Kelly O'Dwyer
Minister for Small Business
Assistant Treasurer

SPEECH
COMMITTEE FOR ECONOMIC DEVELOPMENT OF AUSTRALIA
MELBOURNE, 26 FEBRUARY 2016

E&OE

Thank you so much Professor Martin, for that very warm and generous introduction, and thank you very much to CEDA. I very much enjoy the opportunity to participate in your discussions and your deliberations. You are very much at the forefront of where great economic and social issues take central stage on the national Agenda.

This is very much a forum where ideas are shared, debated and defended and it's a forum where ideas take hold.

Ideas that are central to building an environment in which every Australian has the opportunity to prosper.

Our economic agenda

That is certainly the focus of the Turnbull Government.

We want to provide that opportunity to all Australians through a growing economy — an economy that can deliver the jobs of the future. And to do this, we have created a plan for economic growth that is built on the following key pillars:

- infrastructure investment;
- trade liberalisation;
- a sound budget;
- a resilient and efficient financial system;
- a better tax system;
- a coordinated productivity and competition agenda;
- greater workforce participation; and of course
- innovation.

But what do these pillars mean in practice? Let me give you a quick snapshot.

We are supporting the ideas boom with a major innovation package that backs entrepreneurialism and transformational ideas.

We are aligning our economy with the world's fastest growing and biggest economies with a series of game-changing trade deals.

We are progressing our $50 billion national infrastructure plan to unlock economic potential in our cities, regions and in rural areas.

We are fostering a modern and flexible workforce that employs more people, and encourages more participation.

We are developing a better taxation system that encourages greater investment to create a more competitive Australia.

These are just some of the ways the Government is building an agile and dynamic economy.

This is our plan, and by getting it right — by creating an economy that is fit for purpose in the 21st Century — Australians will have the opportunity to prosper.

Superannuation in Australia

In my time today, I would like to focus on one key aspect of the economy I haven't mentioned.

It is an industry that has a direct bearing on most Australians.

It is one so large, so far-reaching, that in the coming decades it may exceed the size of the entire banking sector.

I'm talking, of course, about superannuation.

This $2 trillion industry, which is larger than Australia's GDP, is critical to our broader economy.

Our superannuation industry is the fifth largest private pension fund market globally, only behind the United States, the United Kingdom, Japan and Canada.[1]

And Australian superannuation assets are projected to increase to over $9 trillion by 2040.

This is a system that people are forced to contribute their money to, with compulsory contributions currently set at 9.5 per cent of an employee's ordinary earnings.

In addition, taxpayers support this system by way of concessional tax arrangements.

Given all this, our system can't simply be 'good enough' – it must be an A-grade, 21st Century superannuation and retirement income system.

[1] https://www.willistowerswatson.com/en/insights/2016/02/global-pensions-asset-study-2016

After all, as former Treasurer John Dawkins said when he introduced the Superannuation Guarantee legislation "The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the Age Pension alone… self-provision will increase the flexibility in the Commonwealth's budget in future years, especially as our population ages and will increase our national savings overall …"

At the time, it was also hoped that legislated superannuation would relieve future pressures on the Age Pension – to provide income in retirement that can substitute or supplement the age pension. As such, the Government is committed to delivering the best possible outcomes for everyday Australians who are required to contribute.

We want to encourage people to engage, and we want to protect those that are disengaged.

That means we need a system that is more flexible, more transparent and offers greater choice. In other words, a system that is the very best it can be.

It is what Australians expect, and it is what they quite rightly demand.

Governance reform

The Government is delivering on our vision for an A-grade superannuation system with a series of interconnected reforms. Some are well-advanced; others are on our agenda for the year ahead.

The first of those I want to focus on is governance reform.

Superannuation is very different to what it was 20 years ago.

When the Superannuation Guarantee system was introduced in 1992, it was a small industry dotted with many stand-alone corporate funds.

This was the landscape in which governance arrangements were set. With the new system, it was seen as vital to have equal numbers of employer and employee representatives on superannuation fund trustee boards — allowing both to have oversight and responsibility.

And this is largely how it has stayed.

But time marches on. Superannuation isn't a nascent industry anymore.

Superannuation funds are more open than ever before to the public. They are large and complex businesses.

Today, directors appointed by employer and employee groups are increasingly less likely to represent the broader membership of those funds.

An industry as big as superannuation, and this important to our financial system, should have the highest standards and best practices when it comes to governance.

We know that good governance — such as having independent directors on boards — is critical for achieving the best possible long-term results for members. Good governance promotes confidence in a fund's leadership, its capacity and in its capability. A diversity of skills and backgrounds on boards is important to optimizing performance, and superannuation boards are no exception to this.

But right now, many super funds are out of step with many other parts of the economy.

They are certainly out-of-step with other prudentially regulated sectors, such as banking and insurance, which are required to have a majority of independent directors.

