

The eight cylinders driving superannuation

As outcomes of major investigations and reforms for the superannuation industry and political changes put pressure on regulators and trustees alike, Mercer's Head of Corporate Superannuation Darren Stevens lists the top eight external forces to look out for in 2019.

I liken the emergence of superannuation industry inquiries and proposed reforms to that of an engine. In order to improve performance and drive efficiency, each component needs to align perfectly.

With the Productivity Commission review and Hayne's royal commission now complete and recommendations being reviewed, 2019 will be an inflexion point for superannuation participants through a wave of reform which will precede dramatic changes over this decade. Bill Gates' quote, "We always overestimate the change that will occur in the next two years and underestimate change in the next ten. Don't let yourself be lulled into inaction," has been dramatically shortened.

With that in mind, Mercer supports efforts to protect customers' balances, aid portability, provide appropriate fees and insurance and remove underperforming funds from the system. Mercer has been continuing to innovate and support its clients and customers to deal with the changes on the horizon.

Here are the eight things to watch in 2019.

1 Productivity Commission: The final report assessing the efficiency and competitiveness of superannuation released on January 10, has called for structural change to the system, removal of consistently underperforming funds and empowerment of members to make a product choice from a league table shortlist. Trustee boards will appoint appropriately skilled members, better manage unavoidable conflicts of interest and promote member outcomes without fear or favour. Regulators will have clearer roles and stronger powers to monitor and penalise trustee conduct.

2 Royal Commission: The Government has broadly agreed to the 76 recommendations handed to them from the Royal Commission report into Misconduct in the Banking, Superannuation and Financial Services however no action on legislation is

expected until after the Federal Election in May. Government support also includes activity to be taken by a regulator or third party.

Strong focus is on providing better outcomes for consumers through improved behaviour and governance with greater accountability for directors and executives, better disclosure to clients and stronger action from regulators.

3 Federal Budget: There is a degree of uncertainty with 2018's Federal Budget 'Protecting Your Super' package stalled in Parliament and an impending April budget prior to the Federal election. The superannuation industry will be watching for new measures, but while there is general industry agreement around the 2018 Budget measures to protect superannuation balances, encourage consolidation of duplicate accounts and ensure appropriate insurance is provided to superannuation members, concerns remain about some of the details and the implementation timeframe. Change and uncertainty are cascading as a Federal election looms.

4 Insurance: The new voluntary code of practice sets standards to provide greater understanding, clearer accountability and consistency of delivery for insurance benefits provided in superannuation. This combined with the 2018 federal budget proposals for insurance (such as opt in for under 25s) is seeing a flurry of activity between insurers and superannuation funds in redefining and re-pricing arrangements. Industry analysts are predicting increases in insurance premium rates of between 10 and 30 percent. The good news out of the voluntary and regulatory changes will be the removal of inappropriate, unnecessary or duplicate insurance. The challenge for trustees will be to ensure those who need or value insurance opt in to a voluntary system.

5 RG97 fees and costs disclosure: Proposed updates to the regulatory guide on disclosing fees and costs in product disclosure and periodic statements released last month show moves towards more comparable and understandable superannuation information for customers. Mercer has actively been reviewing a simpler, more succinct communication style with its own customers that includes online tools and educational material on our website.

6 APRA member outcomes assessments: New stronger standards come into effect on January 1, 2020 that will require trustees to more rigorously assess and strengthen the delivery of quality outcomes for their members. More detailed than before, it requires annual assessment of the trustee's business plan and benchmarking their performance in delivering outcomes to all members encompassing fees, investment returns, insurance, member services and educational support.

7 APRA self-assessment: Following on from APRA's Prudential Inquiry into the CBA the regulator has requested that super funds and other wealth businesses carry out a self-assessment of their risk management, governance and culture. Mercer has seen this as an opportunity to look inwards and assess its governance structure and culture with a focus on the customer, sustainability and reinforcing its leadership in the super sector. We await further conversations with APRA in later in the year.

8 Possible change of Government: Some aspects of the influences discussed above have politically polarised views and outcomes. A change of federal government would impact the likely outcomes and interactions of each area of influence, some more significantly than others. For example, a Labor Government would be likely to take a different approach to the future default fund system than a Coalition Government. And while there is bipartisan support for removing consistent under performers, how this is done may vary according to who wins the Federal Election.

This year sees recommendations from major inquiries and regulatory reforms brought into focus which will ultimately prove to be beneficial for superannuation savers over the long term.

Mercer sees these reforms as the opportunity to break away from an outdated system, using analysis and insights as a catalyst for change. We are proactively working with industry and clients to be at the vanguard for change and help shape the future of superannuation today for tomorrow.

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