric reform, whilst protecting outcomes for vulnerable members.

To that end, ANZ makes three proposals, including:

1. *Active Fund Nomination* – requiring individuals to provide the account details of the superannuation fund of their choice, in the same way they currently provide their tax file number (TFN) and bank account details;

2. *Full Account Portability* – Allocating employees with a single life-time superannuation account number, similar to a TFN or ABN for the self-employed, directly linking an individual to their superannuation account to avoid account proliferation;

3. *Enhanced Clearing House Services* – providing a solution for a choice system that directs payments for employees who do not provide an account number, and reduces the administrative burden on employers.

Appropriate and timely policy reforms are essential and can make the difference between an individual being able to fund and afford a desired lifestyle in retirement, or alternately, relying on the age pension.

Members specifically, and the community generally, have the right to expect constructive industry engagement with any proposals that place their interests first.

Apart from being critical to improve member outcomes, constructive and broad-based industry collaboration is essential to maintain system stability and integrity, allowing consumers to build confidence and certainty in superannuation that needs to provide for them in retirement – an event perhaps 40 years into the future.

2. The Case for Change

The primary objective of superannuation is to provide income in retirement in place of, or in combination, with the age pension. It has been a quarter of a century since the inception of Australia's compulsory, employer-contribution system of superannuation. Over those 25 years, Australians have amassed a pool of assets worth nearly $2.3 trillion in 2017.

Ideally, individuals would make informed decisions about what is the right superannuation option for them, in order to maximise their retirement income. While choosing a fund can be a challenging decision for an individual, employees can identify their own needs, circumstances and financial resources. Decisions based on these criteria would then drive competition and efficiency in the superannuation system.

The current system recognises that while superannuation contributions are mandatory for all working Australians, some employees are unable to make appropriate choices due to low financial literacy, cognitive biases and other limitations. For those that don't choose a superannuation option, there are default arrangements, which have delivered savings to working Australians.

However, default options do not always optimise retirement income as they cannot always be sensitive to the unique retirement needs and objectives of individuals.

For this reason, the superannuation system risks underachieving its primary objective – to provide income in retirement to substitute or supplement the age pension – because earnings from superannuation may be inadequate.

> *A single person seeking a 'modest' lifestyle in retirement requires a lump sum of at least $370,000 (without accessing the age pension) invested and returning 7% p.a. returns (Super Guide, 2017). For couples, this lump sum needs to be at least $400,000. In order to have a 'comfortable' retirement, households require between 1.8 and 2.3 times these lump sum amounts (making $665,000 and $910,000 the new lump sums needed for singles and couples respectively) (Super Guide, 2017, and ASFA, 2016).*[1]

Furthermore, mechanisms designed to protect individuals may also be:

- entrenching *disengagement*, by giving more responsibility to regulators and employers/unions in choosing funds, the system tacitly implies *'it's ok not to worry about your superannuation'*;

- unwittingly creating *rigidity* as when employees change jobs, they can move into a second or even third default account, causing a proliferation of super accounts, fees and insurance. Employees shouldn't have multiple accounts by default; and

- *unresponsive* to changes in the workplace (e.g. more frequent job changes, gig economy) and in demography (i.e. catering for different generations), which exacerbates the effects of disengagement and rigidity.

[1] DAE (2017a)

As a result, two-thirds of members remain with their default fund.[2]

A default product provides the minimum services necessary to provide income in retirement.[3] A system that is based around default allocations will only be optimal for an individual's circumstances by accident. In principle, individuals – with appropriate education and/or advice – should be able to improve their retirement income outcomes by choosing an alternative to the default option that better suits their individual circumstances.

Australia's current mandatory and default superannuation system risks perpetuating issues around member apathy and disengagement, in addition to missing out on opportunities from fostering more choice and competition.

2.1 Disengagement

Australia's superannuation arrangements do not encourage individuals to seek out their optimal superannuation product. Disengagement from the system is high.

