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Retirement Income Review

Submission from
Diversa Trustees – A Sargon business

February 2020

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3 February 2020

Mr Michael Callaghan
Chair
Retirement Income Review Panel
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Callaghan

I am pleased to provide the following submission in response to issues raised in the Retirement Income Review's consultation paper.

We are grateful for the opportunity to provide the panel with input from Diversa's perspective. Diversa Trustees Ltd was acquired by Sargon on 28 June 2019, since when we have been leveraging Sargon's FinTech and RegTech expertise to further our vision of a truly efficient, robust, and effective digital infrastructure underpinning the second pillar of Australia's retirement income system.

Our submission contains a number of suggested measures that could, in our view, lead to significant advances in levels of member engagement, efficiency and competition in superannuation. Taken together, we believe these suggestions can deliver material improvements to the adequacy and equity of outcomes for Australian retirees, while helping to deliver a more sustainable and cohesive retirement income system.

We hope that you find the submission informative and useful as the panel develops its report.

If you require further information or have any questions, please contact me at contact@sargon.com.

Yours sincerely

Andrew Peterson
Executive Director
Diversa Trustees Ltd

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1. Executive summary

Superannuation is arguably Australia's greatest asset. As the central pillar in Australia's retirement income system, compulsory superannuation's success has secured adequate and sustainable retirement outcomes for millions of Australians. At the same time, it has provided a source of deep and stable capital that has alleviated pressure on government budgets, reduced sovereign debt and provided financial security to nation-building projects across Australia.

Despite this success, the Australian superannuation industry currently finds itself under scrutiny. Recent reviews, including *The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* and Productivity Commission's *Superannuation: Assessing Efficiency and Competitiveness, Inquiry Report*, have found many systemic shortcomings, particularly related to issues of compliance, inefficiencies and excessive costs. A broader environment of poor financial literacy and engagement amongst members has provided fertile conditions for these failings to take hold.

A cultural shift in Australia's view of superannuation is needed. Currently, members too often consider their superannuation as an abstract concept – as something they do not need to engage with until retirement. This attitude leads to substantial missed opportunities and material losses in retirement income for members, and is at the root of many systemic market failures across the industry.

Members should consider super as *their* money, and quite likely their largest net asset. It is money that they should, and must, take charge of. By doing so, market forces could be brought to bear in superannuation, as they are in countless other industries, to address the systemic failings that have been identified. First, however, the engagement gap – and, by extension, the financial literacy gap – facing Australian superannuation must be overcome.

Sargon believes this vision for Australian superannuation can be achieved through a three-pronged approach that leverages financial and regulatory technology to drive improvements in engagement, efficiency and competition.

<u>Engagement</u>

Improving standards of financial literacy and engagement is a long-standing issue across the globe. However, perhaps for the first time, we now have the tools to meaningfully address this challenge. The rise of digital literacy and engagement tools, such as automated advice platforms, supported by robust regulatory technology, remove cost and accessibility barriers from financial advice. In parallel, the application of the Consumer Data Right to superannuation can provide a platform for members to engage with transparent, comparable and easily interpretable information, empowered by truly independent digital tools that sit outside traditional delivery channels in an *'Open Super'* framework.

<u>Efficiency</u>

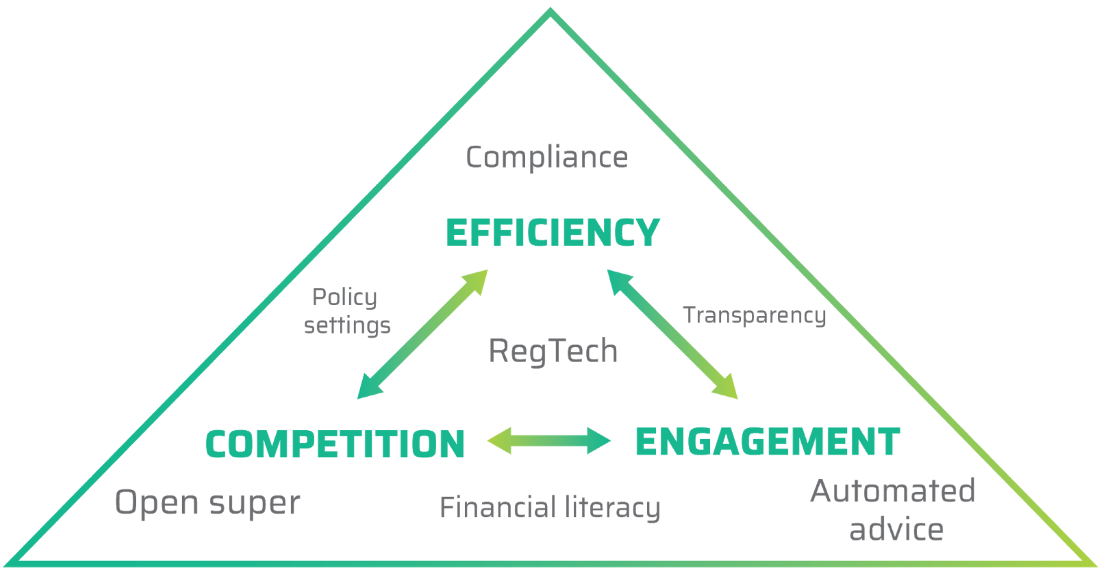
Similarly, efficiency can be driven by new, purpose-built technology. Australians currently spend over AUD$30 billion a year administering their super. This is a significantly greater relative cost than most comparable international systems and results in reduced adequacy and equity of retirement outcomes. Purpose-built regulatory technology, or RegTech, replaces antiquated systems and manual processes, delivering improved compliance outcomes, more efficient fund operations and significantly reduced cost to members.

Importantly, the provision of RegTech under a software as a service (SaaS) arrangement, or through outsourced trusteeship, decouples operational efficiency and scale. Crucially, this means that new entrants and small funds can offer alternative products tailored to the consumer, while delivering efficient member outcomes driven by scalable technology infrastructure. This leads to our third, and related, prong: competition.

<u>Competition</u>

Increasing competition can help to promote a more effective and sustainable superannuation industry. Building upon a platform of increased financial literacy and engagement of members, and a transparent Open Super framework powered by RegTech, policy initiatives should be directed towards fostering increased levels of competition amongst funds and encouraging innovative new market entrants; thereby generating the tailwinds for transformative change across incumbents, the industry, and the economy as a whole.

Implemented together, strong feedback loops connecting each prong mean improvements in engagement, efficiency and competition in superannuation will positively reinforce each other. This can create a virtuous cycle that promotes a dynamic superannuation industry that delivers in members' best interests and improves the adequacy, sustainability and equity of the second pillar of Australia's retirement income system.



