

CPRC submission to the Productivity Commission's *Superannuation: Assessing Efficiency and Competitiveness* Draft Inquiry Report

20th July 2018

Ms Karen Chester and Ms Angela MacRae
Deputy Chair and Commissioner
Productivity Commission

Dear Ms Chester and Ms MacRae,

The Consumer Policy Research Centre (CPRC) welcomes the invitation to comment on the Productivity Commission's *Superannuation: Assessing Efficiency and Competitiveness* Draft Inquiry Report.

CPRC is an independent, consumer research organisation which undertakes research to inform policy reform and business practice change. Our goal is to achieve a fair outcome for all consumers. We conduct research across range of consumer markets, with a focus in 2018 on consumer decision-making, housing and consumer data.

Though CPRC has had limited engagement with the PC's Superannuation Inquiry thus far, we broadly support many of the recommendations outlined by the Productivity Commission, particularly with regard to improving the conditions for consumer choice and decision-making in what is a particularly complex market. We strongly endorse the Productivity Commission's consideration of the behavioural economics literature and position on rigorous consumer research and outcomes measurement. As is the case with any reform intended to change consumer behaviour, an evidenced-based approach requires ongoing monitoring of the information, tools and platforms use when making decisions, as well as an ongoing evaluation of the outcomes.

CPRC has recently undertaken a research project considering the demand-side settings necessary to facilitate effective product/service choice, where consumers are required to make choices about products or service. Our report, *Five Preconditions of Effective Consumer Engagement – a conceptual framework*, draws on much of the behavioural literature on consumer decision-making and outlines a range of interventions across different sectors to demonstrate how the preconditions might be implemented by regulators and policymakers.

We attach the report in full to this submission and consider the reforms proposed through the *Superannuation: Assessing Efficiency and Competitiveness* draft report through this lens.

If you have any queries about this submission, please don't hesitate to contact Ben Martin Hobbs on 03 96379 7600 or ben.martinhobbs@cprc.org.au.

Yours sincerely,



Lauren Solomon

Chief Executive Officer

Consumer Policy Research Centre

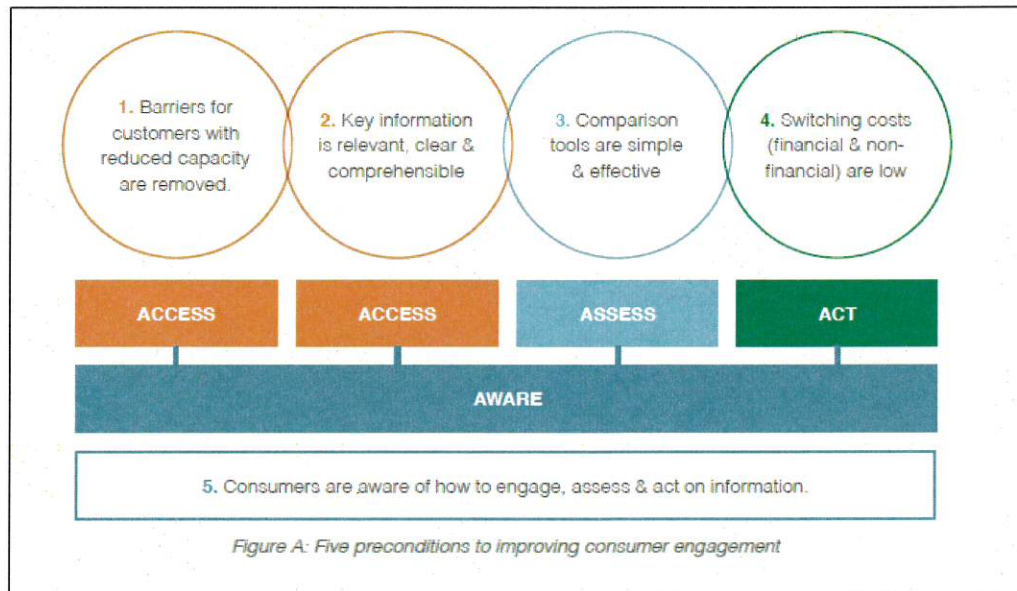
CPRC submission to the Productivity Commission's *Superannuation: Assessing Efficiency and Competitiveness* Draft Inquiry Report

CPRC's *Five Preconditions of Effective Consumer Engagement – conceptual framework* was developed in response to a range of consultation processes considering various interventions to address “disengaged consumers” and falling trust in markets to deliver positive outcomes for consumers.¹ This began by identifying the variety of causes of consumer disengagement in complex markets and considering what conditions might be required to address these different aspects.² The *Five Preconditions* (Figure A) identified in our report are as follows:

- **Precondition 1 - Barriers to access for consumers with reduced capacity or vulnerability are removed** - Fair access to markets requires outreach interventions and direct assistance mechanisms which address barriers for vulnerable consumers experiencing reduced capacity.
- **Precondition 2 - Key product information is disclosed in a relevant, clear and comprehensible manner** - Consumers can easily assess information about different products or services, potentially through comparison tools, to enable simple and accurate comparisons
- **Precondition 3 - Comparison tools are accurate, simple and effective** - Consumers can easily act on key information to switch providers with minimal financial or thinking costs which can create barriers to switching to a product that better suits their needs.
- **Precondition 4 - Switching costs (financial and non-financial) are low** - Consumers can easily act on this information, with minimal switching costs or thinking costs that create barriers for consumers to switch from their current provider or product to an alternative that better suits their preferences.
- **Precondition 5 – Consumers are aware of how to access, assess, and act on information** - Consumers need to be made aware of how they can access support and key information, compare offers and switch providers. If consumers are unaware of any of these former preconditions, they may disengage regardless of the quality of interventions to address these elements.