> *CoreData's research revealed that the proportion of disengaged members has jumped from 43.7% to 48.5% over the past year, with the number of members identifying as "highly disengaged" rising to nearly one-quarter (23.8%), up from 18.8% in 2015. Not surprisingly, pre-boomers are the most engaged generation (75% engaged), whilst gen Y members are the least engaged (41.3%).*[4]

In some respects, reliance on a default superannuation system reflects a decision to leave raising customer engagement in the 'too-hard' basket'.

A low cost default option encourages default and disengagement. The result is many people will stay in default funds that may be inappropriate to their circumstances. And yet, superannuation decisions should be driven by individuals' needs and financial circumstances, since the fundamental objective of superannuation is to provide consumers with a source of income in their retirement.

Change is therefore required to address the disengagement that many Australians feel towards their superannuation decisions. For example, a system that directly empowers individuals to choose their superannuation fund would assist in addressing the principal-agent problems that arise from a default system and encourage more consumer engagement.

In this context, the system would need to move away from a default approach towards greater choice, in a manner that enables good decision making.

Over recent decades, Australia has been able to raise financial literacy and consumer engagement in other areas such as mortgages, bank accounts, and insurance products. And as noted above, engagement rises notably with age. These examples can provide insights on how to improve engagement in superannuation choices.

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[2] PC (2017)
[3] PC (2017)
[4] Mercer (2016)

In markets for other financial products without default systems consumers actively shop around and compare deals. For example, in mortgages there are a number of product comparison calculators and consumer engagement is high, despite the complexity and long term nature of the product.[5]

One survey found that 84% of people who plan to take out a mortgage or refinance their current home are likely to shop around before selecting a product.[6]

Moreover, other research suggests investors, even the youngest investors, are increasing their engagement. For example, research conducted by Deloitte Access Economics has found that when it comes to investment decisions *outside* of superannuation, there has been increasing investor activity amongst younger Australians. The 2017 *Australian Investor Study* found that over the last five years, the proportion of 18-24 year olds investing outside their superannuation funds has doubled from 10 per cent to 20 per cent, while the share of 25-34 year olds has increased from 24 per cent to 39 per cent.[7]

Yet this trend of increased engagement and activity does not appear to have translated across to awareness around individuals' superannuation decisions. Disengagement in superannuation remains a critical issue as members are less likely to seek advice when they need it, leading to poor outcomes relating to both investments and insurance.

2.2 Rigidity

Rigidity in the current arrangements contributes to one of the biggest sources of ongoing complexity for individuals – multiple superannuation accounts.

Once individuals have moved between two or three jobs, it is possible that they will have passed through different employment agreement types that constrain their initial choice of fund (or portability) in different ways. If it results in multiple accounts, this can create confusion over time and contribute further to disengagement.

The Productivity Commission notes that 40 per cent of members hold more than one account.[8] The problem of multiple accounts especially affects young people. More than 30 per cent of people under 29 have more than one super account; and 10 per cent have three or more.[9]

Duplication of superannuation accounts as a result of the current rigid system also has broader negative implications for financial returns, as it leads to consumers incurring fixed costs, such as administration fees and insurance premiums, over multiple accounts.

Even when people do want to make informed choices, the system may not be conducive to this. The Productivity Commission has noted that *"the superannuation system hasn't always afforded*

[5] A mortgage product and associated decisions seem to be as complex as those made in relation to superannuation. There are a range of fee structures to compare, and the decision involves consideration over long time horizons across multiple financial dimensions. An important difference is that the benefits of choice in mortgages are realised by the individual immediately, whereas the benefits of superannuation choice are received in retirement.
[6] DAE (2017b)
[7] DAE (2017a)
[8] PC (2017)
[9] ASFA (2017)

or encouraged individual decision making", alluding to the current arrangements for allocating default superannuation members to products.[10]

Overall, the process of choosing default superannuation is different in different employment types. Some employees cannot choose their fund, others cannot change it. But there are many opportunities for improving choice.

Figure 2.2.1: Default Superannuation by Employment Agreement Type[11]

Proportion of employees	41%	19%	37%
Employment agreement type	Enterprise Agreements	Modern Awards	Individual contracts
Choice of default superannuation fund	• MySuper fund(s) chosen as part of the enterprise negotiation in 67% of agreements. • In remaining agreements employer chooses from Modern Award list. • Employee is prevented from changing their fund in 19% of agreements.	• FWC panel chooses MySuper funds available for an award. • Employer chooses from this list. • Employee free to change fund.	• Employer chooses a MySuper default fund. • Employee free to change fund.

