



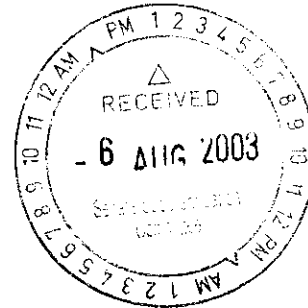
AUSTRALIAN BANKERS' ASSOCIATION

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4 August 2003

Senator John Watson
Chairman
Senate Select Committee on Superannuation
Parliament House
Canberra ACT 2600



Attention: Sue Morton (for committee distribution)

Dear Senator,

With the gazettal last week of the amending regulations to implement superannuation portability, I am writing on behalf of the Australian Bankers Association (ABA) to fully support these measures, notwithstanding the concerns that have so far been raised in submissions to your Inquiry.

The ABA believes that these regulations are in the interests of the members of superannuation funds. We support the changes to the draft regulations that have been incorporated in the final gazetted regulations, in particular the obligation on trustees of superannuation funds and retirement savings accounts to ascertain, and provide, the information that members reasonably require to make their decision. In the context in which the Australian Securities and Investment Commission (ASIC) and the ABA members are committed to bringing about an increase in the financial literacy of superannuation members, this is a positive step.

There is a simple principle underlying the ABA's position - the best governance occurs when people are informed and freely choose which financial services provider they will trust their funds with.

If there are concerns about transaction costs in transferring funds from one account to another, or the possibility that people will be pressured to frequently switch their accounts then surely more competition, and greater transparency is the answer and not less. The last major review into the financial system, the Financial System Inquiry (Wallis) in 1997 strongly concluded that greater choice in superannuation was in the public interest.

According to APRA statistics it is clear that people have multiple superannuation accounts – 25 million member accounts in the superannuation sector. This could be perceived as an excessive number of accounts, depending on your point of view or it could reflect consumer choice or inertia or some combination of both.

Consolidating many accounts into one or a few has advantages as the cost of some fees – such as certain account keeping fees, fund manager's margins – can fall as the minimum account balance rises. Yet unlike the banking sector, not all superannuation members are free to consolidate their superannuation accounts when they choose.

The portability regulations are designed to overcome the current impediments to account consolidation. It is important to recognise that there is already limited portability as all fund members can usually transfer balances on ceasing employment or at a time related to some other Superannuation Industry Supervision Act event. Further the majority of superannuation members, those with the 12 million retail superannuation accounts, can transfer balances from one fund to another at any time, and have employer Superannuation Guarantee (SG) contributions directed to the account of their choice *if the employer agrees*.

Restrictions on employees choosing the account into which their SG contributions will be paid mean that members cannot consolidate all their accounts unless their employer agrees, and only if the employer's chosen fund permits inward and outward transfers of members existing balances. Where these restrictions are in place they seriously erode competition and further may prevent members from moving from a high cost fund to a low cost fund, and from a poorly performing fund to a better performing fund.

It is not known how many employers and how many superannuation funds may restrict superannuation members in this way – in total there are 2,633 corporate funds and 122 industry funds that together have a combined total of 8.7 million member accounts.

Arguments that portability is not in the interests of superannuation members may in fact be self-interest. Those funds that are competitive will retain and attract new members, and so have little to fear.

If the concern is that superannuation members will bear the cost of poor choices, and are unable to compare fees and funds, then the solution is to deal with this directly through literacy, education and information rather than retaining restrictions on the choices of some of the people, some of the time. Informed consumers are often the best regulators and the Financial Services Reform Act measures give them a wider range of tools to effectively be so.

Concerns about costs are frequently raised in the context of portability and choice legislation.

In respect of portability there can be costs of moving from one superannuation provider to another. These can include termination or other administrative fees or a loss of benefits that are not offered by the new provider. Performance and fee comparisons are facilitated by disclosure (product and advice) and the widespread availability of consumer information, in particular the ASIC website. In this context differences in benefits and costs in moving from one provider to another are simply factors that consumers must take into account in making their decision.

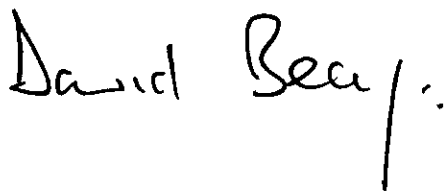
The ABA understands that there may be a concern that certain older style products in the superannuation sector will impose unreasonable fees, that will penalise consumers and that they are not aware of. These so-called *early termination fees* are not a feature of new superannuation products, are confined to older, legacy products of some life insurance providers and in some instances in the past decade consumers have been migrated out of these products without penalty. IFSA estimates suggest that these fees may apply in the case of less than 5% of funds under management.

In the ABA's view the portability regulations are a necessary first step. They cannot address the problem of multiple accounts in its entirety without the proposed choice legislation to enable employees to direct which fund their SG contributions are paid into. The ABA does not support delaying the introduction of portability (such as through the disallowance of the gazetted regulations) until the choice legislation is passed, nor half-way measures such as confining portability only to consolidation via inward transfers of member's existing balances into an employer's chosen fund.

The ABA supports the submission and evidence put to the Committee's Inquiry by the Investment & Financial Services Association (IFSA) with whom we have some overlap in membership. The ABA members have a direct interest in superannuation given that a significant proportion of Australia's superannuation funds are managed by subsidiaries of banks.

We welcome the gazettal of the portability regulations and encourage all members of the Committee to support their introduction.

Yours sincerely



David Bell

cc: Senator Nick Sherry (ALP)
Senator John Cherry (Democrats)