As such, industry wide implementation of an Open Super framework; best-in-class RegTech solutions; accessible automated advice platforms; and policy settings that foster innovation and new market entrants are the tactics required to enable a self-perpetuating cycle of improved engagement, efficiency and competition. This requires a reconceptualisation of these levers not as isolated concepts, but rather as steps towards building robust national regulatory and data infrastructure to underpin Australia's superannuation system. In doing so, Australia can deliver a true paradigm shift in the standards of efficiency, compliance, transparency, reporting and regulation of the central pillar of its retirement income system.

Australia is now poised to take three crucial steps towards this new paradigm, namely, by:

- mandating the use of current best-practice compliance and reporting standards across the superannuation industry – supported by best-in-class technology systems;
- developing uniform standards and a framework for the promulgation of machine-readable product reference data in superannuation; and
- leveraging this richer and more transparent data to revolutionise product disclosure, enabling FinTechs to develop more effective tools to improve financial literacy and member engagement in the digital world.

Given the undoubted importance of superannuation to Australia's prosperity, and the significant need for reform, Sargon commends the government for the timeliness and scope of this review. We are grateful for the opportunity to contribute to the review and to work with the government, and with this panel, to continue to develop solutions that drive impactful and long-lasting change for the betterment of Australian retirees and the broader economy.

2. Summary of recommendations

Whilst noting the Retirement Income Review is designed to establish a fact base of the current retirement income system and is not expected to deliver recommendations, we have included recommendations in our submission to clearly and briefly summarise the steps required to act upon the evidence presented in the submission.

Key recommendation 1: Enhance member engagement and financial literacy by reforming product disclosure regulation for the digital millennium. In doing so, create market and regulatory conditions to promote intelligent, accessible, and interactive API-driven disclosure, underpinned by robust standards of machine-readable product reference data (see recommendation 5) and feeding into accessible and effective financial advice (see recommendation 2).

Key recommendation 2: Place top-down pressure on the superannuation industry to widely adopt automated digital advice platforms to bridge the advice gap, drive early engagement and improve retirement outcomes for Australians.

Key recommendation 3: Support ASIC to update RG255 with current guidance for funds that describes best practice delivery of automated advice – including frameworks for record keeping, audit trails, supervision and risk management.

Key recommendation 4: Support regulatory change that promotes greater competition and consumer choice in the superannuation sector, including expansion of the Consumer Data Right framework to superannuation.

Key recommendation 5: Develop uniform standards and a framework for the promulgation of machine-readable product reference data in superannuation; enabling a transformational effect on financial literacy and engagement, competition, transparency and reporting in the superannuation industry, whilst also providing a springboard for innovation and growth in Australia's FinTech and RegTech industries.

Key recommendation 6: Mandate the application of current best-practice compliance and reporting standards across the superannuation industry – supported by best-in-class technology systems.

Key recommendation 7: Foster a more dynamic and competitive superannuation industry to drive upward pressure on incumbents (see recommendations 4 and 5).

Key recommendation 8: Enable RegTech to be increasingly trialled, within certain parameters, with exempting liabilities and without fear of repercussions.

3. Introduction to Sargon

On 28 June 2019, Sargon completed its acquisition of Diversa Trustees Ltd.

Sargon provides financial institutions and entrepreneurs with the technology and trustee cloud infrastructure they need to successfully build and grow investment funds and financial products. Our powerful combination of technology and industry experts navigate regulatory complexity, security and compliance to ensure our clients can focus on their customers and growth.

Sargon operates across Australia, New Zealand and Hong Kong. Our clients trust our team of deeply experienced experts and technology with over AUD$55 billion in assets under trusteeship and supervision across our corporate trust, responsible entity, and retirement and superannuation trustee services. Our difference sits at the intersection of our licensing, technology and experts. We believe this powerful combination can facilitate operational and compliance tasks more efficiently and effectively, at scale, while also improving the experience and financial outcomes for our clients, and their members and investors.

Along with Afterpay and Zip Co, Sargon received a Leadership Award recognising innovative companies with a strong growth track record and revenue over $50 million in the 2019 Deloitte Technology Fast 50 Awards on 20 November 2019, as well as a Technology Fast Female Award.

When Sargon launched its first superannuation fund in 2013, we encountered a broader industry burdened by unnecessary complexity, structural conflicts, bureaucracy and legacy infrastructure, and we found we weren't the only ones held back by these constraints. Other fund managers and financial product providers told us they were also feeling the weight of increasing compliance and administrative obligations, and the tension between remaining compliant while also focused on growth. So, with backing from significant global investors, Sargon was founded to provide a dynamic response to the regulatory complexity and cumbersome systems that hindered growth and burdened much of the retirement and investment industry in Australia, and beyond.

Sargon's full-stack trustee technology solution – the Sargon Trustee Cloud (STC) – delivers operating efficiencies and scale, lowers costs, reduces systemic risk and improves compliance outcomes – enabling funds to focus on their members and growth. From a modern collaborative workspace that efficiently manages funds, to data centric operations; streamlined payment processes; an enterprise platform for digital advice and investor engagement; simplified and automated fund disclosure management; and proactive monitoring and compliance powered by machine learning, the STC offers a range of technology solutions that can transform the way pension and investment funds operate.

The STC will launch as a Software as a Service (SaaS) offering for superannuation trustees in Australia and KiwiSaver supervisors in New Zealand in early 2020. It has previously only been available to funds for which a Sargon operating entity is trustee, with the exception of its digital advice platform, Decimal. While Sargon is currently trustee of 16% (22 of the 136) of the public offer superannuation funds in Australia, the expansion of our SaaS model to include our full product suite will mean that all superannuation funds can access Sargon's six proprietary technology products through licensing arrangements.

Sargon is product-agnostic. As such, Sargon is ideally placed to leverage our technology infrastructure and industry expertise to work with all stakeholders to usher the paradigm shift from today's opaque and asymmetric information environment to the efficient, transparent, and equitable operating environment possible under a competitive and engaging Open Super system.

4. Financial literacy and engagement

When considering issues of adequacy, sustainability, equity and cohesion across the three pillars of Australia's retirement income system, one common problem regularly presents itself, acting as a pernicious barrier to improving retirement outcomes for Australians – poor levels of financial literacy and engagement.

Despite being a key strategic priority for superannuation funds since at least the Stronger Super reforms,[1] and itself the subject of numerous legislative agendas, poor member engagement remains a critical limiting issue preventing true progress across much of the superannuation industry.