Sources: DAE analysis, ABS Employee Earnings and Hours. FWC refers to the Fair Work Commission. The EA figures for funds chosen and restriction employee choice are based on analysis of a random sample of 457 EAs entered into in 2015. Note: these proportions are representative and do not sum to 100 as a result of different data sources.

According to the Australian Competition Policy Review, restrictions on individual's choice will have negative consequences for competition:

> *Policies and regulations binding the default superannuation system should not restrict competition unless the benefits of the restriction to the community as a whole outweigh the costs, and the objectives of the legislation or government policy can only be achieved by restricting competition.*[12]

An open superannuation system would provide greater opportunities to reap the benefits of competition.

If increased competition narrowed the difference between the highest and lowest administrative fees applying to MySuper products, this would save $292 million across 14 million MySuper accounts.[13] In addition, the Financial System Inquiry (FSI) found that account proliferation and lost accounts reduced superannuation balances at retirement by an average of $25,000.[14]

Guarding against a proliferation of superannuation accounts for individuals, such as by enabling the system to better accommodate job changes, would address account erosion and allow customers to focus their attention on a single retirement income account. Reducing rigidities in

[10] PC (2017)
[11] DAE (2017b)
[12] DAE (2017b)
[13] DAE (2017b)
[14] FSI (2014)

the system will assist consumers to make better decisions and be more engaged with their superannuation.

2.3 Unresponsive

The current system is 25 years old. It started at a time when many people worked for one employer for their whole career. Paper based forms were also the normal means of administration and communication.

The nature of work is changing. Workers now expect to have many jobs and multiple careers, in different industries. This potentially means multiple changes of superannuation fund as they move from one employer to the next.

> *The forces of disruption are not just being driven by start-ups and felt by business leaders – they're driving change in the workforce and labour market. Two-thirds of those with less than five years' experience (early-career Australians) expect that their job will not exist, or will change fundamentally, in the next 15 years.*
>
> *Our career moves are not always straight up a ladder. Of those who will pursue a new job in the next ten years, three in five are looking to change to a different industry, a different role, or both.*[15]

This brings with it an increased risk of inadvertently holding multiple superannuation accounts. The rise of the gig economy, in which temporary, flexible jobs are the norm and employers hire contractors and freelancers instead of permanent staff, has implications for superannuation.

From a demographic perspective, millennials are becoming a larger part of the workforce where disengagement is especially pronounced.

> *Millennials have been brought up in a digital environment where they are accustomed to accessing information and services online and on-demand, such as through mobile apps. In this context, paper-based forms are an anachronism. For example, Colmar Brunton (2014) found that very few Gen Y's recalled completing their superannuation form when they started their job, often the first contact with their superannuation fund. This was partly attributed to them being "disinterested in the paperwork".*[16]

At the same time, millennials are amongst the youngest cohorts in Australia's labour force, and will therefore be working and adding to their superannuation balances for many decades into the future. It is therefore important that particular attention is paid to how millennials' engagement with superannuation might be improved.

[15] DAE (2016)
[16] FSC (2017)

3. Proposals

ANZ supports three initiatives to enable improved consumer choice and competition in Australia's superannuation system without unduly adding additional complexity and/or cost. These include:

1. *Active Fund Nomination*

   When employees start a new job, they could be required to provide the account details of the superannuation fund of their choice, in the same way they currently provide their tax file number (TFN) and bank account details.

2. *Full Account Portability*

   Allocating employees with a single life-time superannuation account number, similar to a TFN or ABN for the self-employed, directly linking an individual to their superannuation account to avoid account proliferation;

3. *Enhanced Clearing House Services*

   Provide a solution for a choice system that directs payments for employees who do not provide an account number and reduces the administrative burden on employers.

3.1 Active Fund Nomination

Superannuation policy should be driven from a consumer-centric perspective.

