ASIC responses to Questions on Notice

Written QoN – W003

Question

1. Does ASIC's report "Disclosure: Why it shouldn't be the default" have implications for the superannuation sector? Would it be reasonable to conclude that information disclosure and choice are insufficient, and the emphasis should be placed on defaulting employees into well-performing superannuation funds?

Answer

Each of the following key limits of disclosure identified in the report apply to the superannuation sector:

- Disclosure does not solve complexity
- Disclosure must compete for consumer attention
- One size disclosures don't fit all
- In the real world disclosure and warnings can backfire in unexpected ways (p.5)[1].

In particular, the report contains two case studies about disclosure in the super sector:

1. **Superannuation dashboard vulnerable to manipulation** (pp30-31)

   Research conducted by Professor Hazel Bateman and colleagues[2] about superannuation dashboards found that:

   - the choices of more than 35% of participants were not significantly impacted by any of the prescribed information items
   - even simplified risk information was irrelevant to the decisions of approximately three quarters of participants
   - only 5% of participants used all or almost all of the prescribed information and, at times, these participants used the information in unexpected ways
   - consumer choice could easily be manipulated through the 'dashboard' form – for example, by relabelling or reweighting asset allocation information used in the pie chart.

2. **Differences in engagement with disclosure** (pp38-39)

   Relevant research[3] findings about investor and superannuation engagement with Product Disclosure Statements include that consumers engage with PDSs differently, depending on their

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[1] Page number references are to ASIC, Report 632, *Disclosure: Why it shouldn't be the default* (REP 632), October 2019.
[2] H Bateman, LI Dobrescu, BR Newell, A Ortmann & S Thorp, 'As easy as pie: How retirement savers use prescribed investment disclosures' (PDF 1.28 MB), Journal of Economic Behavior & Organization, vol. 121, 2015, pp. 60–76.
[3] Bell, S, The provision of consumer research regarding financial product disclosure documents, Financial Services Working Group, ASIC, December 2008, pp. 16–17. See Financial System Inquiry Final report (2014), p 214.

level of interest and reading style; and varied not only in how much they were interested in a topic, but also in what they wanted to know.

Consumers also differed in how they used PDSs:

- ‘visual’ people said they thought more easily when information was presented in bar and pie charts‘
- numbers’ people preferred to read actual numbers in table form
- some people referred to the contents extensively to navigate the documents
- some people ignored the contents and instead used elements like headings, dot points and colour cues.

Another component of this research found that less than half of participants were able to locate all fees in the PDS for a superannuation fund.

Key implication of ASIC’s report about disclosure relevant to the question posed include that:

- Disclosure is necessary but not sufficient to protect consumers and drive good consumer outcomes
- Financial choice involves complexity, some of which can be inherent and some of which can be strategic (sludge)
- Disclosure is incidental to the use of many defaults in public policy (where defaults are options that are automatically selected when someone fails to actively decide otherwise).

Decisions about which policy design option/s will be fit for purpose in any particular case in the superannuation sector require:

- a deep understanding of the underlying problem; and
- regard to behaviourally informed insights such as those included in the disclosure paper – for instance, by increasing regulatory focus on complexity, choice architecture and how (financial) decisions are framed and made (p52).