Competition must come to Australia's $2 trillion superannuation sector

By Sally Loane. CEO Financial Services Council. As published in The Australian. 05/10/2016.

Our $2 trillion superannuation system is too important for consumers and the Australian economy to continue to be enmeshed in the industrial system.

Consumers who have free choice in every other facet of their financial lives should be allowed to choose a super fund on merit, not based on whether a trade union, and the industry fund it owns, has coverage over an industrial award.

The fact that Australians are good at creating level playing fields means that inevitably, protective barriers to competition which have so far shaped our mandatory savings system will be dismantled.

We removed agriculture's protective tariff barriers long ago and can now boast the most competitive, adaptable and efficient farming sector in the world.

We've bitten the bullet across much of the manufacturing sector, removing tariffs on our shoe and textiles industries in the 80s then finally cutting the flow of taxpayer subsidies to our uncompetitive car manufacturing industry.

It's been painful at times, and there is more to be done to make our industries truly competitive across the board. But no-one – except for a few new age protectionists – argues coherently that we should return to the old days when agrarian socialists and trade union closed shops ruled our economy.

Surprisingly for a nation which likes lecturing the rest of world about the benefits of competition, free trade and open markets, our massive superannuation sector – the fourth largest pool of funds in the world - remains largely untouched by the cleansing light of competition.

The biggest barrier to a level playing field is the industrial laws which set the rules in 1992 when three per cent of workers' wages were channelled into a new, compulsory super system as a wage trade-off between the unions and Hawke/Keating Government.

Twenty four years on our super system is a commendable piece of policy which is slowly delivering better self-funded retirement outcomes for most Australians.

It has however, cemented in some impenetrable barriers to competition for managing a huge chunk of the nation's super savings. Industrial laws, enforced by the Fair Work Commission (FWC), effectively prevents half the country's superannuation funds from competing for the "default" savings of Australians. A default fund is where your super goes if you don't bother to choose a fund when you sign up for a new job – astonishingly, up to 80 per cent of employed Australians may fall into this camp.

The only funds that can access this $9 billion pool are chosen by the FWC. And the only parties that are entitled to appear before the FWC are unions and employer organisations, the owners of industry super funds.

FSC member super funds offer some of the highest performing and lowest cost MySuper products, all of which have been approved by the prudential regulator APRA. Millions of consumers miss out on the benefits of competition and choice because these products cannot get past the FWC gate.

The funds allowed through the gate, selected by an industrial relations arbiter with no experience in financial services, are a dog's breakfast of varying quality and price. Some are poor quality, underperforming and expensive. Some are excellent. APRA data shows the gap in performance between the best and worst MySuper products with award listing is an astounding four per cent per annum.

Australians shouldn't have to be forced into superannuation roulette particularly when we're already forced to save for our retirement.

Some industry funds admit openly that their privileged protected position affords them great advantages.

Steve Bracks, the chairman of Cbus, recently told *The Australian* that the $32 billion fund received guaranteed inflows of $100million every month from default funds which gave Cbus an advantage in implementing investment strategy. Without this "secure funding model" he said, it would be difficult for industry funds to invest the way they do.

We could not have put this better ourselves.

Protectionist industrial frameworks deliver a "secure funding model" to the privileged few, but they also supress efficiency and innovation. When you don't have to compete for business, why would you improve products and services?

Super funds' first responsibility is to consumers, their members. The Government's responsibility is to implement policy which delivers better outcomes for consumers.

Old-fashioned protectionist fences around our super savings - the unions' "secure funding model" - have no place in a country which rightly takes pride in creating one of the world's most competitive modern market economies.

The tide must finally turn in favour of competition in the massive superannuation market. The status quo cannot remain if we want a retirement savings system which will get more Australians off the age pension and more able to fund their own futures. We've talked about this issue for almost a decade. It's time for the Government to act.