The first decision that a consumer has to make when encountering the superannuation system is the nomination of a superannuation fund when they start a job. Currently, with the availability of employer-nominated default funds, it is much easier for a consumer to do nothing and go with the default fund rather than make an active choice of superannuation product for themselves.

This proposal would make it incumbent on the individual to nominate their own superannuation fund upon commencing a new job. In a similar manner to the administrative requirements that a new employee has to provide their employer with their tax file number or nominate a bank account for salary payments, they would also be required to provide their superannuation fund details.

This proposal would effectively do away with the notion of a 'default' fund and increase consumer engagement and the incentive to make informed choices.

When an individual commences employment with a new employer, they would be required to fill out a superannuation account declaration form, alongside their TFN declaration and bank account details for payroll purposes. This would be very similar to current arrangements with variations on the Superannuation Standard Choice Form. The key difference would be that there would be no place where employees could nominate to use a super fund nominated by their employer, as per the current form. Instead, employees would have to provide the current details from the APRA regulated fund or RSA, or alternatively provide details of a self-managed super fund.

The individual would still be free to choose to join a fund option provided by their employer or union, a MySuper product, or an alternative. They would also be free to seek advice on their superannuation choices. But, they would actively make the decision of which fund to use. In addition, all employees should be able to choose to switch away from their default superannuation fund if they would prefer to be in an alternative fund.[17]

Some individuals may not have the capacity, capability, or willingness to research, choose and start an account with a fund. To assist these individuals, the form could provide links to government-provided advice (for example, MoneySmart.gov.au, or super comparison websites) that would assist the member in selecting a fund that best meets their needs.

In order to make informed choices, individuals may need assistance. The Productivity Commission has suggested models of assisted employee choice. Coupled with regulation to ensure that offered products must be suitable for the individuals they are targeted at, this would replace some elements that the default system guards against but fails directly to address.

Insights from behavioural finance could also be employed to incentivise fund nomination.

> *Behavioural insights suggest that information that relates us to our peer groups, referred to as 'social nudging' can be particularly powerful. The ATO could provide information on the number of Australian's that have switched their accounts in the previous year in order to encourage more to consider if they would be better off elsewhere.*[18]

Given disengagement is greatest amongst younger workers, the Government could consider various incentives to encourage new entrants to the workforce to choose a fund and provide account details.

3.2 Full Account Portability

Since many Australians sign up to an employer's default fund when they start a new job, individuals can find themselves with multiple accounts over the course of their career. In the current superannuation system and with historically high levels of job mobility, Australians generally find it difficult to keep track of their superannuation accounts.

Full superannuation account portability would mean that when an employee enters the workforce for the first time, they would be allocated a single life-time superannuation account number, similar to a TFN or ABN for the self-employed, which would be linked to the fund that they choose to have their superannuation contributions paid to.

In the event that the employee wishes to change their superannuation fund or product this single account number would be retained and linked to the new fund or product. This change could coincide with a change in employer, or at any other time the employee chooses to change (e.g. following a change in the employee's financial circumstances, or upon attaining new financial advice).

Enabling full account portability – similar to consumers porting their mobile phone numbers across to different telecommunications providers – would address superannuation account proliferation

[17] DAE (2017b)
[18] DAE (2017b)

and allow consumers to have a consolidated life-time superannuation account that could move with an individual as they change jobs.

This proposal would improve retirement incomes by stopping unintended duplication that results in an erosion of superannuation earnings due to employees having to pay fixed costs and fees across multiple accounts. It would also work to address employees having multiple insurance across the various funds they are a member of.

Having a single superannuation account number would necessitate a consolidation of all (active and inactive) superannuation accounts, and consideration therefore needs to be given to how this would occur, including grandfathering over a reasonable period of time. Consolidation could, for example, occur on the basis of rolling up previous accounts into the member's current account, or rolling up smaller accounts into the largest account.

Inevitably, there may be employees who want to hold multiple superannuation accounts due to, for example, insurance or investment diversification benefits across products. Having multiple accounts under this proposal would be enabled on an 'opt-in' basis, with employees able to apply to open and/or maintain multiple superannuation accounts through the relevant authority administering the superannuation account number system (e.g. the Australian Taxation Office).