Improving financial literacy and engagement is the most important prerequisite condition required to change the all too common member view of superannuation as an abstract concept, and move towards a proactive attitude in which members recognise superannuation as *their* money, and thereby take charge of it accordingly.

More broadly, poor financial literacy and a lack of engagement with the second pillar of the retirement system has a detrimental impact across all three pillars, ranging from significant missed opportunities during the accumulation phase of a members' life, through to an over reliance on pillars one and three, increased pressures on government funds and a material drag on the economy.

As such, poor financial literacy and engagement represents a key market failure; one which must be addressed as a first step on the path towards broader cultural change across Australia's retirement system.

An engaging problem

In recent history, disclosure has often been considered to be the principal means of promoting member understanding – the reasoning being that providing members with suitable information about their investments would precipitate better engagement. To this end, the 2015 reforms of ASIC RG97 *Disclosing fees and costs in PDSs and periodic statements* sought to ensure "*that the fees and costs disclosed to investors are accurate and that fees and costs are disclosed more consistently across the industry*", as "*accurate and consistent fees and costs disclosure is extremely important for consumers when making decisions about their superannuation and managed investments*".[2]

[1] See, for example, the data compiled in the ASFA/PwC *CEO Superannuation Survey* 2014 <https://www.pwc.com.au/industry/superannuation/assets/asfa-pwc-ceo-survey-nov14.pdf>, wherein of 40 super fund CEOs surveyed member engagement was identified as a key strategic priority.

[2] ASIC, 15-350MR *ASIC updates guidance for fee and cost disclosure requirements for superannuation and managed investment products,* 24 November 2015 <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2015-releases/15-350mr-asic-updates-guidance-for-fee-and-cost-disclosure-requirements-for-superannuation-and-managed-investment-products/>.

These reforms were immediately met with some controversy, particularly regarding product issuer discretion and shortcomings in fee and cost comparisons across different product classes.[3] As a result, deadlines for compliance were extended.[4] Further reforms were undertaken in 2017, marking the fourth revision of the Regulatory Guide, and yet further reviews commenced almost immediately, leading to industry fatigue.[5]

It is, however, understandable that ASIC has had to undertake so many regulatory iterations in this area. As Darren McShane stated in his review, "*in an area driven by the need for consistency to facilitate comparability, more rather than less detail is required [... however] there is no simple solution in such a technically challenging area*". This is particularly so when the level of detail presented may often overwhelm or confuse members.[6]

As the Productivity Commission noted, a lack of member understanding of superannuation reflected broader trends – approximately 30% of Australians have low financial literacy, and a quarter do not understand basic financial concepts.[7] Perhaps for these reasons, as the recent joint ASIC – Dutch Authority for the Financial Markets study discovered, as many as 80% of consumers do not read the Product Disclosure Statements for financial products they acquire and even those that did found difficulties in understanding the documents due, in no small part, to their excessively technical and legalistic nature.[8] Simultaneously, as the Productivity Commission astutely observed:

> *"Poor data result in poor transparency, which leaves regulators and ultimately members in the dark as to what they are really paying for, and makes it harder for engaged members to compare products and identify the best-performing funds. This suppresses competitive pressure on the demand side, and gives rise to the perverse risk of worse outcomes for members who do get engaged. Poor data also suppress competitive pressure on the supply*

[3] See, for example, SuperRatings' report to the Australian Institute of Superannuation Trustees on RG97, dated December 2016 <https://www.aist.asn.au/getattachment/Media-and-News/News/2016/RG97-Disclosing-fees-and-costs/aist-17rg97researchreport_-_1223_16-10-2016.pdf.aspx>

[4] Don Purves, 'ASIC and super funds at loggerheads over RG 97', *Investment Magazine*, 24 February 2017 <https://www.investmentmagazine.com.au/2017/02/asic-and-super-funds-at-loggerheads-over-rg-97/>.

[5] Geoff Sanders, Stephanie Malon and Katerina Dandanis, 'ASIC consultation on fees and costs disclosure reform following expert review', *Allens Insights*, 18 March 2019 <https://www.allens.com.au/insights-news/insights/2019/03/unravelled-asic-consultation-on-fees-and-costs-disclosure/>.

[6] Darren McShane, ASIC REP 581 Review of ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and periodic statements, 24 July 2018 <https://download.asic.gov.au/media/4824186/rep581-published-24-july-2018.pdf>.

[7] Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, Inquiry Report No. 91, 21 December 2018, <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf>, p 21.

[8] ASIC, REP 632 *Disclosure: Why it shouldn't be the default*, 14 October 2019 <https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-632-disclosure-why-it-shouldn-t-be-the-default/>, p 20.

side, as any fund seeking to assiduously benchmark against its peers would struggle to do so."[9]

Various attempts have been made to address the issue of poor data and transparency. Treasury has legislated to require superannuation product issuers to undertake, and publicise, annual 'outcomes assessments' to self-assess their delivery of quality member outcomes and to publicise underlying investments within their portfolios,[10] while ASIC has released further revisions to RG 97 intended to come into effect from September 2020.[11] It remains unclear, however, as to whether further disclosure requirements are likely tol be beneficial. Irrespective of whether or not the data is more material, it will be of limited use in an environment where 80% of members would not read it, and a significant portion of members who would, are not financially literate.

When Sargon launched its first fund, Good Super, in 2013, it encountered an industry to whom the concept of an API-based, online and interactive member application process was alien. Seven years later, online member applications are booming across the industry. We share a similar vision for product disclosure: a shift away from regulation based on archaic precepts that do not effectively consider the inherent differences in digital disclosure, in favour of intelligent, accessible, and interactive API-driven disclosure, underpinned by robust standards of machine-readable product reference data, feeding into accessible and effective financial advice. As ASIC and the Dutch Authority for Financial Markets elucidate, "*we interpret and engage with digital information differently to how we do so with hard copy information, and we also process information differently on different digital devices*".[12]

As we show in the following sections, low levels of financial literacy and often impenetrably technical and legalistic barriers to engagement comes at a material cost to Australian retirees, government budgets and the economy at large. Thankfully, technological solutions, coupled with innovative policy frameworks, now promise to address the long standing challenge of engagement.

Financial advice for all Australians

Historically, seeking expert financial advice was the only way most Australians could overcome the challenge of poor financial literacy and engagement. However, financial advice in Australia finds itself at a crossroads. *The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* delivered scathing criticisms of an industry it believed had become terribly conflicted, too often delivering sub-standard services, inconsistent processes and poor compliance practices.