¹ CPRC, *Five preconditions of effective consumer engagement – a conceptual framework*, March 2018, 2.

² *Ibid.*, 13.



Precondition 1 - Removing barriers for consumers with reduced capacity or vulnerability

The first of CPRC's preconditions requires that barriers to accessing suitable products and services, and information about those products and services, are removed for those encountering disadvantage and vulnerability. As outlined in CPRC conceptual framework, consumers with limited capacity will often require targeted outreach and intervention strategies to ensure fair access to information and products.³

In its draft report, the Commission has raised the issue of financial literacy (**Draft Finding 5.1**) as a key barrier to engagement in superannuation. We would echo this, but encourage the Commission to consider other factors that might inhibit engagement and the variety of causes of disengagement.⁴ According to the Australian Bureau of Statistics, 54 percent of Australians (aged 15-74) are functionally innumerate and 44 percent of Australians (aged 15-74) are functionally illiterate.⁵ This means they fall below Level 3 literacy/numeracy and do not meet 'a suitable minimum level for coping with the increasing demands of the emerging knowledge society and information economy', according to the Programme for the International Assessment of Adult Competencies metrics. Low literacy and numeracy - along with a range of other factors of disadvantage and vulnerability - can also create barriers to engagement.⁶

Moreover, individuals' cognitive bandwidth may be more limited when an individual is affected by poverty, as outlined in *Scarcity: Why Having Too Little Means So Much*, by Harvard economist Sendhil Mullainathan and Princeton psychologist Eldar Shafir. This is striking because it means that vulnerable and disadvantaged consumers may encounter larger cognitive barriers when making complex decisions, precisely when they need help most. In CPRC's five preconditions framework, we outline a range of factors of disadvantage

³ CPRC, *Five preconditions of effective consumer engagement*, 24.

⁴ *Ibid.*, 13.

⁵ Australian Bureau of Statistics, *Programme for the International Assessment of Adult Competencies, Australia, 2011-12, 2013*, Excel spreadsheet, cat. No. 4228.0

⁶ CPRC, *Five preconditions of effective consumer engagement*, 24.

as well as outreach mechanisms from across different sectors that may be of relevance in assisting vulnerable and disadvantaged individuals.⁷

Often, remedies will require collaboration across the private, public and community sectors to deliver support programs. These remedies are generally social policy focused by nature and will require complementary government policies to operate effectively alongside regulatory frameworks. Tailored outreach and intervention strategies should be developed for these specific consumers segments.

The Productivity Commission might consider recommendations for how frontline and community workers - who provide financial advice to consumers with reduced capacity – will be made aware of the reforms and whether adequate resources are being provided to ensure these workers are trained and supported to provide this information to vulnerable and disadvantaged consumers.

CPRC would encourage the Productivity Commission to consider, in particular, consumers' limited digital access and digital literacy when developing recommendations. The latest ABS data finds 13.2 percent of Victorians did not have access to the internet at home in 2016-17, which has remained largely stable since 2014-15.⁸ The 2017 Australian Digital Inclusion Index findings – which measures access, affordability and digital ability – demonstrates the ongoing digital divide between different demographic groups. For example, inner city Victorians score highly for internet access (89.4), basic skills (63.1) and activities (45.4.1).⁹ By comparison, northern Victorians score poorly across those same measures of access (77.4), basic skills (43.7) and activities (30.8).¹⁰ There is also a clear discrepancy between Victorians aged 25-34 who score highly for overall digital ability score (60.4) compared with those aged 65+ (30.3).¹¹ While these trends are broadly replicated country wide, the Index also notes a growing minority of Australians, one in five, only accesses the internet through their mobile phone or via an internet dongle, and recorded lower scores across the board.¹²

Digital literacy is particularly relevant when developing online tools – such as the centralised online service to be developed by the ATO (**Draft Recommendation 1**). An Australian survey of consumer understanding internet use found only 62 percent of all of respondents were able to distinguish between a paid-for advertisement (marked by an “Ad” notification) and an organic search result conducted through Google’s search engine.¹³ Younger respondents (18-24 year old) were more successful in identifying the sponsored advertisement (74 percent), compared with respondents in the 35-44 age bracket (55 percent) or the 65+ bracket (56 percent).¹⁴ The study found that those with graduate or post-graduate qualifications (71 percent) were better able to identify sponsored content compared with those without a tertiary education (51 percent), yet this suggests sizeable portion of tertiary educated Australians still have difficulty identifying organic search results.¹⁵

These findings have consequences for interventions that rely on online tools to improve comprehension, comparison, and switching from underperforming funds to better performing funds – such as the centralised online service to be developed by the ATO. Professor Cass

⁷ CPRC, *Five preconditions of effective consumer engagement*.