That is the minimum. And it is done to improve performance and accountability.

I say that it is time we raised the bar.

It is time the superannuation industry had a governance structure that reflects the world in which we live today.

Ask yourselves this: If Australians are being forced to put their money into the superannuation system, shouldn't superfunds have the highest quality, best equipped board leadership?

Shouldn't they be afforded the same, if not higher, standards of governance?

The reality is that by clinging to an old set of governance rules, the superannuation industry is not only at risk of being left behind — it is being unfair to everyday Australians required to participate in our super system.

Cbus Super

To see instances of this, we need look no further than some of the findings of the recent Royal Commission.

Let me give you a quick example: the privacy violation at Cbus Super.

For those who are unfamiliar with it, Cbus Super was a default super fund for a building company, Lis-Con. In 2013, the CFMEU was involved in an industrial dispute with Lis-Con.

Cbus then provided the personal information of its Lis-Con members to the CFMEU to assist them in that industrial dispute.

It appears this was not an isolated incident. According to the Royal Commission interim report, KPMG identified 59 incidents where Cbus members' personal information was emailed externally between 1 January 2013 and 12 May 2014. [2]

[2] https://www.tradeunionroyalcommission.gov.au/reports/Documents/InterimReportVol2.pdf at 241 and

Cbus commissioned an independent review by Professor Graeme Samuel AC and Mr Robert Van Woerkom.

That review recommended that Cbus reflect the chair's independence in the constitution and consider appointing directors with 'no association with the sponsoring organisations'.[3]

The Government agrees with both of these recommendations. We firmly believe that if there were better governance standards, these situations would be much less likely to happen.

That is why last year we proposed a Bill, currently before the Senate, that will see all super funds having one-third independent directors, including an independent chair on their trustee boards.

This modernised structure would be a win–win – for both boards and their members. It would see an outpouring of new ideas. It would mix up the skills, and broaden the views and experience at the table.

Responding to the myths

So with all of this in mind, I was disappointed last year to see a dishonest campaign run against a common-sense proposal.

Let me respond to a few of those myths.

The first myth is that there is no reason for change — that this is simply an ideological move by a Coalition Government. That is wrong.

The recent Financial System Inquiry, which looked at superannuation, recommended that a majority of directors — not just one-third — be independent and recommended an independent chair.

Meanwhile, the Cooper Review under the previous Labor Government recommended a minimum of one third independent directors.

That is two independent reviews both refuting the notion that we can continue on the same path, both recommending change in the interests of members.

Another myth is that the Government wants to end equal representation. That is also wrong.

The Government's Bill simply proposes that one-third of directors be independent — not a majority — and proposes an independent chair.

Beyond this, the composition of the board is at the discretion of the board. They will be free to enshrine equal representation in their constitutions, if that is what they want.

---

[3] http://www.cbussuper.com.au/about-cbus/news/latest-news/cbus-independent-review-recognises-funds-member-focus

The last myth that I will mention today is that this is a targeted campaign against industry funds. That is also wrong.

There are around 242 funds, only 43 of which are industry funds.

Our governance reforms apply broadly. They are not specific to one particular part of the industry — they will reach across and apply equally to corporate, retail and industry funds.

As I have said publicly many times, the Government does not have a problem with industry funds. While some of the most recent examples of problems do relate to industry funds, these problems are not exclusive to them.

Let me stress again this is not about values and ideology.

Our reform is about outcomes, performance, accountability, and consumer protection. It is about safeguarding the money and retirement futures of millions of Australians.

That is why we have received positive feedback on our proposal from many corners.

For example, on Monday this week Ken Henry AC, the former Treasury Secretary, was reported in the Australian newspaper as saying that it was time that industry funds accepted the need for new governance standards as advocated by the Government and that the argument that 'the system isn't broken, so why fix it?' was a bit like saying a house that hadn't been torched shouldn't have insurance.[4]

There was more this week with Women on Boards executive chair Ruth Medd reported as saying the industry fund lobby was wrong to resist changes.[5]

David Gonski AC, in this month's Investment Magazine, is quoted as saying "If you are representative it is very hard to keep your independence of mind, because if you are doing your job by acting as a representative, you actually have a conflict to represent and to be independent. It is much easier for a person to have independence of mind where they genuinely are independent."[6]

Upcoming legislation

I now want to move on now to highlight two other areas where the Government expects to introduce legislation in the coming weeks.

Choice of fund

The first is to provide more employees with the ability to choose the superannuation fund that receives their money.

---

4 John Durie, 'Henry's super idea', The Australian, 23 Feb 2016
5 Sally Rose, 'Medd attacks super stance', AFR, 25 February 2016
6 David Rowley 'Black and White', Investment Magazine, Feb 2016

Currently an estimated two million employees do not have the opportunity to choose their own fund. A common way this can occur is through enterprise bargaining agreements and workplace determinations, which may mandate a given super fund or funds and satisfy choice of fund requirements.