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[9] Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, Inquiry Report No. 91, 21 December 2018, <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf>, p 28.
[10] *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019* (Cth), Schedules 1 and 7.
[11] ASIC, 19-328MR *ASIC releases updated RG 97 on fees and cost disclosure*, 29 November 2019, <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-328mr-asic-releases-updated-rg-97-on-fees-and-cost-disclosure/>.
[12] ASIC, REP 632 Disclosure: Why it shouldn't be the default, 14 October 2019 <https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-632-disclosure-why-it-shouldn-t-be-the-default/>, p 27.

For many Australians, however, the greatest issue they face with financial advice is not one of quality, but access. The basic cost of conventional financial advice immediately puts it out of reach of many citizens.[13] Adding to this cost barrier is time pressure, where for many Australians, demanding work schedules and family commitments mean that the task of arranging financial advice sessions remains perennially on the 'to do' list.

These barriers create a significant gap in the provision of accessible and affordable advice. Reforms developed in the wake of the Hayne Royal Commission, such as ending grandfathered conflicted remuneration and the establishment of the Financial Advisor Standards and Ethics Authority (FASEA) standards,[14] while needed to remove conflicts and improve quality, exacerbate the affordability problem and widen the advice gap.

Coupled with low levels of access to quality advice, poor financial literacy and engagement remains a key limiting issue in developing a more competitive, dynamic and innovative superannuation industry; ultimately to the significant detriment of all Australians. ASIC's Financial Capability initiative revealed that only 35% of Australians know their super balance, while 60% do not understand the concept of investment diversification.[15] Similarly, research conducted by A.T. Kearney indicates that 60% of consumers did not know the annual fees charged by their fund; 80% do not opt out of their default fund; 40% have never consolidated; and 30% have never checked their super fund's performance.[16] It is from this platform that we must seek to engage members in order to drive consumer pressure on funds to deliver improved products and services; more adequate, equitable and sustainable outcomes; and increased cohesion across the three pillars of Australia's retirement system.

Only

35%

of Australians know their super balance.

60%

do not know their annual fees.

Driving earlier engagement

ASIC's research, conducted over many years, clearly demonstrates a longstanding problem in financial advice – consumers of financial advice are typically older Australians who have already accumulated their wealth. ASIC REP 627, which focused on traditional advice, reported more than half of those who received advice as being over the age of 55, with 10% over 75.[17] Similarly, the

13 The future of financial advice is forked, James Frost, The Australian Financial Review, 23 March 2019.

14 FASEA standards summary, April 2019.

15 Australian Financial Attitudes and Behaviour Tracker, Wave 6, 2018.

16 A.T. Kearney, Submission to the Select Committee on Financial Technology and Regulatory Technology, (submission no. 52, December 2019, p 9.

17 ASIC REP 627 Financial advice: What consumers really think, August 2019.

very recent ASIC REP 639 found that those most likely to seek advice from industry super funds were over 65 years of age.[18]

As compounding effects mean that early engagement can lead to significantly improved retirement outcomes, the industry must consider why there is such a skew in uptake of advice towards older Australians, and how this imbalance in advice provision can be addressed.

Accessible automated advice, anywhere, anytime

Sargon Decimal's automated advice platform has now provided financial advice to thousands of members of industry and corporate superannuation funds over several years. This has provided rich data on how digital advice is being used and what impact it is having for Australians. Analysing this data shows some marked differences from the traditional advice industry.[19]

Although the advice priorities of Decimal's users – member investment choice, contribution levels, insurance, and projected retirement position – are consistent with ASIC's findings in Report 639, it is in the demographics of Decimal's users where key differences are seen.

The figure on the following page shows a comparison of ASIC's findings[20] on the demographics of those who received financial advice (left column), with all Australians (middle) and Sargon Decimal's users (right).[21] Comparing these usage numbers reveals Decimal's accessible platform drove significantly enhanced early engagement of members, with 46% of users aged between 35-54, compared with an industry average of just 26%.

Profile of consumers who **received** financial advice in **the last 12 months** (compared with all Australians)

Age	Received Advice	All Australians	Sargon Decimal
18-34 years	21%	31%	19.6%
35-54 years	26%	34%	45.9%
55-74 years	43%	26%	33.7%
75+ years	10%	9%	0.8%

Our analysis shows that Sargon Decimal's automated advice is being consumed by a largely different set of Australians from those consuming traditional advice. We believe this is because Sargon Decimal's digital platform removes the two conventional barriers to receiving advice; cost and accessibility.

[18] REP 639 Financial advice by superannuation funds, December 2019.
[19] Sargon Decimal Digital Insights 2019, Australian usage trends and impact, December 2019, <https://www.sargon.com/thoughts/Decimal-Insights>.
[20] ASIC REP 627 Financial advice: What consumers really think, August 2019.
[21] Sargon Decimal Digital Insights 2019, Australian usage trends and impact, December 2019, <https://www.sargon.com/thoughts/Decimal-Insights>.

Sargon Decimal's platform is typically offered at no direct cost to the user, through the member's superannuation fund, while advice issued through Sargon Decimal is accessible anywhere, anytime, on nearly any device. As such, Sargon Decimal's digital platform offers members the potential to access free advice and decision support — whenever and wherever they choose. What's more, the efficiencies and scalability inherent in automated advice platforms do not just remove costs for the end user, but have the potential to substantially reduce the overall cost of advice provision across the industry. As we discuss in section 5 of this submission, adoption of an '*Open Super'* framework would enable automated advice platforms to exist outside of, and independent of superannuation funds, potentially providing close to ubiquitous access to digital advice for Australians, greater cohesion across the three pillars and truly neutral, conflict free decision support and advice.

Navigating the advice roadmap

Financial advice is a journey. Not only do automated advice platforms such as Sargon Decimal help make this journey accessible to all, they also help to plot the best route across the financial advice landscape for each individual member.

When a member's situation is particularly complex or their responses trigger in-built warnings, automated advice can automatically provide a seamless triage system, offering members the option to recheck their inputs, continue the advice journey with warning messages either addressed or acknowledged in their statement of advice, or move to an advisor assisted channel.

Unlike calculators and other online tools, true automated advice platforms prevent users who require advisor referrals from being lost during the advice journey. Licensees who proactively use digital advice can provide their members with both robust compliance solutions and triage to financial planners when appropriate, ultimately delivering better advice outcomes.

For financial advisors, automating initial engagement and compliance through a robust digital advice platform, with in-built audit trails, allows them to be confident that basic hygiene factors are taken care of – empowering them to focus their energy and resources on high value, high impact work.

