REFORM NEEDED TO DRIVE DOWN SUPER FEES

BY SALLY LOANE – CEO FINANCIAL SERVICES COUNCIL

We are in furious agreement with the central premise of the Grattan Report – default superannuation fees are higher than they should be.

It's not a revelation. Both Jeremy Cooper and David Murray made recommendations to address fees in default superannuation in their reviews of the superannuation and financial systems. While MySuper has contributed to the recent reduction of fees in the retail superannuation market, one of the reasons consumers are still paying too much is that the MySuper default superannuation industry is protected from competition.

The Financial Services Council has consistently advocated for reform which we believe will drive competition, create larger super funds with efficiency of scale and reduce duplicate super accounts − and consequently reduce costs and fees.

How do we get there? The first obvious lever is to open up the process to market competition by decoupling default super from the industrial relations system.

Persisting with the status quo for what is currently a complex and uncompetitive process within the industrial relations system is denying Australians access to cheaper and better-performing retail funds. This should no longer be an option.

The current process for selecting MySuper products creates unnecessary duplication and cost because it requires these products to go through three gates – firstly, to be approved by APRA, secondly to be accepted for default listing by the Fair Work Commission (FWC) Expert Panel, and thirdly to be chosen from the list by the FWC Full Bench.

The FWC process is anti-competitive because it favours incumbent award default funds by restricting the right to make submissions for selection in awards to those organisations which own industry funds – the unions and employer organisations. The vast majority of non-industry funds are locked out of the process.

The FWC selection process prevents access by some of the cheapest MySuper default funds to the market. Allowing all MySuper products to compete for default fund business will deliver lower fees.

The second lever to get costs out and fees down is to promote mergers of small, underperforming funds.

Grattan concludes rightly that: "mergers would cut costs in both the default and choice segments. The opportunity for savings is likely to be larger in the default segment because there are relatively few constraints on mergers between industry funds, which predominantly serve that segment. "

In our view, the most efficient way to drive mergers is to ensure super fund trustee boards have independent directors.

The FSC has a governance standard which requires our members to have a majority of independent directors and independent chair.

Industry funds on the other hand reject these standards - required in every other APRA-regulated financial entity and in ASX listed companies - and rely on a model of co-ownership between unions and employers.

Independent directors, acting in the best interests of their members, would be more likely to force mergers of smaller, underperforming funds, creating scale and increased efficiencies and lower costs in the sector.