By generally reducing superannuation to just one account, this initiative would effectively tie the superannuation fund to the specific individual or member, rather than the often transient employment relationship. This would increase engagement and reduce complexity for fund members.

3.3 Enhanced Clearing House Services

The provision of low-cost superannuation clearing house services to businesses – whether it be through private or public sector providers – will be even more important in a system with more active choice.

Requiring active fund nomination and full account portability will have consequences for the superannuation system at two levels:

1. employers who do not currently offer choice of fund will have to facilitate payments to an increased number of funds, which may create an additional administrative burden; and

2. removing defaults entirely would mean that there was no way of directing superannuation payments for employees who did not make any nomination.

An enhanced clearing house solution, building on the existing functionality of SuperStream and Single Touch Payroll, could address these issues by:

- allowing employers to simply make payments to a single party (the clearing house) rather than multiple funds, reducing or eliminating the additional administrative burden; and

- if centralised and linked to other personal information, allowing superannuation payments to be appropriately directed in the event a fund is not nominated.

There are already clearing houses operating to direct superannuation payments in Australia:

- The *Small Business Superannuation Clearing House* is operated by the ATO, free of charge to small businesses. Introduced in 2010, the clearing house is designed to reduce the red tape and compliance costs associated with making superannuation contributions for small businesses (less than 20 employees or turnover under $10 million annually). The government-administered service enables small businesses to pass on their employees' choice of fund and subsequently make superannuation contributions directly to the clearing house, which then distributes these payments to employees' funds.

- *Stand-alone clearing houses*. There are currently seven SuperStream certified clearing houses listed by the ATO.[19] These may charge fees based on the number of employees.

- *Fund-based clearing houses*. Many superannuation funds offer clearing house facilities to employers who have listed that fund as a default fund. However, it is not clear whether, or under what conditions, funds would continue to offer this service to employers if default arrangements were removed.

- *Payroll-based services*. Many payroll providers and accounting systems offer employers the ability to process, in bulk, SuperStream compliant payments. Again, these are associated with ongoing fees, which could be a subscription for a range of services, or a fee per payment processed.

With the exception of the Small Business Superannuation Clearing House, all of these services charge fees, or alternatively are a service provided to employers in a bundle which is associated with either the nomination of a fund, or the purchase of another product.

Currently, individuals who do not specifically nominate a fund are likely to be allocated to their employer's default fund. However, in active nomination, an employer would be unable to allocate these contributions. A central clearing house could help to allocate superannuation contributions in the event that an employee did not nominate a fund.

Under this proposal, employers would inform the clearing house that no nomination was made. In doing so, the employer would provide other available details about that employee, such as their full name, date of birth and tax file number.

With integration to SuperStream and the SuperMatch2 system, the clearing house would then use this information to identify the employee's superannuation fund and payment details. Where an employee has multiple funds, it may identify the fund with the highest balance, or the most recent contribution. These fund details would then be used as a basis for processing payment to the individual. Where no existing superannuation account details can be found for an individual, a last resort option may be required, as suggested by the Productivity Commission's *Model 1: Assisted Employee Choice*.[20]

Enhanced clearing house services would reduce complexity and improve efficiency and oversight of superannuation contributions and accounts.

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[19] ATO (2017)
[20] PC (2017)

4. Proposal Assessment

The Productivity Commission sets out five criteria for assessing proposed changes to default funds in superannuation:

1. *Member benefits* – does the model create incentives for funds to maximise long-term net returns and allocate members to products that meet their needs?

2. *Competition* – does the model encourage open participation and rivalry between funds to drive innovation, cost reductions and more efficient long-term outcomes for members?

3. *Integrity* – does the model promote a high-degree of integrity in the selection and delivery of default superannuation products, and the ongoing behaviour of superannuation funds more broadly?

4. *Stability* – is the model likely to create instability in the superannuation system that leads to significant systemic risks?

5. *System-wide costs* – does the model minimise overall system-wide costs, taking into account costs on members, employers, funds and governments?

