

How consumers really behave will shape the next phase of superannuation



Chair of the Superannuation Consumers' Centre, Jenni Mack, says the next phase of regulation will build on current regulatory approaches to address behavioural biases that often prevent individuals from making the wisest choices.

It was really the post-war boom in consumer markets that led to independent consumer-funded organisations such as CHOICE springing up around the world. The first CHOICE magazine was published in 1960, and CHOICE today remains consumer-funded.

The whole purpose of CHOICE is to give consumers better information so that they can make better decisions in the marketplace to help drive markets. But it was President John F Kennedy who first set out the principles on which the modern consumer movement is based, in an historic speech to the US Congress in 1962.

He said consumers, by definition, include all of us. They are the largest economic group, affecting and affected by almost every public and private economic decision. Yet they are the only important group whose views are often not heard.

He outlined four consumer rights, which have become the foundation of consumer law and policy globally. They are: the right to safety; the right to be informed; the right to choose; and the right to be heard.

And in 1985 the United Nations elaborated on those rights and included some rights that go to the social justice elements and

environmental elements that underpin the consumer movement's work. And internationally today, two new rights are being debated: the right to privacy; and the right to corporate responsibility.

It's been through the lens of these rights that the consumer has viewed the superannuation industry. That means things like dispute schemes, conduct and disclosure regimes, consumer education, product safety, standardisation, competition and choice – these are all the bread-and-butter issues for the consumer movement, and all of them are relevant to the super industry.

Since the late 90s, behavioural economics has framed our work – that is, an analysis of how consumers actually behave, rather than how traditional market theory says they ought to behave. So what are the consumer benefits of compulsory super?

GREAT POLICY INITIATIVE

It ranks as one of the great social and economic policy initiatives of this country. It extended to all employees what had previously been the preserve of the highly paid, and public servants. It predicted that demographic trends would overwhelm pension payments; that the elderly would face the indignity of successive governments

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Jenni Mack
Chair, Superannuation
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eating away at their entitlements; and that baby boomers would want a long, active, healthy and well-funded retirement.

Compulsory super aimed to make Australia a more equal and cohesive place. It was about dignity in retirement, and it spoke to the community as a whole. And the consumer movement supported that policy then, as we do now.

We worked to ensure that the system included a good dispute resolution mechanism – the Superannuation Complaints Tribunal – and that the *Superannuation Industry (Supervision) (SIS) Act* had a consumer compensation mechanism. We argued for consumer education, though progress in that area is measured in generations. And today many funds have a wealth of information on their websites and increasingly a great range of tools – calculators, switching tools, lost super tools and consolidation and rollover tools. And the requirement for trustees to act in the best interests of members – as they could, in a compulsory system – has kept the industry very focused on consumer outcomes.

An example of this is the way some funds have tailored particular default

offerings to certain classes of consumers – their members – who otherwise wouldn't have had access to those kinds of products. Life insurance is a good example. Some funds have tailored life insurance where the nature of the work their members do and the seasonal patterns of their work mean they wouldn't otherwise be able to access that kind of life insurance.

DEFINING FORCE

But the social policy roots have been a defining force for the industry. It gave rise to the profit-for-members funds; and whether we agree with them or not, they have been a very powerful voice in this industry. Recently AustralianSuper chief executive Ian Silk questioned whether the industry had become too costly or over-intermediated, sounding more like a consumer advocate than an \$80 billion fund boss.

The social policy roots also mean your industry associations – and this is right across the sector – have supported things like the retention of the low-income rebate. And I do hope the industry stays together to argue for the end of concessional tax arrangements that push



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Winner: AustralianSuper
 Ian Silk,
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up costs for middle-income earners, and are quite frankly the best tax dodge in town for high-income earners.

And you have groups like Women in Super that work across the sector supporting women in the industry, but also working for better outcomes for women, reflecting their work patterns and the needs of women in particular.

But the great strength of the superannuation system from a consumer perspective is that it is built on an understanding of behavioural economics, and that was long before Daniel Kahneman's 2002 Nobel Prize or Sunstein and Thaler's book *Nudge* popularised the concept. It's the compulsory nature of superannuation that recognises that people left to their own devices wouldn't necessarily save enough for their retirement, as we saw before 1994.

