

April 2022

Consultation Paper CP 358 - Remaking ASIC relief on PDSs, superannuation dashboards and FSGs

Australia's superannuation system isn't doing enough to help people avoid dud superannuation products. Recent reform has given people greater choice but information about key facts about super fund performance, like fees, returns and risk have failed to keep pace with consumer's needs. ASIC has already been forced to provide relief on choice product dashboards on five occasions due to the lack of regulations. Now is the time for the government to end more than a decade of delay and help consumers to compare all products on the market.

Consumers should have access to simple comparable information about choice and platform products, as they are a key to making the superannuation market function. Without this, consumers are not in a position to determine how their product has performed or whether another product may be better. This lack of scrutiny of fund performance impairs the proper functioning of the market and means funds have decreased incentive to improve.

The introduction of the Your Future, Your Super reform means there are now better options to achieve the policy goals that dashboards set out to deliver. For example, an expansion of the Your Super comparison tool would help consumers compare their product options based on key terms. Now is the time for action by policymakers so that consumers can take control of their retirement incomes and find the most appropriate products for their super. Policy makers should be looking to conduct comprehensive consumer research to address how best to get effective product information that is understood by and meets the needs of the Australian community.

ASIC relief on super choice dashboards - Time for effective product information for all super products

Ensuring a comparison tool for choice products

The choice sector as a whole is a significant part of the superannuation industry, representing 56% (\$859 billion) of total APRA regulated member benefits (excluding defined benefits) and 35% of (7.6 million) member accounts (excluding defined benefit member accounts) as at 30 June 2020.¹ The choice heatmap released in 2021 highlighted that 60 per cent of investment options delivered returns below APRA's heatmap benchmarks over seven years. Alarming,

¹ APRA response to Senate Economics Legislation Committee question on notice, APRAQON01

more than a quarter of these products delivered significantly poor returns 50 basis points below the benchmark.² The continual delay in providing information about the returns and fees does not help consumers to avoid poorly performing products.

As part of the Your Future, Your Super reforms, 'Trustee directed products' (TDP) will be tested for the first time on 1 July 2022. Not all choice products currently fall into this category, but we would welcome the expansion of what is included over time. This will provide a welcome start to illuminating the performance on choice products directly to consumers in underperforming funds.

At a Senate Estimates this April Senator Hume confirmed that the plan is to ensure that the ATO online comparison tool is extended to include choice products.³ This is a welcome announcement given the potential harm that would flow from a lack of scrutiny over this sector. In ASIC's research on product dashboards, many participants requested a way to easily compare superannuation funds or products side by side with the information ideally provided by a trustworthy and reliable third party.⁴ Expansion of the comparison tool is not a complete replacement of high quality product dashboards. Consumers will still require and be seeking the information contained in the dashboards via fund websites. However, policy makers should view the creation of the comparison tool as an opportunity to enhance what is available on the dashboards with the addition of comparison information.

In order to bring useful, simple and accessible comparison information to consumers on choice funds, the Your Super comparison tool should be expanded as a matter of priority this year. As part of this expansion policy makers should be looking for ways to harmonise product dashboards with the comparison tool.

Recommendations

1. The Your Super comparison tool should be expanded to choice products as a matter of priority this year.

2. As part of this expansion, policy makers should look for ways to harmonise product dashboards with the comparison tool.

Ensuring superannuation information is salient, simple and accessible through consumer research

² <https://www.apra.gov.au/news-and-publications/apra-publishes-mysuper-and-choice-heatmaps>

³ Transcript of Senate Economics Legislation Committee - Estimates. Friday, 1 April 2022

⁴ Report 378 Latitude Insights - Consumer testing of the MySuper Product Dashboard and Report 455 Consumer testing of the Choice Product Dashboard

Product dashboards are intended to provide key information about products in a standardised manner on fund websites so that consumers can easily compare and make informed choices. This is a reform that Super Consumers Australia and CHOICE supported as a welcome first step to better information for consumers. However, over time the current dashboards have proven not as effective as policymakers had hoped. As such we see a need to enhance them so they can better live up to their policy intent. The Productivity Commission found in its analysis of dashboards in 2019 that while there is no shortage of information available to members, it is often overwhelming and complex. They found that dashboards should be salient, simple and accessible to be effective, but most are not.⁵

National financial literacy studies have found that less than half of Australians could correctly answer questions relating to interest rates, inflation, diversification, risk and wealth in real terms.⁶ With this in mind it is important that information about fund performance be targeted to the needs of different cohorts of consumers. Better solutions to this problem attempt to layer information so that people can engage and make decisions based on their level of knowledge. In practice, this might mean the high level information about fees, performance and whether a fund is performing or not is the first layer of information people can engage with. Whereas more complex information, such as diversification and risk may be more beneficial to those who understand its implications and could 'sit behind' the high level data on fees and performance.

3. Comprehensive consumer research is conducted to determine how best to get effective product information that is understood by and meets the needs of the Australian community.

⁵ Finding 5.3, Productivity Commission Inquiry report - Superannuation: Assessing Efficiency and Competitiveness, p57

⁶ Financial literacy Brief: Financial Literacy in Australia - Insights from HILDA, 2020