The Productivity Commission rightly discusses member benefits as key to assessing any changes to the superannuation system. The superannuation system in Australia ultimately works to maximise retirement incomes for individuals. As such, any proposed change to policy, regulations or requirements around superannuation should only be made where it would lead to better outcomes for retirees.

Beyond supporting better retirement outcomes, it is important to consider proposals in the context of how they impact on other stakeholders in the superannuation system in order to determine whether they are a net benefit. The Productivity Commission identifies four broad classes of system stakeholders – members (or consumers); employers; funds; and government.

The following tables provide an examination of each proposal using the Productivity Commission assessment framework.

Proposal 1 – 'Active Fund Nomination' should increase employee engagement with superannuation and the incentive to make an informed fund choice.

Table 4.1: Assessing Proposal 1 – Active Fund Nomination

Stakeholder	Criteria	Impact	Discussion
Employees	Fit-for-purpose	Better	Consumers will be able to choose funds which are more fit-for-purpose
	Fees	Better	Active fund nomination will increase competition and put downward pressure on fees across the board
	Retirement income	Better	Active fund nomination should lead to better fund selection which could maximise retirement incomes. It should also encourage competition, lead to lower fees and translate to greater retirement incomes
	Outcomes for Vulnerable	Neutral	Assisted choice and 'safe' options will be necessary for vulnerable consumers in an active fund nomination regime

	Consumers		
	Simplicity	Potentially Worse	Active fund nomination compels greater individual involvement in choice of fund
	Information	Neutral	Indirect potential for increased competition to drive increased consumer information
Employers	Red tape	Marginally Worse	Some cost/administrative requirements with payments to a greater range of funds
	Cost of Implementation	Marginally Worse	Some cost/administrative requirements associated with change in forms for superannuation fund nomination for new employees
Funds	Red tape	Neutral	Proposal would not directly impact the ongoing administrative burden of funds
	Cost of Implementation	Neutral	Proposal would not directly create implementation costs for funds
	Integrity	Better	Proposal would remove existing potential principal-agency problems
Government	Competition	Better	Funds are likely to compete more strongly at a consumer level, in order to attract greater market share
	System Stability	Neutral	Proposal would not directly impact overall system stability
	Cost of Implementation	Neutral	Assisted choice and 'safe' options will be necessary as well as associated enabling legislation

Proposal 2 – 'Full Account Portability' should reduce account proliferation, lead to lower fees and translate to greater retirement incomes.

Table 4.2: Assessing Proposal 2 – Full Account Portability

Stakeholder	Criteria	Impact	Discussion
Employees	Fit-for-purpose	Better	Assisting members to contribute to a single account is likely to make them more engaged in choosing their superannuation fund
	Fees	Better	Will lead to a reduction in total fees paid by employees
	Retirement income	Better	Will improve incomes stopping unintended duplication that results in an erosion of superannuation earnings
	Outcomes for Vulnerable Consumers	Better	Proposal will improve outcomes for those employees who are unaware they are paying more fees across multiple accounts
	Simplicity	Better	Simpler for employees to keep track of their superannuation, since they will only have one account to manage
	Information	Better	Ensure that individuals will have better oversight of their current investments in considering their alternative options
Employers	Red tape	Neutral	Would not impose additional administrative burden on employers
	Cost of Implementation	Marginally Worse	Some cost/administrative requirements with payments to a greater range of funds
Funds	Red tape	Neutral	May lead to more frequent switching between funds
	Cost of Implementation	Marginally Worse	Consolidation of duplicate holdings required
	Integrity	Neutral	Unlikely to have direct impact on confidence in overall system
Government	Competition	Better	Increased competition amongst funds to retain/win customers
	System Stability	Neutral	Proposal would not directly impact overall system stability
	Cost of Implementation	Worse	Cost to ensure compliance by funds as well as associated enabling legislation

Proposal 3 – 'Enhanced Clearing House Services' should reduce complexity in the superannuation system for both employers and employees.

