

Questions:

ASIC was asked for its views on the ISA and Rice Warner's Switching Report of 12 September 2017

Answer:

ISA commissioned a report by Rice Warner (the report) to assist it in responding to the Productivity Commission's (PC) review of the competitiveness and efficiency of superannuation in Australia. The report looks at switching trends of superannuation fund members and examines whether switching activity is consistent with members making informed decisions which will improve their retirement outcomes.

The report uses data from APRA, including APRA's annual fund level superannuation statistics and quarterly MySuper statistics. This is supplemented with data from Rice Warner's *Superannuation Insights*, which involves the collection of annual statement data relating to over 10 million members per annum and covers all market sectors and both large and small funds. Data on fees and investment performance have been drawn from Rice Warner's Superannuation Product database.

The data is based on the time period 2013-2015.

ASIC received a copy of the report from ISA under cover of letter dated 6 October 2017.

In summary, the report suggests that:

- 72% of members who switch, particularly those with higher account balances, are moving to a retail fund
- The increase in fees when switching to a retail fund is much higher than other destination sectors. On average, total annual fees double (noting that the switches come mainly from not-for-profit funds).
- The average historical performance (based on four year annualised returns to 30 June 2015) for those rolling into retail funds was approximately 1% p.a lower.

ISA has indicated that these results are not consistent with informed consumer decision making nor are they consistent with desirable selling behaviour by issuers.

Rice Warner acknowledges some limitations in the report. For example, at page 18 of the report, Rice Warner states they have not considered insurance, access to investment options or member services as part of this analysis. The decision to switch superannuation funds may be complex and involve some of these broader aspects, beyond fees and costs and returns.

ASIC has read the report and is still considering the implications of the findings. We will continue our work on fee and cost disclosure, which aims to make fee and cost disclosure more comparable for consumers, which should assist in more informed decision-making. We also continue to monitor the conduct of trustees and advisers as they engage with consumers.