

8 April, 2019

Consultation 308

ASIC

Email: Feeandcostdisclosure@asic.gov.au

RE: Review of RG 97 disclosing fees and costs in PDSs and periodic statements

ASIC's attempt to improve understanding and comparability of superannuation products is commendable. People need this information to make confident and informed value for money decisions. However, continuing to rely on the current product disclosure regime is a piecemeal solution, ill adapted to the needs of people navigating the modern financial services market.

Limitations on consumer decision making

Unfortunately too few people have the financial capability, time or inclination to make sensible use of product disclosure statements or periodic statements.

Close to 60% of people do not understand their superannuation fees and charges, and around 40% lack an understanding of basic investment options (such as growth, balanced and conservative).¹ At first glance these look like problems that can be cured by improving the way fees, charges and risk is disclosed. It is not until you consider the underlying levels of financial capability and the very real time constraints in people's lives that it becomes clear that we must move beyond the current disclosure regime as a solution.

About 30% of Australians have low levels of financial literacy.² To unpack this further, 21.5% of people lack the ability to perform calculations with whole numbers and common decimals, percentages and fractions.³ These are the very skills required to calculate fees and returns when comparing products.

Limitations of the existing disclosure regime

The RG 97 requirements attempt to overcome this by requiring funds to present fee and cost information in relation to someone with a standard \$50,000 balance. A person without the financial capability to perform the calculations required could roughly compare fees and costs across products using this method. This is highly relevant for someone with a \$50,000 balance, but becomes significantly less so either side of this benchmark. Disclosing fees in relation to a static amount via a written product disclosure statement is a 20th century solution to a 21st century problem. People need to be able to

¹ Productivity Commission, 2018, 'Superannuation: Assessing Efficiency and Competitiveness', p.23

² Productivity Commission, 2018, 'Superannuation: Assessing Efficiency and Competitiveness', p.23

³ ABS, 2013, 'Programme for the International Assessment of Adult Competencies, Australia, 2011-12', available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4228.0Main%20Features202011-12?opendocument&tabname=Summary&prodno=4228.0&issue=2011-12&num=&view>

make comparisons to real life circumstances, not against a fictionalised \$50,000 balance. If they are going to find the best value for money they need to be able to do comparisons at scale.

The scale issue

With 93 APRA regulated superannuation funds and tens of thousands of investment options, many members find it hard to make comparisons between the large numbers of superannuation products available. As the Productivity Commission (PC) found, this proliferation of options complicates decision making and increases member fees, without boosting net returns.⁴ Report 581 which led to this consultation found that using a PDS to compare products is a “laborious and time-consuming exercise”, which “would be seen by most consumers as a time inefficient process, which they would likely shortcut or avoid”.⁵

Paucity of information

Attempts to simplify information into product dashboards have been far from successful. There is still no mandatory requirement for choice products to have a dashboard, a fact which renders dashboard comparison across the market impossible.

Even where dashboards do exist they are an imperfect solution. An ASIC report in 2014 found some MySuper dashboards missed mandatory elements and some were unduly difficult to locate.⁶ This poor compliance on the part of industry has persisted through to today. Where available the MoneySmart website links to MySuper product dashboards for each of the funds. Out of the 103 funds listed only 27 contained a link to their product dashboard. According to the website, the other 76 were missing because the URL reported to APRA by the fund was either broken, missing or not a direct link to the dashboard.⁷ This begs the question, what hope does the average person have of finding simplified disclosure information if the regulator cannot?

The need for a consumer comparison tool

In the face of strong evidence that people, cannot find product disclosures, do not read them, and/or cannot understand their contents, we need a new approach to creating confident, informed consumers. The long term solution does not lie in tinkering with static disclosure documents. We recommend ASIC prioritise the proposed feasibility study into a consumer comparison tool.

The consultation paper notes that a feasibility study would require significant resources and ASIC did not want to presuppose the final report of the PC. The PC report has since been released, strongly recommending that such a comparison tool be created. Given ASIC’s core mandate is to promote

⁴ Productivity Commission, 2018, ‘Superannuation: Assessing Efficiency and Competitiveness’, p.55

⁵ ASIC Report 581, 2018, ‘Review of ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and periodic statements’, available at: <https://download.asic.gov.au/media/4824186/rep581-published-24-july-2018.pdf>

⁶ ASIC, 2014, ‘ASIC reviews MySuper product dashboards’, Media Release 14-110MR, 22 May, Sydney

⁷ ASIC, 2019, ‘MySuper funds list’, available at: <https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mysuper-funds-list>

confident and informed consumers in the financial system we see value in it continuing to pursue product comparisons.

Given the complexity of this issue, consumers and the regulator will be waiting a long time for political leadership on this issue. It is up to the regulator to unpack this complexity and use the deep expertise it has developed in behavioural insights to design a user driven comparison tool. The criticism of the PC's best in show model coming from industry largely consisted of well-worn arguments of 'unintended consequences'. There is a concern that such a change undermining the few good elements of the default superannuation market. Trialling the idea at first instance away from the default market will allow it to be refined and worked into a mature product which can then be properly compared to the existing system.

As well as trialling a comparison tool outside of the default system the feasibility study should explore what making comparable product level information publically available will deliver. Making comparable data publically available will allow for innovation in how this information would be presented and ultimately assist consumer decision making.

To be clear, we are not saying that ASIC's current attempt to improve comparability of products is a valueless exercise. To the extent that these changes are precursors to building comparison tools they are welcome additions, but should not be seen as an end-point to solving this problem.

Recommendation: That ASIC conduct a feasibility study into a consumer comparison tool.

Perfect disclosure is for naught if people are not able to find and compare on a mass scale and be prompted to do so on an ongoing basis. This competitive tension is fundamental to the market functioning efficiently. More importantly it is the policy direction that will ultimately deliver people better retirement outcomes.

Yours sincerely,



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