⁸ ABS, *8146.0 - Household Use of Information Technology, Australia, 2016-17*, 2018

⁹ Julian Thomas et al., 'Measuring Australia's Digital Divide: The Australian Digital Inclusion Index 2017' (Melbourne: RMIT University, for Telstra, 2017), 28.

¹⁰ *Ibid.*, 29

¹¹ *Ibid.*

¹² *Ibid.*, 23.

¹³ Angela Daly and Amanda Scardamaglia, 'Profiling the Australian Google Consumer: Implications of Search Engine Practices for Consumer Law and Policy', *Journal of Consumer Policy*, 10 May 2017, 15.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

Sunstein has recently argued that **navigability** should be the central aim of any *nudge*.¹⁶ This is particularly pertinent for individuals encountering disadvantage or vulnerability, but is applicable to all consumers encountering complex markets. In his Holberg Price Address, Sunstein cited MIT scholar Ester Duflo:

‘We tend to be patronising about the poor in a very specific sense, which is that we tend to think “why don’t they take more responsibility for their lives?” And what we are forgetting, is the richer you are the less responsibility you need to take for your own life, because everything is taken care of for you. And the poorer you are the more you have to be responsible for everything about your life... Stop berating people for not being responsible, and provide the poor with the luxury the rest of us have, that a lot of decisions are made for us.’

Any interventions and reforms to superannuation should improve the **navigability** of the process for individuals, particularly those who already encounter various barriers to engagement. We support the oral submissions of CHOICE that the system should start with consumer choice but offer individuals more support and guidance to ensure they can make a decision that results in good consumer outcomes.

- **Recommendation 1** - CPRC would encourage the Commission to consider interventions, mechanisms and remedies for vulnerable customers should consider the specific types of vulnerabilities and barriers being experienced.
- **Recommendation 2** - Any interventions and reforms to superannuation should improve the navigability of the process for individuals, particularly those who already encounter various barriers to engagement

Precondition 2 - Key product information is disclosed in a relevant, clear and comprehensible manner

CPRC strongly supports the Productivity Commission’s findings and recommendations to improve access key information about different superfunds. CPRC’s second precondition of effective consumer engagement requires key information is clear, accurate and comprehensible.¹⁷ Academics Andreas Oehler and Stefan Wendt have argued there are *necessary conditions* for good information for financial products. These include transparency, comprehensibility, and comparability.¹⁸ Information that does not meet these prerequisite conditions considerably hampers the trustworthiness and usability of this information, and may limit engagement.¹⁹

As noted by the commission (Draft Finding 5.3), there is no shortage of information to members, but this is often overwhelming and complex. The commission notes there are signs of unhealthy competition, with 40,000 investment options available to consumers it is hardly surprising consumers are overwhelmed and disengage from the process.

Key information about superannuation and associate insurance products (including trailing financial adviser commissions) needs to be simple, comparable and easy for members to understand (**as per Draft Recommendation 21 and 13**). The Financial Conduct Authority

¹⁶ Cass Sunstein, ‘Misconceptions about nudges’, *Journal of Behavioural Economics for Policy*, 2, No. 1, (2018): 61-67.

¹⁷ CPRC, *Five preconditions of effective consumer engagement*, 29-34.

¹⁸ Andreas Oehler and Stefan Wendt, ‘Good Consumer Information: The Information Paradigm at Its (Dead) End?’, *Journal of Consumer Policy*, 10 December 2016, 183.

¹⁹ *Ibid.*

(FCA) in the UK has already piloted a consumer facing scorecard for different kinds of insurance, with measures that include claims frequencies, claims acceptance rates and average claim pay-outs.²⁰ The Productivity Commission and ASIC might consider this pilot and adopt similar measures to help consumers identify whether insurance associated with their super is value for money.

Alongside key financial information around returns, fees, and risk, ASIC might consider ensuring other key information about superannuation funds, insurance or the financial advice provided, is also easily available and comprehensible. While the focus of Commission's report has primarily focused on improving the quality of pricing information, CPRC strongly encourages the future consideration of **service and quality information** in assisting consumers compare different superannuation products and insurance offerings. Research indicates consumers do value information about the quality of service, yet consumers currently cannot easily compare the quality of advisory services *before* they choose a superannuation fund or insurer.²¹ We note that the recent *Modernising consumer markets: consumer green paper* produced by the Department for Business, Energy & Industrial Strategy in the UK has outlined that the key regulators – Ofgem, Ofcom, Ofwat and the Financial Conduct Authority (FCA) have committed to producing consumer facing measures where relevant, to improve accountability as 'sunlight remedies'.²² The consultation paper notes:

Publication of this data will allow the government, regulators and consumer groups to monitor performance and hold suppliers and digital comparison tools to account for their customer outcomes. They will enable good performers to demonstrate progress and drive poor performers to take action to improve. Performance data could also be used by digital comparison tools to help inform customer choice.²³

We do note that in recent media ASIC has 'plans to publish swathes of data on the performance of [superannuation] products would be a "game changer" for consumers, identifying "outlier" companies'.²⁴

CPRC is currently undertaking a research project exploring the potential to use existing regulatory and reporting data, along with other service quality information to better support consumer choice and decision-making. We would welcome further discussions with policymakers and regulators on options to develop a meaningful and relatable consumer service and quality metric for consumers choosing between superannuation providers.

