OpEd *John Brogden

The Financial System Inquiry (FSI) confirms what we have known for some time.

We have a world leading superannuation system that funds economic growth and contributes directly to the financial stability of the Australian economy.

This role is set to grow as superannuation assets increase to $6 trillion by 2030.

As it does, superannuation will provide a deep and efficient source of funding for banks and other financial intermediaries.

David Murray notes, however, that the system is not perfect and must continue to improve. Fees for default super can be lower. Competition can be approved. Superannuation boards must have a majority of independent directors, an independent chair and be free of union and industry conflicts.

Murray makes a number of recommendations to improve the reliability and efficiency of the superannuation system to ensure it provides the best outcomes for the economy and individual fund members.

The first is a recommendation to align superannuation fund governance with international best practice by requiring superannuation board trustees to have a majority of independent directors and an independent chair.

The Financial Services Council strongly supports this recommendation which, for the past year, has been the standard for retail superannuation funds who are our members.

Independents on super fund boards will improve transparency and accountability of trustees across the industry and improve investment outcomes for the economy and retirement outcomes for individuals.

Listed companies are required to have a majority of independent directors on their boards to protect shareholders. At the same time, superannuation funds expect independent directors to be on the boards of the companies in which they invest.

Yet, at almost $2 trillion, the superannuation system is larger than Australia's GDP and the ASX, but there is currently no requirement for boards managing peoples' life savings to have independent directors.

Evidence presented to the Royal Commission into trade unions showed that some employees of industry superannuation funds are being used for purposes other than maximising returns to their fund members.

It is not just the direct decisions of the board that are important, it is the culture of decision making that flows from the board through the rest of the organisation.

And the Murray Review is not the first time attention has been drawn to the issue.

In 2010, the Cooper Review into the superannuation system recommended mandating independent directors for superannuation funds.

David Murray put choice and competition at the centre of his recommendations on superannuation, strongly endorsing the principle of a consumer's right to choose their fund in a compulsory system.

He recommends that all individuals be allowed to choose their superannuation fund.

This is an important reform, as many people covered by enterprise agreements and awards must use the fund chosen for them regardless of whether they are a union member.

If Australians are forced to save a portion of their salary for 40 to 50 years they must be allowed to decide the custodian of their money.

As the report states “ . . . everyone should be able to choose the fund that receives their superannuation contributions.”

The FSC agrees and urges the Government to apply this principle to both enterprise agreements and modern awards.

While fees in default superannuation are already low, choice and competition can drive them lower.

The FSI states that fees in the superannuation industry are 1.2 per cent on average. This is misleading.

Research by Chant West shows fees in MySuper have dropped to 0.85 per cent.

MySuper is working and needs to be given time to further improve efficiency, but it must be an open market to do so.

The MySuper default sector already has a quality filter in APRA. All of the 116 MySuper products in the market have been approved by APRA as meeting the consumer protection and performance requirements that are enshrined in legislation and expected of a default superannuation fund.

By allowing all APRA approved MySuper funds to compete for default superannuation flows in an open market, the requirements of competition can be fulfilled and fees can be driven lower.

The simple and appropriate solution is to remove default superannuation selection from the Fair Work Commission (FWC) and to allow all MySuper products to compete for funds.

The FWC process is a racket where union officials dictate that their funds receive default status.

Just as the FSI recognised that superannuation boards were conflicted because of their close links to unions, the FWC process must be abolished for the same reason.

Maintaining the FWC closed shop in default superannuation will stymie competition and any further reduction in fees.

Superannuation is a world leading system but there are changes that need to be made to retain this position and ensure it achieves its goals.

To do this the default segment of the superannuation needs to be opened to market forces.

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