SALLY LOANE – LEADERS SUMMIT SPEECH

26 JULY 2017

Good morning and welcome to the FSC Leaders Summit.

I would like to acknowledge and pay my respects to the traditional owners of the land on which we meet – the Gadigal people of the Eora Nation.

Welcome to FSC Chairman Geoff Lloyd and FSC directors.

Welcome to all of our members – and those of you who are not yet members.

I want to start with good news.

Firstly, the government has announced its intention to make the 25 year old superannuation system more transparent, competitive and accountable to consumers.

Yesterday we heard the case from APRA's deputy chair Helen Rowell for enhancing their powers. APRA has long been concerned about dozens of sub-scale, underperforming funds in the market, but has lacked the powers to take the necessary action.

Central to ensuring the best outcomes for consumers in the new reform package is a requirement for all superannuation funds to hold Annual General Meetings, which can be done online.

This will make funds, and their trustees, directly accountable to their consumers. Just like the listed company environment, any member can turn up and ask questions about the management of their fund, the governance of their boards, their investment strategy.

The FSC supports proposals that increase transparency and give consumers more power and choice over one of the most important assets – their superannuation savings.

Another change flagged is to make it easier to opt out of insurance in group superannuation.

We strongly support the public policy of including insurance in group superannuation, as it provides a basic level of cover that people may not be able to afford, or may not be able to get. It's an important safety net – ASIC found that 81 cents in every dollar is paid back in claims under group cover.

However we are supportive of reforms to make it simpler if people want to opt out. Consumers need to understand the ramifications of opting out – but once they understand that, we support giving them easier options to do so.

This reform package is part of what the FSC calls Super 2.0 - a flexible and innovative model of super based on choice and competition, which will deliver better outcomes for consumers.

We have had some great discussions at the Summit already on Super 2.0 – what needs to be done to make it sustainable for the next generation. What sacred cows need to be slayed. Thank you to all speakers who've contributed genuine thought leadership.

Super 2.0 is also being enabled by SuperStream technology which has kick-started a plethora of innovative new digital products.

Massive shifts in consumer behaviours are making sweeping changes to our current system inevitable. Yesterday we heard from one of the disruptors, GROW Super, which is engaging millennial consumers in ways never thought possible.

Super 2.0 is being guided by fact-based evidence.

The Productivity Commission has already looked at what the scheme could be if the industrial laws protecting the default system were removed.

It has stated that a competitive and efficient system "is more likely to be fair, adequate and sustainable than one which is not…"

Recent research by the FSC reviewed choice and competition in default super. It found that two million Australian superannuation consumers can't chose where to invest their super due to legacy enterprise agreements.

In a sample of Enterprise Agreements, 19 per cent were found to offer no employee choice. Modern Awards see to it that 13 per cent of employers are provided no choice of the default fund they can offer employees. The research found consumers may be worse off as a result of being defaulted under a modern award or enterprise agreement into a subscale, high cost MySuper product.

The research concluded that if the default system was opened up to choice and competition:

- Fees would be reduced by $292 million each year, across the 14 million MySuper accounts in existence. This is a 13% decrease in total administration fees in the MySuper regime.
- Employees should have greater scope to choose their own default superannuation funds;
- All employees under Enterprise Agreements should be able to choose to switch away from their default superannuation fund if they would prefer to be in an alternative fund.

<u>But perhaps the most powerful forces driving the inevitable change to super are coming from the generation entering the workforce now.</u>

The generation which has grown up never knowing life without the internet or the mobile phone.

Not for them the system modelled on a male in fulltime work and the one job all his life.

Not for them the paternalism of an employer or union which tells them they must accept the fund chosen for them.

They are gobsmacked when they call HR and find that they can't move to a fund they want – whether it's a new digital disruptor; one that aligns with a personal philosophy, like Australian Ethical; or another mainstream retail or industry fund.

While super changes are here, many are not yet convinced.

The recent **Mercer Super Fund Executive Survey** found that almost 90 per cent of the fund executives surveyed don't consider seriously the threat from disruptors or technology into the market.

Two thirds were unconvinced that technology, digitisation and ease of interaction were important.

Most thought that very little would change.

I knew things had changed forever when I fired up Facebook on May 26th – just eight weeks ago – and saw the lads from the Betoota Advocate – Clancy and Errol – spruiking an ad for new super fund, GROW.

The Betoota Advocate is a satirical cult digital publication - target market is 20-somethings - which has a massive following.

The video has racked up more than 150,000 views. An ad for super!