Meaningful information disclosure should also consider transparent and accessible **terms and conditions** (particularly with regard to insurance), and that **industry jargon** is minimised, or explained in a way that less financially literate individuals will understand.²⁵ Recent CPRC research has found that 94 percent of consumers do not read all privacy policies, while 67 percent of those who read at least one policy accepted terms they were

²⁰ Financial Conduct Authority, *General Insurance value measures data – year ending 31 August 2016*, 25 January 2017, <https://www.fca.org.uk/publications/data/general-insurance-value-measures-data-year-ended-31-august-2016>

²¹ Hannah Wootten, 'Ten per cent of members plan to swap superannuation fund', *Money Management*, 22 November 2017, <https://www.moneymanagement.com.au/news/superannuation/ten-cent-super-members-plan-swap-fund>

²² Department for Business, Energy & Industrial Strategy, *Modernising consumer markets: consumer green paper*, April 2018, 25-26

²³ Ibid.

²⁴ Ben Butler, 'ASIC's new powers "to clean up industry"', *The Australian*, 18 July 2018. <https://www.theaustralian.com.au/business/financial-services/asics-new-powers-to-clean-up-industry/news-story/325d7f9011d1bc5d32e01991b2a4af16?csp=f54ea9afe6f3dde74f40b8f2f5cea748>

²⁵ Paul Harrison, Laura Hill, and Charles Gray, 'Confident, but Confounded: Consumer Comprehension of Telecommunications Agreements' (Sydney: Australian Communications Consumer Action Network, 2016), 16.

not comfortable with.²⁶ Semiotics research from the UK retail energy market has found the poor quality of communications in energy markets may result in what psychologists refer to as ‘learned helplessness’ – where consumers consider efforts to understand energy markets as futile and, instead, disengage from market participation altogether.²⁷ Low financial literacy has implications for consumer choice and comprehension of the products that they buy - a recent study from ME Bank found that 38 percent of respondents admitted they had ‘no understanding of interest-only repayments’.²⁸ While tools such as Easy English and cartoons can help explain complex concepts and terminology, other novel approaches are being developed to better communicate contracts or terms and conditions. For example, academics Camilla Baasch Andersen and Adrian Keating at UWA developed a three-panel cartoon to explain a full non-disclosure contract to help engineering students understand their legal obligations.²⁹ Elsewhere, an American insurance firm *Lemonade* has developed an open source insurance policy to crowd source comprehensible language and help to provide a clearer disclosure as to what is and isn’t covered.³⁰

- **Recommendation 3** - CPRC strongly supports recommendations 13 & 21 for ASIC to enforce standards for meaningful disclosure of key information about superannuation and associated insurance products – default or otherwise. We recommend ASIC consider whether data relating to service and quality information could be made public and presented in a comprehensible format to improve consumer choice.
- **Recommendation 4** - CPRC strongly encourages the Productivity Commission and ASIC to consider how complex technical information and data can be made more comprehensible for consumers. We recommend extensive consumer research and comprehension testing with consumers to determine the efficacy of any associated reforms.
- **Recommendation 5** - CPRC strongly supports recommendation 20 to increase APRA’s role to ensure legacy superannuation products are delivering consumers with positive outcomes and embed product-level reporting to enhance transparency. Greater transparency and reporting in relation to product features and performance are critical both to enable industry-level analysis and potentially inform consumer choice (**Draft Recommendation 20**). Consistency in reporting practices can also enable greater comparison and transparency for all parties.

²⁶ CPRC, *Consumer data and the digital economy – emerging issues in data collection, use and sharing*, June 2018, 30-31.

²⁷ Fletcher, ‘Role of Demand-Side Remedies’, 29.

²⁸ Jonathan Shapiro, ‘One in 3 interest-only borrowers don’t understand their loans: UBS’, *Australian Financial Review*, 4 October 2017. <http://www.afr.com/business/banking-and-finance/financial-services/one-in-3-interestonlyborrowers-dont-understand-their-loansubs-20171004-gyu2qh#ixzz56V8izjkO>

²⁹ Camilla Baasch Andersen, ‘Comic contracts and other ways to make the law understandable’, *The Conversation*, 18 January 2018. <https://theconversation.com/comic-contracts-and-other-ways-to-make-the-law-understandable-90313>

³⁰ <https://www.lemonade.com/policy-two>

Precondition 3 - Improving the ability to assess offers through comparability and consistency of pricing information across different mediums

The third precondition of effective consumer engagement is that consumers can quickly and easily compare different market offers – which is essential for consumer participation in markets.³¹ As outlined, consumers need to be able to compare products and services using consistent information across different mediums to effectively assess the different offers.