We want people to be able to make choices about their retirement income. We want them to be active in making decisions about their future and so the Government will extend choice of fund to employees under enterprise agreements that are made from 1 July 2016. This will eventually give choice to around 800,000 of the estimated two million employees who currently don’t have it.

This change is designed to let people take control of their superannuation to improve retirement outcomes. It’s about employees being able to choose the fund that best suits their needs, be it an industry fund, a retail fund, or a self-managed superfund.

Extending choice of fund was recommended by both the Financial System Inquiry and the Royal Commission into Trade Union Governance and Corruption.

The benefits of being able to choose a fund includes avoiding duplicate fees and insurance premiums, ultimately saving members’ money.

Fees as we know, can have a big impact on retirement savings and income in retirement.

Analysis in the Financial System Inquiry showed that, for a male on average weekly ordinary time earnings, a 30 basis point reduction in average superannuation fees in APRA-regulated funds could provide up to $2,000 per year in retirement income. That amount could pay for a retired couple’s building and contents insurance or phone and internet. In fact this could pay for anything that that person chose to spend that money on.

Choice can also increase competition between funds for members, which may drive lower fees. In the broader industry it encourages competition and it encourages member engagement.

I have heard the view put that choice should be restricted on the basis that individuals don’t always know what is in their best interests and that so many people are disengaged.

I reject this.

For those who want to make their own decisions about their own money and their fund, they should be able to do so – with default funds as a back stop for those who are not engaged.

Transparency

The second area where the Government expects to introduce legislation in coming weeks, is in relation to our election commitment to improve transparency and comparability of information to help them make choices about where their money goes.

Transparency, through improved disclosure, is critical to the efficient operation of Australia’s market based superannuation system. It improves understanding, awareness and engagement across the community.

The 2010 Cooper Review found that Australia's superannuation system is characterised by a lack of transparency, comparability and, consequently, accountability. It recommended the disclosure of portfolio holdings and product dashboards.

The frameworks for the choice product dashboard and portfolio holdings disclosure regimes were legislated by the previous Labor Government in 2012, however the regimes are currently not operational because the existing law is overly onerous and creates significant compliance costs on industry making it effectively unworkable.

Superannuation funds have indicated that while they strongly support increased transparency across the superannuation sector, the compliance costs of current legislation, which most likely will be borne by members, are excessive.

International market financial analysts Morningstar recently gave Australia a 'D' rating for disclosure in its Global Investor Experience Report, noting that Australia remains the only country out of the 25 assessed without any working periodic mandatory portfolio holdings disclosure.

The portfolio holdings disclosure regime that we are implementing will require funds to publish, for each investment option, information about the nature and value of financial products or other property that it, or an associated entity, has invested in. Information relating to the first investment in non-associated entities will also need to be disclosed.

This will provide members with information as to where their contributions are being directed.

Through consultations on draft legislation, we have heard concerns about disclosure of the value of unlisted infrastructure and in relation to the start date, and we will have more to say on the way forward shortly – we recognise that these are significant issues.

Moving to the product dashboard now, the legislation will require funds to have product dashboards for the 10 largest choice products by funds under management. Limiting to the top ten is designed to facilitate meaningful disclosure without overwhelming consumers, and also to minimise compliance costs for funds.

Treasury estimates the choice product dashbards will capture over 70 per cent of all choice investment options.

Superannuation funds will also continue to be required to provide product dashboards for all of their MySuper products.

This will mean that product dashboards will be provided for all of the major investment options offered across the entire superannuation sector. The changes again will apply equally to corporate, industry, retail and public sector funds.

In implementing our election commitment in this area, the Government is seeking to find an appropriate balance between increasing transparency in the superannuation industry and minimising the current compliance cost.

Ensuring that the requirements are workable for the industry will allow the benefits of increased transparency to be achieved – which is ultimately in members' interests.

Concluding remarks

I've talked about three important reforms that the Parliament will soon be considering, but work is well progressed to deliver on other aspects of the Government's Financial System Program in response to recommendations from David Murray's Financial System Inquiry.

Last week the Treasurer and I released Terms of Reference for the first two stages of a Productivity Commission review — a review that will look at the efficiency and competitiveness of the entire superannuation system.

The Government will also announce the results of its retirement income streams review shortly and we are progressing work on comprehensive income products for retirement. We want to facilitate better retirement products that allow retirees to improve their standards of living.

In conclusion, I note that the superannuation system is growing every day. It touches the lives of millions and millions of Australians right across our nation, and its importance to our economy cannot be underestimated.

We need a system that is more flexible, more transparent and offers greater choice — in short, a system that works for all Australians.

And that is what the Turnbull Government is delivering.

Thank you.