<u>There is a plethora of new digital start ups – Zuper, Spaceship, GROW, and last week, Human Super designed for women.</u>

Why is this happening?

One: Technology. It's making complex products like super, simple. SuperStream mean digital funds use technology that can hook up with employers' payroll systems, offering one click fund transfers, and consolidation of accounts.

Two: Millennials. For this group, the model of super that was designed in 1992, is not a thing.

Unless Billy Ray Cyrus makes an RSL comeback tour, things will never be the same.

<u>In new research the FSC is releasing today Deloitte Access Economics undertook a detailed examination of the needs and behaviours of 18-34 year olds – who in just eight years' time will comprise two-thirds of the workforce.</u>

We wanted to understand what it would take to crack this nut of engagement.

Survey after survey has found that Millennials are uninterested and unengaged with their superannuatio***n.***

- They place a higher value on near-term goals like a house
- Default system encourages disengagement (why bother?)

- Trust deficit - 57 per cent of young adults feel super fees are not transparent enough; and only 23 per cent trust the industry.

- Lack of understanding and knowledge: CHOICE found disengaged young people think super is a "problem too hard to solve."

How does disengagement manifest itself?

- Multiple accounts –-more than 30 per cent of people under 29 have more than one super account; and 10 per cent have three or more. Paperwork doesn't get done - the ATO found that very few young people recalled completing their super form when they started a job, partly because they were "not interested in completing the paperwork."

The economic ramifications of chronic disengagement are dire.

- The generation which has grown up with super won't have enough for retirement, and the burden will fall on the age pension.
- In other words, the more we allow, and indeed condone apathy and disengagement, the worse off young people will be at the end of their working life, and so will we, the taxpayer.
- Conversely, achieving better engagement will mean a cohort better able to self-fund their retirements.

So – how do we get the unengaged, engaged?

Deloitte interviewed digital financial services companies, some of them start ups, and this is what they said:

Make it digital: Most super funds were set up when the internet was in its infancy. Many haven't embraced digital. Those that have, get rewarded. The Commonwealth Bank's Essential Super experienced a 37 per cent increase in members via its digital channel last year, of which almost 90 per cent were aged between 18 and 24.

Make it fun:

- NRL star Beau Ryan's "sex or finance" quiz for GROW Super on Facebook has notched up over 120,000 views. For a superannuation product!

Make it meaningful: Increasingly people want to know how their investments are impacting the world. Goodments, a startup investment app that matches investors to ESG values found 56 per cent of customers surveyed would accept slightly lower or average financial returns in exchange for good sustainable performance.

Make it simple: Some new digital funds are using the Acorns roll-up spare change model. Combined with compound interest, it's a powerful prompt and affords instant gratification.

Make it relatable: Millennials don't compare their super fund experience with other super funds, their benchmark is their experience with Uber or Deliveroo.

Millennials are designing the super funds they want to use, for their generation, because they will be the biggest customer base in the future superannuation market.

Super may well be their biggest asset. The most powerful generation on the planet today wants choice and competition. Many are dismayed to find there are still 2 million Australians who cannot, under the current industrial laws, switch to another fund.

Their aim is to smash disengagement like an avocado.

Some less exciting news.

This time last year at the Summit in Melbourne I told you that there had been 14 major reviews or inquiries into financial services since the GFC.

These reviews cost your businesses more than $3 billion and resulted in a conveyer belt of recommendations, many of which are yet to be legislated, yet alone implemented.

You will not be surprised to learn that *four* more reviews have been added since this time last year.

As we speak there is the Parliamentary Joint Committee Inquiry into Life Insurance, three stage Productivity Commission reviews of Superannuation, another into Competition in the Australian financial system, and Labor's Senate Economics Inquiry into Consumer Protections in Financial Services, all on-going.

As well, there's a taskforce conducting a review of ASIC's enforcement powers – one in particular looking at industry consumer codes in our sector.

I am sure you all want to be doing more than asking search firms to find more compliance guys. Even with the best of intentions, chasing a never-ending tail of regulation will not necessarily help consumers.

Our annual financial services CEO survey, launched last night by PwC, found CEOs are trying to keep pace with rapid regulatory change, while also trying to deliver value for customers and reduce operating costs.

Forty per cent are concerned that this constant change increases the risk of their organisation not complying with relevant laws and regulations, and that constant regulatory changes were raising the cost of compliance.

Many said that new regulations were not delivering value or the desired trust for customers and the financial services industry.

If it feels like we're walking through treacle, we are.

We want to grow. That's what business does. We want to help Australians become wealthier, and we want to contribute even more than we do now to the national economy.