CPRC strongly endorses the Commission's recommendation for ASIC to develop a member-friendly dashboard for all products in a single-page product dashboard - as informed by robust consumer testing (**Draft Recommendation 9**). We note similar experiences in attempting to develop product disclosure information tools in the energy (energy price fact sheets), telecommunications (critical information summaries) and banking (product disclosure statements) sectors. One of the key learnings from similar attempts has been that while consistent information disclosure is necessary, it is not sufficient alone to enable effective comparison. For the disclosure to be effective, consumers must be able to receive, comprehend and compare the product information via a format and tool that best suits their needs.

The information itself must also feature in the decision-making journey and comparison process for the majority of consumers. Simply developing a dashboard which is not in the format, via the channel or accessed at the appropriate time will not ultimately result in consumers making more informed choices.

We would encourage ASIC to engage in comprehension testing of superannuation fund's single-page dashboard - testing both consumer confidence in the information as well as whether individuals actually understand it in a switching context - i.e. identifying the best offer in a discrete choice experiment. Evidence from other sectors demonstrates this more rigorous consumer research can shed light on consumer biases and the actual efficacy of new tools in improving consumer understanding. In a study commissioned by ACCAN, *Confident but Confounded*, marketing academics Paul Harrison *et al.* found a negative correlation between respondents rating of their own ability to understand information and their actual comprehension of a Critical Information Summary when comparing telecommunications agreements.³² In testing new forms of disclosure and tools with consumers, it may also be worth considering conducting larger scale customer segmentation analysis, as different consumers may approach switching superannuation funds and even use comparison tools differently.³³

In developing single-page comparable dashboards, ASIC might consider the behavioural research being completed by the Australian Energy Regulator and the Essential Services Commission to improve consumer comprehension of complex pricing in residential energy markets.³⁴

³¹ Ibid., 34-40.

³² Paul Harrison, Laura Hill and Charles Gray, *Confident, but Confounded: Consumer Comprehension of Telecommunications Agreements*, (Sydney: Australian Communications Consumer Action Network, 2016).

³³ In the energy market, see Ofgem's segmentation analysis: GfK UK Social Research, Consumer Engagement in the Energy Market 2017 – A report on a survey of energy consumers, (Ofgem, 2017); Rebekah Russell-Bennett *et al.*, 'Taking Advantage of Electricity Pricing Signals in the Digital Age: Householders Have Their Say. A Summary Report' (Brisbane: Queensland University of Technology, 2017).

³⁴ See for example the AER's comprehension testing of its new Basic Plan Information Guideline - Behavioural Insights Team, *BIT review of Basic Plan Information Document (BPID)*, April 2018, https://www.aer.gov.au/system/files/Review%20of%20Basic%20Plan%20Information%20Document%20-%20Final%20Report%20-%20April%202018_0.pdf, and various behavioural trials conducted for the Retail Price

Recommendation 6 - CPRC strongly endorses the Commission's recommendation for ASIC to develop a member-friendly dashboard for all products in a single-page product dashboard - as informed by robust consumer testing.

Recommendation 7 - CPRC recommends ASIC engage in comprehension testing and segmentation analysis in developing the dashboards and associated customer journey mapping to ensure that the dashboards themselves are used by consumers when attempting to make a comparison of superannuation products.

CPRC strongly supports the recommendation for the ATO to present product dashboards on its centralised online service (**Draft Recommendation 1 and 10**). For those consumers with internet access, digital literacy and the capacity to engage in markets, a centralised online service may help to reduce search costs and the difficulty of navigating 40,000 different investment options. The Productivity Commission and ASIC might consider directing superannuation funds to ensure dashboard presentation and included information are consistent across both the ATO's centralised online service and any other mediums where consumers might look to compare superannuation funds.

In developing a centralised online website where consumers can compare dashboards, ASIC might consider the kind of comparison the website will offer and the kind of functionality provided to help consumers switch. The ACCC has identified three kinds of comparison website:

1. **Information-only sites** - Most government run comparators are information-only sites, allowing individuals to compare different products or services, but with no capability to assist individuals to switch between providers.
2. **Lead generation sites** – where a comparison is provided to consumers, the website then generates a lead for that provider through a click-through link to the provider's website, or collects customer details for the provider to contact the customer directly;
3. **End-to-end sites** – the comparator both compares providers and directly facilitates switching process on behalf of the service provider.³⁵

While information-only sites may be easier to develop both logistically and from a risk perspective, end-to-end sites minimise barriers to switching provider, as every additional step creates barriers to action. The Competition and Markets Authority has also developed a customer journey map for individuals to identify how to reduce 'leakage' – where consumers stop engaging in the process, failing to compare or switch.³⁶ ASIC might consider incorporating lead-generation or end-to-end functionality to help individuals in underperforming superannuation funds.