Table 4.3: Assessing Proposal 3 – Enhanced Clearing House Services

Stakeholder	Criteria	Impact	Discussion
Employees	Fit-for-purpose	Better	Improves efficient allocation of member (default) funds where no nomination made
	Fees	Better	Reduces likelihood of account proliferation
	Retirement income	Better	Reduces likelihood of account proliferation
	Outcomes for Vulnerable Consumers	Better	Improves efficient allocation of member (default) funds where no nomination made
	Simplicity	Better	Reduces likelihood of account proliferation
	Information	Neutral	No direct impact on this metric
Employers	Red tape	Better	Employer only needs to pay contributions to a single clearing house
	Cost of Implementation	Better	Employer only needs to pay contributions to a single clearing house
Funds	Red tape	Neutral	No direct impact on this metric
	Cost of Implementation	Neutral	Funds who already operate clearing house services may choose to continue offering this service or not
	Integrity	Better	Confidence increased under a single clearing house model
Government	Competition	Better	Increased competition amongst funds to retain/win customers
	System Stability	Neutral	No direct impact on this metric
	Cost of Implementation	Marginally Worse	May be some small additional cost associated with broadening access to SuperMatch2 system

5. Insurance in Superannuation

Insurance in super provides over nine million Australians with a foundation of life insurance cover – an estimated 92 per cent of the workforce.[21] It provides a safety net to those who would have otherwise not chosen, or not been able, to take out life insurance individually. It therefore plays a pivotal role in reducing costs to the Australian Government and providing economic and social benefits to Australians who may not engage or understand the importance of insurance.

Group life and total and permanent disability (TPD) insurance is available to almost all superannuation fund members on an opt-out basis and provides two key benefits:

1. access to life and disability insurance to individuals who would otherwise not actively seek insurance, or who would otherwise be unable to obtain it; and

2. access to life and disability insurance to individuals at a lower premium than is otherwise offered to them through comparable retail life insurance products.

ANZ's life insurance company, OnePath Life Limited, offers group life insurance that provides affordable default cover on an opt-out basis to members of superannuation funds under automatic acceptance limits (set at a superannuation fund level). This means there is generally no underwriting or medical examinations required when the life cover is provided to the member up to the fund's automatic acceptance limit. This is achieved through group insurance contracts issued to superannuation fund trustees (for example, retail master trusts, and industry superannuation funds) or to corporations (employers) who take out policies to provide protection for their employees.

Should default cover of this nature not be provided, many members would be unable to secure cover as a result of their past health history.

A review of OnePath Life's retail underwriting statistics over the past 12 months shows that[22]:

- 75.7 per cent of applicants are accepted;

- 7.6 per cent of applicants are accepted with some form of premium loading;

- 18.4 per cent of applicants are accepted with some form of exclusion; and

- 6 per cent of applicants were declined cover outright.

The provision of group life insurance inside superannuation is usually determined through a competitive tender process. Under this process, insurers respond to requests for proposals from tender managers seeking to secure the most competitive terms, conditions, and price on behalf of superannuation fund trustees. In obtaining insurance, superannuation trustees must fulfil statutory duties imposed on them under the Superannuation Industry (Supervision) (SIS) Act, and trust law generally, which requires the Trustee to act in the best interests of fund members.

[21] Rice Warner (2016a)

[22] Cover may be accepted with both a loading and exclusion. Statistics quoted based on premium value, not number of applications.

Trustee decisions should be guided by the level of life and TPD insurance that is appropriate for their membership. This will give regard to factors such as whether members are likely to have financial dependents, their age, occupation and superannuation balance.

The net benefits of group life insurance will be reduced if individuals take up default group insurance products which are not fit-for-purpose (but believe they are) and/or take up duplicative cover (but are unaware). Multiple life insurance policies mitigate the risk of underinsurance, however, as many as 25 per cent of superannuation accounts that had premiums deducted for group insurance had no contribution for at least 12 months.[23]

For this reason the Productivity Commission has rightly highlighted the problems of:

- *account erosion*, for example, if insurance is not age appropriate – for example, younger workers and workers nearing retirement are less likely to have financial dependents – and may have (life) insurance cover they do not need; and

- *account proliferation*, that is, multiple cover across multiple accounts.