Yesterday Chris Bowen outlined Labor's planned Royal Commission, making it clear that all superannuation funds would be included whilst also adding that they would do a stock take of APRA and ASIC. We would question why this couldn't be done with a more simple inquiry, instead of an expensive and time-consuming vehicle like a Royal Commission.

Our sector has undertaken substantial reform and remediation and our view is that a Royal Commission into financial services is not necessary.

<u>We in this room have much to be proud of.</u>

<u>We've introduced our Code for consumers of life insurance</u> – a mandatory Standard for our members - it has significantly lifted standards of service, accountability and consumer protections. We bolstered it with new foundation of medical definitions for heart attack, cancer and stroke. Again, a ground breaking achievement to help consumers.

The Code is governed by the independent Committee and is administered by the Financial Ombudsman Service.

This Code will be extended to superannuation trustees by the end of this year. We are working on this collaboratively with our colleagues in four superannuation bodies.

<u>As Geoff said, the FSC has established Australia's first-ever Asset Stewardship Standard.</u>

Australian fund managers are responsible for managing and growing one of the biggest pools of funds in the world - almost $3 trillion – the retirement savings of millions of Australians.

They're renowned for their expertise in managing funds in one of largest and most competitive markets in the world.

Now with the Stewardship Standard we have a set of quality benchmarks which deliver greater levels of transparency and security for investors and offer consumers best-in-class information about investments.

Our Standard has incorporated the strongest stewardship and governance elements from other jurisdictions, and in our view sets the highest bar in the world.

It is mandatory for all FSC asset manager members, however we welcome all managers of assets who are not our members, to sign up.

<u>The FSC is proud of the fact that we have strong, mandatory Standards.</u>

We are uniquely placed to take up the mantle of consumer reform so that the government can get on with its job of governing.

Proving as an industry we can regulate ourselves also strengthens consumer trust in the sector.

In this light, we are concerned about a proposal that could act as a handbrake on self-regulation.

Earlier I mentioned the ASIC Enforcement Review and its consultation paper on Industry Codes in the Financial Sector. The paper states that each Code would have to be "formulated by an incorporated code body, the board of which would include a mix of industry, consumer representatives and independent experts."

So, large administrative bodies would remove Code development and implementation from the hands of industry. The paper supports codes having base level service standards for consumers and small business.

Governments of all stripes have proven adept at creating quasi-autonomous non-governmental organisations – known fondly as QANGOS – but history has shown us they've been less adept at running them efficiently.

We favour self-regulation via Codes that are strong, binding and have independent oversight. They are flexible, agile and aspirational. They can be changed and improved consistently. They are certainly not base level – they are best practice. Self-regulatory codes are already governed by independent committees comprising industry, consumer and independent representatives.

<u>For financial advice</u>, we are entering the implementation phase of the new financial adviser education and standards requirements that will professionalise the industry.

The Financial Adviser Standards and Ethics Authority has been established with bi-partisan political support.

We look forward to working with FASEA and the advice industry for a smooth transition and implementation to the new education and professional standards framework.

There continue to be calls for a compensation scheme of last resort for both advice and product failures. Cadence economics modelling for the FSC has shown this will be very costly - at up to $300 million per year - another levy on top of unprecedented regulatory costs being placed on the industry.

<u>There's a better way.</u>

In 2012 Richard St John recommended against a last resort scheme in favour of strengthening the advice licensing framework to better place licensees in a position where they can meet their consumer compensation obligations to retail clients.

We support the view that it is better to fix the leaky bucket than suspend a safety net under it.

<u>Finally, we've done much to help the Government deliver Mark Johnson's vision to make Australia a global financial centre.</u>

We commend the Government for creating tax certainty for our Investment Manager Regime, a key part of our armoury to compete against centres like Luxembourg and the United Kingdom in attracting foreign investors to use Australian fund managers.

Strengthening our IMR against unintended consequences will create much needed certainty for foreign investors and will prevent the potential flow of billions of dollars of investment in Australia flooding to off-shore alternatives.

There is huge potential to contribute even more to the Australian economy, particularly in the export of our funds management expertise.

If we're going to fulfil our potential, particularly with the Asia Region Funds Passport, and enable our fund managers to compete internationally, the government needs to reform the last tax barrier – simplification of the complex non-resident withholding tax regime.

Australia has always played to its strengths. We've become global leaders in mining and agriculture because we have focused on these natural assets and ensured their efficiency and competitiveness.

The opportunity for exports of financial services to drive domestic economic growth as Australia transitions from a resources based economy to a services based economy, is unlimited and very exciting.

Have a terrific Summit.