CPRC also strongly recommends that ASIC engage in ongoing consumer journey mapping to identify whether consumers actually make use of tools such as the dashboards when researching different super providers, and whether consumers find these tools useful when comparing and switching funds.³⁷

information Guideline - <https://www.aer.gov.au/retail-markets/retail-guidelines-reviews/retail-pricing-information-guidelines-2018/final-decision>

³⁵ Australian Competition and Consumer Commission, 'The Comparator Website Industry in Australia', 21 November 2014. <https://www.accc.gov.au/publications/the-comparator-website-industry-inaustralia>

³⁶ Competition and Markets Authority, 'Digital Comparison Tools Market Study', 26 September 2017, 48.

³⁷ CPRC, *Five preconditions of effective consumer engagement*, 8.

Recommendation 8 - CPRC strongly supports the recommendation for the ATO to present product dashboards on its centralised online service. CPRC also strongly recommends that ASIC engage in ongoing consumer journey mapping in developing the super product dashboards and the assessment of the effectiveness of the centralised online service.

Precondition 4 - Improving consumers' ability to act and switch provider

CPRC's fourth precondition requires that switching costs (financial and non-financial) are low, to enable consumers to act on the comparison of competing service providers and switch to a provider where this better suits their preferences.³⁸

Financial costs and barriers – such as exit fees – directly diminish the benefit of switching providers. Removing barriers through the reduction of switching costs is essential to enable consumers to freely move between providers or to choose alternatives that better suit their needs (**Draft Recommendation 12**).

The Productivity Commission may wish to consider giving further regard to non-financial costs, also referred to as *time* or *thinking costs*, which can create barriers to switching providers where individuals perceive the process to compare or switch is difficult.³⁹ According to behavioural economist Ran Spiegler, 'making an active decision [to switch] is cognitively and emotionally taxing' so where there is a default option – that is, remaining with an existing retailer – 'the consumer clings to it as a way of "deciding not to decide"'.⁴⁰ For example, if consumers must, or are unsure whether they must, inform their existing provider they wish to cancel their service before they are transferred to a new provider or fill in complex paperwork, these steps can themselves create barriers to action. Individuals may also prefer to avoid the awkward conversation about why they are leaving one service provider for another – creating a further behavioural barrier to action.

In retail energy markets, there is clear evidence of perceived switching costs. According to the consumer research commissioned by the AEMC in 2017, individuals in Victoria reported needing to save approximately \$336 to consider switching energy retailer or plan – which provides a dollar value for market friction in the retail energy market.⁴¹ A study into a collective energy retailer switching exercise run by the British consumer organisation WHICH? found that 'well-educated, highly-engaged, savings-seeking' participants in the process encountered 'pure switching costs', even after all search costs were eliminated in a market for a homogeneous product (retail electricity).⁴² The study found that only 27 percent of participants completed the process – which simply involved accepting an offer from the retailer – while 50 percent of participants who received an offer equivalent to a saving of £300 did not finalise the switch.⁴³

Recommendation 9 - CPRC strongly supports the recommendation to reduce exit and switching fees to cost-recovery levels.

³⁸ Ibid., 40-46.

³⁹ Amelia Fletcher, 'The Role of Demand-Side Remedies in Driving Effective Competition: A Review for Which?' (Centre for Competition Policy, 7 November 2016).

⁴⁰ Ran Spiegler, *Bounded Rationality and Industrial Organization* (New York; Oxford: Oxford University Press, 2011).

⁴¹ Newgate Research, *Consumer Research for the Australia Energy Market Commission's 2017 Retailer Competition Review*, (Australian Energy Market Commission, June 2017), 46.

⁴² David Deller et al., 'Switching Energy Suppliers: It's Not All about the Money', *SSRN Scholarly Paper* (Rochester, NY: Social Science Research Network, 21 August 2017), 15.

⁴³ Deller et al., 'Switching Energy Suppliers', 5.

Recommendation 10 - CPRC strongly encourages the Productivity Commission and ASIC to consider interventions to reduce *thinking costs* – to help individuals in the accumulation phase switch from poorly performing products to better performing products, drawing on behavioural insights wherever possible.

CPRC strongly supports the additional guidance for pre-retirees (**Draft Recommendation 11**). This kind of assistance may help individuals to navigate the superannuation system better. However, we would urge the ATO to consider the limits of digital access and literacy for the age group being targeted mentioned previously, noting that even tertiary educated consumers can encounter significant limitations.

Simplifying the comparison or switching process is therefore essential to enable consumers to switch from underperforming superfunds to better performing superfunds. Ensuring 'gaining provider led' switching processes are in place can assist, whereby the consumers' your gaining provider initiates the transfer at the consumer's request and manages the whole process on their behalf. CPRC has outlined a number of interventions in our report that may be relevant here.⁴⁴

CPRC would encourage the Productivity Commission and ASIC to consider behavioural insights to develop prompts to nudge individuals – those still in the accumulation phase - to consider switching superannuation fund or product where their particular fund is in the long tail of underperforming products. The UK Behavioural Insights Team (BI Team) has suggested that well-timed prompts can assist when it comes to disrupting inertia in switching. Their research finds that prompting people at the beginning of the new year, new month, or even contacting people immediately after their birthday or when they have recently moved house, may be points at which people are especially disposed to switching providers. But importantly, the BI Team recommends that regulators work with suppliers to systematically test these ideas to find out what works. Again, it may be worth considering the behavioural work being conducted by energy regulators to help nudge individuals to comparing and switching.⁴⁵

Recommendation 11 - CPRC supports the additional guidance for pre-retirees to access support information on websites, however, strongly encourages the ATO to consider the digital literacy of the consumer cohort being targeted and develop alternatives where required.