COMMISSIONS HAD TO BE BANNED

Other elements of the system that are designed with behavioural biases in mind are the default fund concept; the standards in MySuper; and banning of commissions in financial advice. Of course, commissions had to be banned, because disclosure, which was the only policy tool available, was producing perverse outcomes. Consumers were found to be more trusting of advisers when advisers admitted to receiving kickbacks. They thought that "only a good person could tell me something so bad".

A great recent example of applied behavioural economics, or a "nudge", comes from Cbus. A nudge does not

require behaviour; it guides behaviour. So a nudge is serving meals on small plates to someone who want to lose weight – and making them get up and go to the stove if they want a second helping. But in 2013, Cbus sent 20,000 member statements out with estimates of retirement income in today's dollars. And compared to the control group, 12 per cent raised their contributions, 10 per cent changed investment options and 14 per cent contacted the advice team. And now David Murray's Financial System Inquiry has recommended that all funds put retirement income projections on member statements.

EMBEDDING BEHAVIOURAL ECONOMICS

The Campbell Inquiry gave us deregulation of the financial system. The Wallis Inquiry embedded today's regulatory architecture. And Murray? I think his legacy is going to be embedding behavioural economics into the policy and regulatory settings of the financial services industry. His recommendations across all chapters of his report – innovations, superannuation, consumer outcomes, regulatory architecture – are all founded in behavioural economics.

The consumer movement was pretty shocked when David Murray was appointed to head the inquiry. But if I was asked to choose a song to sum up the FSI, as I was recently asked to do, I'd choose Jessica Mauboy's "What a Man" – because what a man David Murray turned out to be for consumers. He wants to reorient the

super system so it automatically delivers on its promise to deliver a retirement income. And that's in part because when it comes to longevity, we all think we're going to live forever; but when we're asked to buy an annuity, we think we're going to die tomorrow.

Murray recognised the limits of disclosure. He recognised that policy settings put ASIC at the bottom of the cliff, cleaning up after consumer detriment. He said that product makers should bear responsibility for the suitability of their products – a kind of product safety test. He recommended bringing Australia into line with the rest of the world and giving ASIC the power to intervene earlier in the product chain before consumer detriment occurs.

And when it comes to the product governance and product intervention powers, we think they're the heart of the FSI. They put ASIC at the top of the cliff, where consumers expect them to be: preventing detriment.

THE RIGHT TO CHOOSE

But the most challenging issue for consumers in the super system has been the right to choose. Competition policy and consumer policy are bolted together in the law and in our institutions, and it's no accident that all but one of the deputy commissioners of the Australian Competition and Consumer Commission (ACCC) have been former heads of CHOICE. And Murray has now recommended the inclusion of competition in ASIC's mandate.



FUND OF THE YEAR – LARGE

Winner: AustralianSuper

Mark Delaney,
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INNOVATOR OF THE YEAR

Winner: Mercer

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DEFAULT FUND OF THE YEAR

Winner: AustralianSuper

Shawn Blackmore,
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experience and advice



FUND OF THE YEAR – MEMBER ENGAGEMENT

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Teifi Whatley, executive general manager,
customer experience and insights;
Steven Travis, executive general manager,
customer service and people

In the 90s the consumer movement supported choice in super – portability, as it’s known; the right to have a single superannuation fund that you carry with you throughout life. We still support better utilising competition in super. But the way consumers behave in complex markets makes activating competition in super particularly challenging, particularly in a digital world where we already know that consumers behave more recklessly and less profitably for themselves.

But in the meantime, the level of

intermediation in the industry provides opportunities for the funds to drive supply-side efficiencies.

While the super system is not yet mature it has begun to deliver on its fiscal objectives. It’s already generated more than \$1 trillion in savings; it’s beginning to lower pension payments; super assets now exceed GDP; and they are a key funder of our economy. It won’t be long before super assets are the primary source of capital driving our economy.

Consumers International is debating

a new consumer right: the right to corporate responsibility. Members are going to increasingly demand the industry takes more responsibility for the sort of society they want to retire into. Your retirement choices will increasingly shape the sort of society we become. Compulsory super ranks as one of the most transformative social and fiscal policies in our country’s history. ■

This is an edited version of an address given by Jenni Mack, chair of the Superannuation Consumers’ Centre, at the Conexus Financial Superannuation Awards on May 20.