Improving retirement outcomes

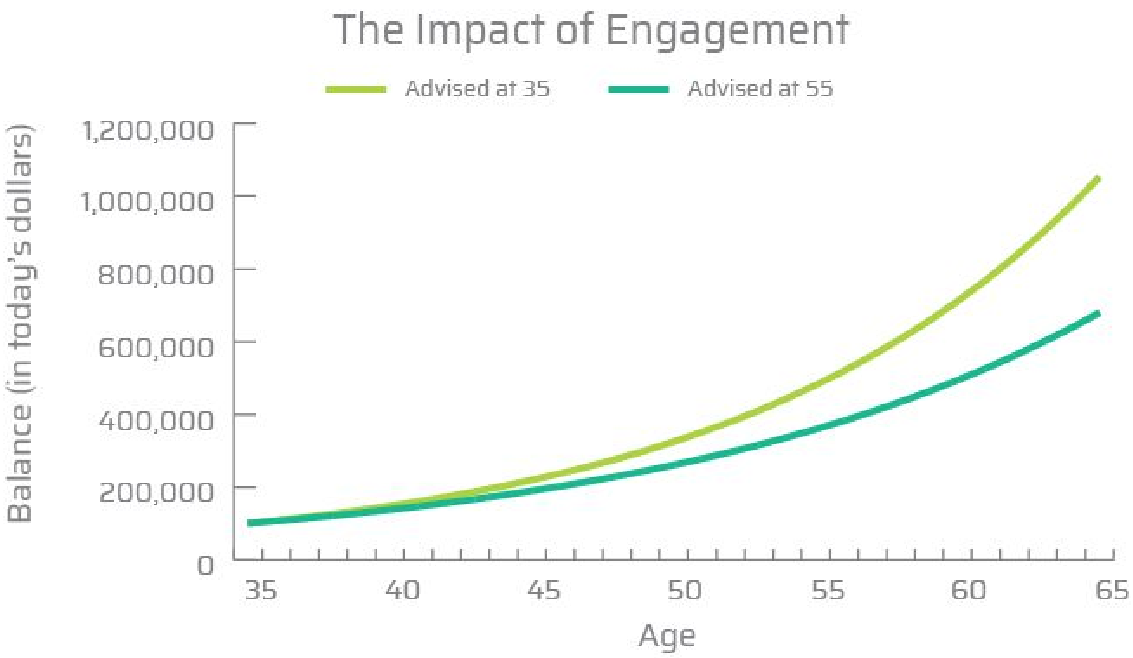
As we have seen, free access to automated digital advice tools drives very different user demographics from those seen using traditional financial advice channels. The following examples demonstrate how enabling earlier engagement can lead to drastically improved results for Australians at retirement.

Let us consider a hypothetical Australian superannuating citizen who starts work after completing university at 21 years of age and by age 35 is earning $85,000 p.a. (around average ordinary time earnings), has accumulated $100,000 in super and whose employer will contribute the super guarantee legislated rates into the future. Their super is invested in a default conservative balanced profile.

Our hypothetical member has two potential routes to engage with their superannuation. In scenario A, the member takes the traditional advice route, and takes up financial advice at 55 – the beginning of traditional advice's peak engagement demographic – leaving ten years for any advice to take effect before their planned retirement at aged 65. In scenario B, our hypothetical member takes up advice at 35 years of age, the beginning of the peak user demographic for Sargon Decimal's automated advice platform.

In both scenarios, we assume that the member implements advice to revise their investment to a growth profile consistent with their risk profile, and save via salary sacrifice the pre tax equivalent of $100 per week. In scenario A, we assume that our typical 55-year-old member received employer contributions at the superannuation guarantee rate from age 35 to 55 years (with salary growth), and did not otherwise engage with their super. Both scenarios are adjusted to today's dollar values to allow direct comparisons.

Our hypothetical member has a target retirement income of $59,500, 70% of their current $85,000 income. As shown in the figure below[22], by engaging at age 55, the member secures 15 years of retirement income. By contrast, the member engaging at 35, taking exactly the same action, funds 35 years of income at the same level.



[23]

[22] Please see appendix for full details, including all assumptions and supporting data. The hypothetical scenarios outlined above and overleaf, and the appendix, are drawn from real outputs from Sargon's Decimal digital advice platform when provided inputs based on hypothetical member scenarios. These are provided solely for the purpose of providing illustrative context to Sargon's submission to the Australian Government's Retirement Income Review, and should not be taken as financial product advice or relied upon as such by any person.

[23] This graph is a visual representation and not to scale. See appendices for further details, including the assumptions underlying this model.

*By simply engaging with their fund and implementing advice earlier, our 35-year-old member is forecast to secure a superannuation balance (in today's dollars) at retirement of **$1,053,510**. By comparison, our otherwise identical member implementing advice at 55, is forecast to retire with **$679,935**.[24]*

This difference is remarkable. Looking at it another way, if we plan for retirement income to last until age 90 (average age expectancy plus a 5 year buffer), our member engaging at 35 can retire with an annual income of $69,586 p.a., compared with $44,911 p.a. for our member engaging at 55.

By engaging earlier, younger members take advantage of many years of compounding benefits. By contrast, not only do older members have limited time for any benefits to manifest before retirement, but sequencing risks can significantly limit the advisor's ability to maximise opportunities. As such, the younger member receives advice of exactly the same content but *many* times the value.

Translating this scenario nationwide, the potential benefits of earlier engagement and implementation of advice to Australian retirees and the broader Australian economy are measured in the hundreds of billions of dollars. As such, providing accessible advice to Australians of all ages represents an enormous opportunity to grow Australia's future wealth.

Of course, when taking into account interactions with the first pillar of the retirement system, as described in the appendices, the contribution of the aged pension helps to offset the difference between the two scenarios, contributing significantly from age 67 onwards for our late engaging member, as opposed to not kicking in at all for our early engaging member until age 75. As this example shows, not only can earlier engagement lead to substantially improved member outcomes at retirement, it can also increase financial confidence, independence and flexibility for retirees, reduce pressure on government budgets, and increase domestic capital pools for productive investment.