⁴⁴ CPRC, *Five preconditions of effective consumer engagement*, 24-28.

⁴⁵ Behavioural Insights Team, *BIT Review of the Benefit Change Notice for the Australian Energy Regulator*, June 2018, <https://www.aer.gov.au/system/files/Review%20of%20the%20Benefit%20Change%20Notice%20for%20the%20AER%20-%20Final%20Report%20-%20June%202018.pdf>

Precondition 5 - Improving consumer awareness

The final precondition of effective consumer engagement is *awareness*.⁴⁶ Consumers must be made *aware* of the reforms, including the single-page product dashboards and the centralised online service developed by the ATO if they are to be effective in assisting consumers to switch. If consumers are unaware of single-page dashboards, or how to navigate to the centralised online service, these tools are unlikely to be useful in improving comprehension or enabling comparison. To this end we strongly encourage the regulators engage in or support a comprehensive awareness campaign to ensure consumers are *aware* of the new tools, that the process has been simplified, and what they need to switch, if they should choose to do so.

Consumer awareness of government comparison sites in other sectors is low, yet consumers indicate a preference for government comparators and distrust for commercial comparators. In its 2017 consumer research, the Australian Energy Market Commission (AEMC) found that only two percent of respondents recalled, unprompted, the name of any government run comparator site, while 9 percent were aware of the AER's *Energy Made Easy* when prompted.⁴⁷ The AEMC's vulnerable consumer research has also found 'many participants' raised the concept of an independent (i.e. non-commercial) energy comparator unprompted, envisioning that the service would be provided by government – considered the most reliable and credible source.⁴⁸ Yet 'virtually none' of the vulnerable consumer participants were aware of the regulators' website.⁴⁹ Clearly, an ongoing awareness campaign will be an inherent part of the ATO's centralised online service if the tool is to be of use to consumers.

The Swedish social security system provides an interesting case study for a broader government awareness campaign and the subsequent impact on consumer awareness and choice in superannuation. Following the privatisation of social security in 1999, Swedish citizens were sent a catalogue of all the mutual funds (456 at the time) and given instructions on how to invest for their own future. Two thirds of retirement savers chose to form their own portfolios, while the remaining third chose the default (66.6 percent) – which had been designed by the government as a low fee, globally diversified and largely indexed fund.⁵⁰ However, three years after start of the new system – and the end of the government awareness campaign - only 9.4% of new entrants to the workforce chose to form their own portfolios.⁵¹ In 2016, the number of new entrants choosing to form their own portfolio fell to 0.9 percent.⁵² We note that comparison with the initial year (2000) may be misleading, as all Swedes at all life stages were required to make a choice at the start of the system, whereas subsequent entrants primarily constitute young people and immigrants. Thaler *et al.* also note the low number of new entrants means commercial advertising for funds may not be commercially viable. However, this highlights the importance of *awareness* - the absence of a government awareness campaign is likely to be a key factor causing higher numbers of new entrants to the default.

Behavioural economists Richard Thaler, Henry Cronqvist and Frank Yu have recently considered the stickiness of *nudges*, revisiting the Swedish social security system

⁴⁶ CPRC, *Five preconditions of effective consumer engagement*, 46-50.

⁴⁷ Australian Energy Market Commission, '2017 AEMC Retail Energy Competition Review' (Sydney, 25 July 2017), 83.

⁴⁸ Newgate Research, 'AEMC 2016 Retail Competition Review: Understanding Vulnerable Customer Experiences and Needs' (Australian Energy Market Commission, 2016), 46-49.

⁴⁹ *Ibid.*

⁵⁰ Henrik Cronqvist, Richard H. Thaler and Frank Yu, *When Nudges are Forever: Inertia in the Swedish Premium Pension Plan* (January 10, 2018), 3. Available at SSRN: <https://ssrn.com/abstract=3099886> or <http://dx.doi.org/10.2139/ssrn.3099886>,

⁵¹ *Ibid.*, 4.

⁵² *Ibid.*

experience as an example.⁵³ They note low switching rates after the initial choice - only 27.4 percent of those who initially chose the default have switched to choosing their own portfolio, while 2.9 percent of those who initially chose to manage their own portfolio have switched to the default.⁵⁴ But trading activity has also been low among Swedes who initially chose to form their own portfolio, on average more than 90 percent of investors have not made at least one trade per year over the 16 year period – a finding largely consistent with other studies of retirement saving behaviour.⁵⁵ Again, *awareness* about how to compare mutual funds, or how to compare the returns of the default fund with mutual funds may be key to enabling individuals to make these choices.

