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Shadow Treasurer

**Address to the Investment and Financial Services
Association (IFSA) Conference Opening Cocktails**

Innovate 08

Wednesday 6 August 2008

Duration: 10 minutes

Welcome to the IFSA annual conference – Innovate 08.

Innovation is essential to the future growth and prosperity of the Australian economy. Innovation leads to higher productivity which drives higher real wages for Australians. It is what leads to higher living standards for Australians.

The financial services industry employs 1.25 million Australians. It provides advice, products and tools to enhance the wealth of Australians.

An interesting trend in superannuation has been the relative growth of defined contribution rather than defined benefit funds. This is understandable, particularly as Australians – like elsewhere in the world – move more frequently between jobs.

With the negative returns we are seeing in the market over the past six months, some people argue that defined benefit funds provide more protection to employees. Yet these funds substitute the risk of final salary for market risk: no fund is truly “risk free”. It is certainly important to view superannuation as a long-term investment where returns on a year-to-year basis can be volatile.

The Liberal Party is the party of enterprise and individual freedom. We are the Party of the market economy and competition.

In the 2006 Budget, the Coalition Government introduced *Better Super* – the biggest reform to superannuation ever.

This reform swept away the raft of complexity faced by retirees, increased retirement incomes, gave greater flexibility as to how and when superannuation could be drawn down and provided more incentives for older Australians to stay in the workforce.

By allowing tax free payments from a taxed superannuation fund to people over 60 years of age, IFSA members have been able to deliver innovative superannuation pensions which look and feel like bank accounts to pensioners.

The Howard Government also introduced choice of super fund and portability to boost competition in the provision of superannuation.

Labor, by contrast, despite claiming to have invented superannuation, seems to have dropped the ball. It is embarked on policies that will restrict choice and reduce competition.

Senator Sherry has 14 reviews outstanding across his portfolio of superannuation and corporate governance.

There is a real risk of the financial services industry being strangled by regulation arising from these reviews.

The 15th review – the only one to report to date – has been the financial services working group’s model product disclosure statement for the Government’s First Home Saver Accounts.

The results of this review were described in the Australian Financial Review editorial as ‘micro-management’ and the ‘black letter law tick the box disclosure duck which got financial services in such a mess in the 1980s’.

The Coalition will be watching these reviews closely. We will be watching in particular for any sense that the Government might be trying to restrict choice or reduce competition in both the provision of financial advice and the range of superannuation funds.

But a key thing missing from this plethora of reviews is the big picture in superannuation: the adequacy of retirement incomes. Something on which the previous Government was focussed upon.

The *Better Super* reforms significantly boosted the incentives for many people to contribute to superannuation. Just as importantly, it simplified super and therefore helped improve Australians' confidence in superannuation as a savings vehicle.

The Super co-contribution scheme has been enormously popular, delivering over \$1 billion per year into the super accounts of Australians.

Competition is the key to better choice for Australians and better returns for Australians. Australia has a balance between various types of superannuation fund: retail funds, employer funds, public sector funds, industry funds and self-managed super funds. All have their advantages and all have their role.

Sadly it appears that the Rudd Government is intent on reducing choice and reducing competition.

In part this is because the Rudd Government is patronising. It thinks that too much choice is bad. That Australians are not intelligent enough to make their own minds up on where to invest their superannuation. That the Government knows better on investment strategies.

There are also indications that the Government's policies – as expounded by Minister Sherry – lack neutrality. For example, the reinstatement of superannuation as an allowable matter in industrial awards gives a strong advantage to industry funds and is anti-competitive. That means that when a new employee joins a company with an award, there is a default super fund. This undermines choice.

Even the regulator – the Australian Prudential Regulation Authority (APRA) – is wading into this, with a recent paper by APRA's Wilson Sy suggesting a default National Super Fund. Minister Sherry has not repudiated this view.

In so many areas, the Rudd Government is assaulting competition. In the markets for petrol, groceries and hospitals – competition is under threat.

Now it is the turn of super funds.

Which are so important for reducing the pressure off the public pension.

And which helps position Australia for our ageing population, as noted in the 2006 Intergenerational Report.

The growth in superannuation over the past 12 years has been remarkable.

In June 1996, there was \$245.3 billion invested in superannuation, around 37.9 per cent of GDP.

By June 2007 this had grown to \$1143.2 billion, more than 100 per cent of GDP.

As of June 2007, there were 289 corporate funds with \$69.2 billion invested, 74 industry funds with \$197.3 billion invested, 40 public sector funds with \$177.6 billion invested, 172 retail funds with \$369.7 billion invested, 365 992 small funds with \$286.6 billion and 101 pooled funds with \$83.7 billion invested.

That is a remarkable amount of money. But it is also a remarkable temptation for Government.

And this is another area of concern – the noises from the Government about directing or encouraging superannuation funds to invest in this or that project. To finance infrastructure, for example.

One of the great strengths of our superannuation rules is that trustees must act in the interests of their members.

If there is one “free good” in economics, it is that a diversified portfolio of assets can achieve a given rate of return for less risk than an undiversified portfolio.

When Governments get in the act of directing investments it is a recipe for disaster. It is a recipe for lower superannuation returns. If an infrastructure project is sufficiently worthwhile, it will attract funds – including from superannuation funds – without the need for Government intervention.

The Coalition is strongly committed to allowing freedom of choice in superannuation. We are strongly committed to competition and we are opposed to Governments directing the investment behaviour of superannuation funds.

Thank you for inviting me to address your Conference. I hope that the Conference will be entertaining, enjoyable and informative.