Enhanced compliance

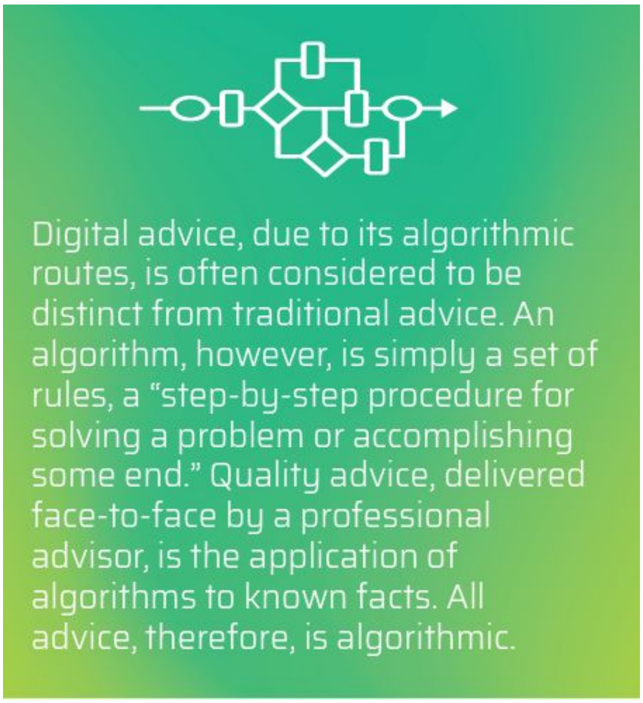
Automation of the delivery of advice has the potential to vastly improve the accessibility and demographics of financial advice, while also leading to substantial improvements in advice quality.

Digital advice, due to its algorithmic routes, is often considered to be distinct from traditional advice. An algorithm, however, is simply a set of rules, a "step-by-step procedure for solving a problem or accomplishing some end."[25] Quality advice, delivered face-to-face by a professional advisor, is the application of algorithms to known facts. All advice, therefore, is algorithmic.

[24] These models are forecasts only. See appendices for further information on the methodology utilised, including the assumptions involved
[25] Miriam-Webster.

Automating these procedures, or algorithms, simply makes their application more reliable. If Australians can rely on the quality of advice, they will be more confident that it may benefit them, helping to restore public trust in the industry and further increasing the uptake of advice across the country.

Of course, it is possible for an algorithm to be biased when automated, just as it is when it's executed by a human advisor. When automated, however, the licensee and member can be confident that: the advice process has been verified based on the provisions of ASIC RG 255; there is an audit trail that identifies who, how, when and on what basis advice was provided; and the advice quality will not vary based on the emotional state of the advisor or their incentives on any given day.



Ensuring quality in automated advice

At Sargon, we believe there is an important distinction between simple *robo advice* tools and more sophisticated *automated digital advice* platforms.

Robo advice often has the appearance of an innovative new tool. If we look underneath the hood, however, we find that a lot of what is labelled 'robo advice' is simply automated investment portfolio selection, based on Markowitz's efficient frontier theory from the 1950s. Moreover, robo advice in the widely used form of online 'calculators', typically provide access to only limited or general advice and are restricted in their ability to provide fully compliant personal advice that is both actionable and generally in the best interests of the users of these online tools. This does not come close to what we would regard as 'best interest' advice. We can, and should, do much better.

A simple robo advice calculator can be an informative engagement tool, arousing members' interest and even helping them to understand the potential of better managing their cash flow. However, for digital tools to deliver actual personal financial advice that members can be confident is designed with their best interests in mind, and therefore implement to help them towards their goals, an entirely different level of technology – producing results compliant with the obligations in Part 7.7A of the Corporations Act – is required.

As such, for digital advice to fulfil its potential for Australian citizens, it must be based on suitably sophisticated technology platforms with robust, in-built compliance and reporting capabilities. Financial advice demands an approach grounded in sound principles of ethics and efficiency. When advice is automated, the same high standards of quality and compliance apply. To satisfy both regulatory and client needs, any digital advice architecture requires extremely high-quality record keeping, reporting, configurability and scalability.

Such automated advice platforms, with strictly rules-based decision making, may ensure that decisions about who is eligible to receive certain advice are made consistently and impartially. By delivering advice through a digital platform with robust, in-built compliance processes, advice quality and trackability is vastly improved and simplified. Perhaps most importantly, the cost, of both the initial advice and – if needed – any remediation process, is greatly reduced

Sargon Decimal is an example of such a technology platform. Backed by an underlying RegTech in the Sargon Trustee Cloud – and Australian Financial Services licensees – Decimal's automated advice platform delivers affordable and accessible advice that is consistent and compliant.

Towards automated advice access for all

With such clear advantages, the limited availability of automated advice comes at a significant cost to Australian retirees. The industry must address the remaining barriers to widespread adoption of digital advice.

Slow adoption of true digital advice has largely been driven by a mixture of industry inertia and fear. Given the significant criticism from reviews such as the Hayne Royal Commission, and the magnitude and pace of change the industry has recently experienced, it is perhaps understandable that there is reluctance to take on a new means of delivery.

This lack of adoption has not been due to a lack of interest. Millions of dollars and tens of thousands of hours have been spent on Request for Information processes, both by institutions and potential technology providers, largely ending in no action.

The source of this inaction can be summarised in one word – uncertainty. Uncertainty about regulatory risk and uncertainty about capital requirements compound general uncertainty over who is going to use digital advice services and how that will change their business.

Some funds are concerned that automated advice will disrupt their traditional business models and eat into their comprehensive advice business. We don't see it that way. Our experience has shown that rather than disrupting comprehensive advice, digital advice complements it.[26] Similarly, the Financial Planning Association of Australia has stated that, though "*[i]ntegrating FinTech and robo-advice in their businesses can be confusing for financial planners*"[27], "*[t]he FPA believes that financial planners will work hand-in-hand with robo-advice, and the benefits of FinTech will ultimately be passed down to consumers*".[28]

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[26] Sargon Decimal Digital Insights report, 2018.
https://cdn.sargon.com.au/capability-statements/Sargon%20Decimal%20-%20FY18%20Insights.pdf.
[27] Financial Planning Association of Australia, Submission to the Select Committee on Financial Technology and Regulatory Technology, (submission no. 39, December 2019, p 3.
[28] Financial Planning Association of Australia, Submission to the Select Committee on Financial Technology and Regulatory Technology, (submission no. 39, December 2019, p 4.

In this light, ASIC's Report 639 on financial advice by superannuation funds offered some signs of encouragement, finding that *"61% of funds indicated they intend to increase the use of member self-directed digital advice tools that can generate SOAs."*[6] Given that the report was based on responses from more than a third of the total funds regulated by APRA, this finding is a strong indication that the requisite industry will exists.

This is perhaps unsurprising. When compared with traditional advice operational models, automated advice within funds has a very cost effective scalability model that supports linear growth in the provision of advice and improved member outcomes for a largely static cost. Whereas a fund wishing to increase its advice provision using only a traditional advice operating model would need to increase its number of financial advisers and therefore increase its cost base in an almost linear fashion. In digital advice, the advice model is fully automated and readily scalable at minimal cost through its use of underlying technology.