Thaler *et al.* also note that in 2010 Swedish government allowed the default fund to employ up to 50 percent financial leverage at the discretion of the fund's management, which the fund chose to fully employ until 2015. This change constitutes a significant change to the risk profile of the fund - though global stock markets have risen steadily since the change, Thaler estimated that this change in leverage before the global financial crisis would have led to an 82 percent reduction of the default fund.⁵⁶ And yet the number of Swedes switching from the leveraged default to less risky funds remains negligible.⁵⁷ This may be explained by low understanding and awareness about what leverage is, the change to the fund and its implications, how to compare the different aspects of the default fund, or even how to switch from the default to similar unlevered fund. It is likely that behavioural biases played a large part – present bias, status quo bias and limited attention availability are particularly prevalent behavioural traits.

Thaler *et al.* have recommended that in Sweden, another government awareness campaign is due, however 'instead of encouraging people to choose for themselves, perhaps a more modest goal would be to get people to find out what investments they own, and whether changes would be wise'.⁵⁸

Recommendation 12 - CPRC strongly encourages the Productivity Commission and ASIC to consider how consumers might be made aware of new tools, new processes, and new options made available to them through this reform process.

Trialling interventions and measuring outcomes

The Productivity Commission has recommended ASIC engaged in consumer testing in developing various new tools. Interventions should be trialled wherever possible – through consumer testing or, ideally, through randomised controlled trials – to ensure that policymakers have a rigorous evidence base to support policy decisions.⁵⁹ Measuring the impact and outcomes of interventions over time is particularly important to improve consumer wellbeing and the functioning of markets, as a feedback mechanism to enable policymakers and regulators to learn from “what works”. Behavioural economists Shlomo Benartzi *et al.* argue that ‘tracking failures is as important for knowledge creation as tracking

⁵³ Ibid.

⁵⁴ Ibid., 6.

⁵⁵ Ibid., 7.

⁵⁶ Richard H. Thaler. “From Cashews to Nudges: The Evolution of Behavioral Economics”, *American Economic Review*, 108 (6) (2018): 1265–1287 <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.108.6.1265>

⁵⁷ Cronqvist *et al.*, *When Nudges are Forever*, 4.

⁵⁸ Ibid., 13.

⁵⁹ Brian W. Head, ‘Policy Analysis: Evidence Based Policy-Making’, in *International Encyclopedia of the Social & Behavioral Sciences* (Second Edition), ed. James D. Wright (Oxford: Elsevier, 2015), 281–87.

success'.⁶⁰ ASIC might also consider developing a “regulatory sandbox” as has been done in the UK, to involve superannuation and insurance providers in trials and tests of new tools.

Recommendation 13 - CPRC encourages ASIC and the ATO to engage in trials wherever possible when rolling out new interventions drawing on behavioural insights where relevant. CPRC also strongly encourages ASIC, APRA and the ATO to measure outcomes and publish these results wherever possible.

Other identified issues – Revisions to MySuper and the ‘best in show model’

While CPRC has had limited involvement in the consultation around alternative models, the assisted allocative ‘best in show’ approach appears to be an elegant solution to improving the performance of MySuper funds and allocation of new workforce employees to a default fund (**Draft Recommendation 1 and 2**). We in principle support the assisted employee model, whereby individuals are *nudged* towards a well performing default MySuper fund, but where consumer choice remains a central tenant of the choice architecture, with an auto-enrol safety net for those that do not choose, or lack the capacity to choose. Though some employers will likely have the capacity to choose a default fund for employees, the proposed assisted employee ‘best in show’ model mitigates the principal–agent problem between employers and employees in the selection of a default funds. It also retains aspects of a competitive supply-side to ensure that new MySuper members are provided with a product that delivers strong returns. This mechanism appears to neatly address the issue of lack of access to costly financial advice, particularly for vulnerable and disadvantaged consumers.

However, we would echo the concerns of CHOICE in their oral submissions about Choice members in APRA-regulated funds which may be underperforming.⁶¹ These individuals may require further assistance to identify and switch to better performing/lower fee superfunds, *beyond* improved information disclosure interventions. The primary purpose of both CPRC’s *Five Preconditions* conceptual framework and this submission is to consider the conditions required for consumers to effectively engage with the market - in this case to identify whether their superfund is performing well, and secondly to switch to a better performing superfund where this suits their preferences.

Recommendation 14 - CPRC supports the proposal to elevate the threshold for MySuper authorisation and develop an enhanced outcomes test as outlined at Draft Recommendation 4.

Recommendation 15 - CPRC supports in principle, the assisted employee ‘best in show’ model for new workforce entrants defaulting to MySuper. However, we would urge the Productivity Commission to consider improving outcomes for Choice members in underperforming APRA-regulated funds.

⁶⁰ Shlomo Benartzi et al., ‘Should Governments Invest More in Nudging?’, *Psychological Science*, 5 June 2017.

⁶¹ Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness* - Public hearings, Transcript of proceedings: Sydney, 20 JUNE 2018, 10.