ANZ notes that these issues, amongst others, are currently being examined by the Insurance in Superannuation Working Group (ISWG) which has been tasked with developing a Trustee Code of Practice that sets industry standards on insurance provided through superannuation.

5.1 Account Erosion

By providing default insurance cover to members of a superannuation fund, it is possible that some members may end up paying premiums for cover that – while in the interests of members as a whole – may not be appropriate based on the needs of specific member cohorts.

Of particular concern is the level and type of cover traditionally determined by the superannuation fund trustee for young (20-25) and older (60+) members, who traditionally have higher account balances. These two cohorts are less likely to have financial dependents and significant levels of debt. Generally, insurance needs tend to grow with the number of dependants in a family.

It is important that trustees review and model the relevant situation for their members to understand the affordability of their insurance arrangements.

Using appropriate data about fund members, super fund trustees and insurers could address the issue of inadvertent account balance erosion, and potential affordability issues, through the use of 'dynamic' age-appropriate insurance models. Such a model would alter the scale of relevant insurance coverage to give, for example, younger members less cover for a reduced premium, with automatic increases as they age, and then reduce again once the member reaches a certain age.

Research by Rice Warner[24] also canvases proposals such as removing default cover for members whose contributions have ceased and highlights other key focus areas, including:

[23] Industry Super Working Group (2017)
[24] Rice Warner (2016b)

- Funds with higher than average premiums;
- Members paying premiums at the highest occupational classification;
- Funds that provide default income protection (IP) cover;
- Members with low salaries or with intermittent contributions; and
- Members with low account balances.

Addressing these issues would ensure that insurance coverage and premiums do not unnecessarily impede the growth of superannuation balances.

5.2 Account Proliferation

One disadvantage of insurance delivered through the superannuation system is the prevalence of multiple premiums eroding multiple account balances. This problem is not caused by insurance in super per se, rather it is caused by member disengagement and unnecessary superannuation account proliferation through current default arrangements.

ANZ has put forward a number of proposals in this submission that aim to enhance member engagement and reduce the prevalence of multiple superannuation accounts.

It is envisaged that 'Full Account Portability' will reduce the incidence of individuals inadvertently holding multiple superannuation accounts. With full account portability, payments for insurance would cease when individuals change superannuation funds. Consequently this proposal also would help reduce the incidence of individuals inadvertently holding multiple group insurance policies.

5.3 'Opt-out' Versus 'Opt-in'

There has been some discussion about whether life insurance should be delivered to superannuation members under an 'opt-out' or 'opt-in' mechanism.

The most recent comprehensive review of life insurance in super that examined this issue was undertaken as part of the Super System Review in 2008 ('Cooper Review'). The Cooper Review considered in its final report that *"the risk of death and permanently disability are not remote."* Based on 2008 statistics, more than one in five families will be impacted by an insurable event in their working lives.[25]

A recommendation of the Cooper Review, subsequently legislated with bipartisan support, was that *"life insurance cover and TPD cover (where available, depending on occupational and demographic factors) must be offered on an opt-out basis in MySuper products,"* and that *"the level of default cover should instead be determined by trustees based on adequacy levels and their knowledge of the needs of their members."*

[25] Kelly S and Vu Q N (2010)

A recent research report commissioned by the Insurance in Superannuation Working Group (ISWG) found that in the context of disengaged super members, if the system were changed to an opt-in regime, as few as 2 to 10 per cent of super members would take up insurance.[26] For the remaining members, this would result in higher costs, reduced coverage and between 4 and 5 million Australians being unable to obtain insurance, either at all, or at reasonable premium rates.[27] This is because, at these reduced levels of take up, applicants are likely to be subject to underwriting, with acceptance and premiums being subject to, amongst other things, individual health and occupation.

ANZ believes that group insurance arrangements are an essential public good and an integral aspect of Australia's superannuation system.

The increase in universal default life insurance for working Australians, together with the ability to purchase additional cover, has dramatically reduced the gap between the nation's financial needs and the amounts of insurance. This consequently serves to reduce reliance on government and public sector funding arrangements for individuals in times of need.

[26] Insurance in Super Working Group (2017)
[27] Ibid

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