As early as December 2012, ASIC's RG 244 stated:

> *"Our research has found that many Australian consumers would like more information and advice about investment issues. ASIC's Report 224 Access to financial advice in Australia (REP 224), released in December 2010, found that a third of Australians 'are now expressing a preference for piece-by-piece advice rather than holistic or comprehensive advice'."*[29]

Automation is the only mechanism that has a serious chance of delivering that sort of advice, bridging the advice gap in an affordable and timely manner.

Given the enormous potential benefits to Australian citizens and the Australian economy, any efforts that encourage widespread implementation of automated advice have the potential to pay for themselves many times over.

Funds already have reasonable clarity on licensing requirements for provision of automated advice as a result of ASIC's RG 255.[30] However, more comprehensive regulatory guidance surrounding the delivery of automated advice could perhaps act as a circuit breaker to the current industry uncertainty – such guidance would need to go beyond mere licensing requirements and outline a best practice framework for aspects of full-service digital advice provision such as record keeping,

[29] RG 244 Giving information, general advice and scaled advice, December 2012.
[30] RG 255 Providing digital financial product advice to retail clients, August 2016.

audit trails, supervision and risk management processes required to satisfy advice requirements. Noting that RG 255 was released in August 2016, and the digital advice industry has evolved significantly in the intervening years, it is perhaps timely for ASIC to issue updated guidance for the now more mature industry.

As we have seen, technology can now provide the tools to address the problem of financial literacy and engagement. In the following sections, we discuss how innovative policy frameworks, such as Open Super, robust and efficient RegTech solutions, and dynamic and competitive market forces, promise a paradigm shift in the adequacy, sustainability and equity in of Australia's superannuation system.

Key recommendation 1: Enhance member engagement and financial literacy by reforming product disclosure regulation for the digital millennium. In doing so, create market and regulatory conditions to promote intelligent, accessible, and interactive API-driven disclosure, underpinned by robust standards of machine-readable product reference data (see recommendation 5) and feeding into accessible and effective financial advice (see recommendation 2).

Key recommendation 2: Place top-down pressure on the superannuation industry to widely adopt automated digital advice platforms to bridge the advice gap, drive early engagement and improve retirement outcomes for Australians.

Key recommendation 3: Support ASIC to update RG255 with current guidance for funds that describes best practice delivery of automated advice – including frameworks for record keeping, audit trails, supervision and risk management.

5. Open Super

Consumer Data Right and the promise of data

We commend the government on the introduction of the Consumer Data Right (CDR) framework, under which we are hopeful that superannuation will be designated a relevant sector by the Minister.

In the current environment of poor financial literacy and the vast untapped potential that improved financial engagement represents, we were encouraged by the suggestion noted in the issue paper released by the Senate Select Committee on Financial Technology and Regulatory Technology, that "*making product reference data in relation to superannuation funds publicly available in a machine-readable format would be a good first step*".

> *We consider that this has nigh-immeasurable potential for transforming the state of the superannuation market – the first step towards 'Open Super'.*

Machine-readable product reference data could provide clear, objective information on superannuation product features, fees and costs, in a manner governed by clear technical standards, presenting a single source of truth for all stakeholders. This would in turn pave the way for digital platforms and tools to cut through the technical and legalistic disclosures and the more complex aspects of superannuation, and instead present to customers, clear, readily digestible information and recommendations.

ASIC and Government could play a key role in facilitating this by reimagining product disclosure and shifting away from regulation based on archaic precepts that do not effectively consider the inherent differences in digital disclosure, in favour of intelligent, accessible, and interactive API-driven disclosure, underpinned by robust standards of machine-readable product reference data, feeding into accessible and effective financial advice.

Benefits of open super

For members

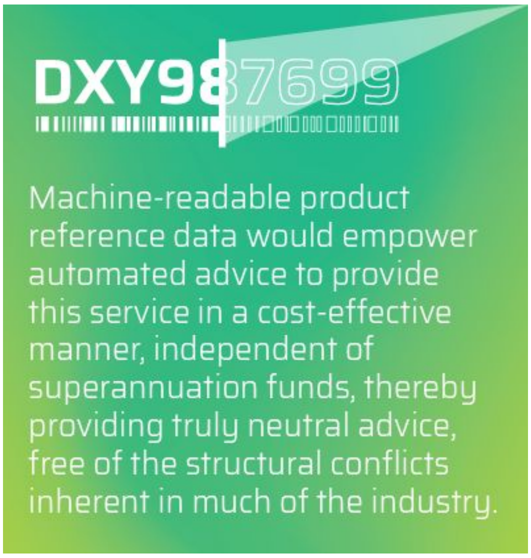
Lack of clear and accessible data on fees and costs, and moreover other reference data such as product features and performance, engenders member disengagement. As noted by the Productivity Commission, less than 10% of members switch funds in any given year. Moreover, even after the Stronger Super reforms and introduction of MySuper, close to 60% of members still do not understand their fees and charges, and 40% do not understand basic investment options.[31]

[31] Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, Inquiry Report No. 91, 21 December 2018, <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf> p 23.

This problem arises from the inherent complexity of superannuation products. As a long-term investment for retirement, underlying asset allocations are diverse, each bearing their own individual features, fees, and costs. Irrespective of how prescriptive disclosure of such data is made, ultimately members are left to navigate the web and calculate the impact of such disclosed fees and costs on their own investment, both in terms of present cost and long-term implications.

At present, the only option available to consumers struggling to understand this labyrinthine system is to seek financial advice. However, not only are current advice practices often considered to be conflicted or of low quality, it appears increasingly likely that a combination of factors including the ending of grandfathered remuneration and the imposition of FASEA standards will result in a significant gap in the availability of affordable, compliant, and reliable financial advice to Australians[32] – despite financial advice being desired by approximately 68% of Australians.[33]

Machine-readable product reference data would empower automated advice to provide this service in a cost-effective manner, independent of superannuation funds, thereby providing truly neutral advice, free of the structural conflicts inherent in much of the industry. What's more, by developing and utilising rules-based compliance algorithms in the process of providing such advice, RegTech could ensure advice was robustly consistent and compliant, remedying noted defects in current forms of advice provision.[34]



Recent ASIC research showed that while only 1% of participants had used digital advice, 37% of participants who had recently thought about getting financial advice but had not gone ahead were open to using digital advice.[35] While lack of awareness or understanding of digital advice offerings is certainly a contributing factor, current delivery mechanisms for digital advice are also limited by the absence of an equivalent to the Consumer Data Right.

Commentary on digital advice, while identifying its potential value in filling the advice gap, notes the current provision of advice is limited in what it can do, predominantly because it is often provided directly through super funds.[36] Expanding the CDR to superannuation would enable

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[32] See: Adrian Flores, 'Is FASEA leading to an adviser exodus?', *Independent Financial Adviser* 21 January 2019 <https://www.ifa.com.au/editorial/26400-is-fasea-leading-to-an-adviser-exodus>.

[33] ASIC REP 627 *Financial Advice: What consumers really think*, p 5. This report also noted cost as the biggest barrier.

[34] See: ASIC REP 632 *Disclosure: Why it shouldn't be the default*, p 16, where ASIC assessors rated only 3% of sampled advice as 'good'.

[35] ASIC REP 627 *Financial Advice: What consumers really think*, p 5.

[36] See: John Collett, 'Eight of 10 Australians don't get financial advice. Is technology the answer?', *The Sydney Morning Herald*, 8 September 2017 <https://www.smh.com.au/money/planning-and-budgeting/eight-of-10-australians-dont-get-financial-advice-is-technology-the-answer-20170907-gyctqt.html>; Elizabeth Fry, 'Super funds look to AI to improve member engagement', *Investment Magazine*, 15 March 2019 < https://www.investmentmagazine.com.au/2019/03/super-funds-look-to-ai-to-improve-member-engagement/>.

FinTechs and RegTechs to offer independent, direct-to-consumer tools and products, empowering consumers to better understand their options outside of their existing fund.

For industry

Machine-readable product reference data's role in facilitating data quality, transparency, and accessibility would also be beneficial for superannuation industry participants, fostering the development of consistent, robust data sources through which to assess service providers and benchmark one's own product offering against the market. This not only represents best practice in striving for excellent member outcomes, but is in fact required by the *Improving Accountability and Member Outcomes in Superannuation* Reforms.[37]

Similarly, superannuation trustees are constantly seeking better ways to deliver comprehensible and illuminative product information and advice to their members. To this end, 61% of funds surveyed recently stated their intention to increase their utilisation of digital advice solutions in the near future.[38] The widespread adoption of digital advice would be substantially assisted by the availability of robust and objective machine-readable data sources.

For regulators

A lack of transparent, robust and available data has hampered regulatory efforts to assess and monitor the industry. ASIC's industry review of fees and costs, culminating in REP 398,[39] relied upon manual inspection of product disclosure statements – an incredibly manual and inefficient process for an industry with an excess of 200 public-offer funds and several thousand disclosure documents. Subsequent to this review, ASIC has indicated that they will undertake further 'focussed work' as to an appropriate framework for fee and cost disclosures for 'platform products', and consult with industry bodies to determine how financial advisers should utilise fee and cost information when giving advice[40] - both difficult puzzles given the complexity and volume of data involved, yet problems machine-readable data and digital automation are well-suited to address.

Notably, in Darren McShane's subsequent review of RG 97,[41] one of his key recommendations was to undertake a feasibility study into the development of a consumer comparison tool, a recommendation that ASIC did not adopt.[42] APRA has attempted to produce some publicly available product comparison data by way of their MySuper heatmaps, however these have

[37] *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019* (Cth), Schedules 1 and 7.
[38] ASIC REP 639 *Financial Advice by Superannuation Funds*, 3 December 2019 <https://download.asic.gov.au/media/5395538/rep639-published-3-december-2019.pdf>.
[39] ASIC REP 398 *Fee and cost disclosure: Superannuation and managed investment products*, July 2014 <https://download.asic.gov.au/media/1344620/rep398-published-8-July-2014.pdf>. This report precipitated the 2015 RG 97 reforms.
[40] ASIC 19-328MR ASIC releases updated RG97 on fees and cost disclosure, 29 November 2019 <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-328mr-asic-releases-updated-rg-97-on-fees-and-cost-disclosure/>,
[41] Darren McShane, ASIC REP 581 *Review of ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and periodic statements*, 24 July 2018 <https://download.asic.gov.au/media/4824186/rep581-published-24-july-2018.pdf>.
[42] Geoff Sanders, Stephanie Malon and Katerina Dandanis, 'ASIC consultation on fees and costs disclosure reform following expert review', *Allens Insights*, 18 March 2019 <https://www.allens.com.au/insights-news/insights/2019/03/unravelled-asic-consultation-on-fees-and-costs-disclosure/>.

already faced significant controversy,[43] particularly regarding their lack of transparency as to the methodology.[44] APRA has already acknowledged the significant additional costs that would be associated with an expansion of the heatmap project to the broader and more diversified choice product offering.[45]

> *Machine-readable product data would facilitate the automation of data collation, raise the standard of data quality, and support more effective analysis of product performance, thereby rendering such immense, yet necessary, projects more approachable.*

At the moment there is no consistent requirement around the provision of data and this should be rectified with a view to mandating the lifting of standards and best practice.

For taxpayers

In light of the findings of the Productivity Commission and Royal Commission, ASIC was provided in excess of $400 million in additional funding, with $69.9 million specifically allocated to acting as primary superannuation conduct regulator, including focusing on underperforming funds. Similarly, APRA's budget was increased by $117 million. In circumstances where regulators are required to undertake manual product disclosure statement reviews in order to compile product reference data, there are clear opportunities to increase cost efficiency, and therefore returns for the taxpayer, by bringing Australia's superannuation product disclosure standards into the 21st century.

Barriers to opening super

> Open Super presents an opportunity to leverage the core capabilities of FinTech and RegTech solutions to tackle fundamental issues facing the superannuation sector in Australia.

Any attempt to create an environment where superannuation disclosure standards center around machine-readable product reference data would of course constitute a significant project. In order to establish clear, objective and effective reference standards for the production, presentation, and communication of product reference data, consultation with stakeholders both inside the superannuation and financial services industry and the broader FinTech market would be required in collaboration with government and applicable regulators. This will likely prove challenging,

[43] Mike Taylor, 'APRA needs to get heat maps rights before going public', *Super Review*, 28 November 2019 <https://www.superreview.com.au/news/superannuation/apra-needs-get-heat-maps-right-going-public>.
[44] Mike Taylor, 'APRA reluctant to name heatmap advisers', *Super Review*, 5 December 2019 <https://www.superreview.com.au/news/superannuation/apra-reluctant-name-heatmap-advisers>.
[45] Mike Taylor, 'APRA choice heatmaps will come at a cost', *Super Review*, 3 December 2019 <https://www.superreview.com.au/news/superannuation/apra-choice-heatmaps-will-come-cost>.

particularly given the pace of technological development and the state of flux in the financial services regulatory sphere.

Nonetheless, Open Super presents an opportunity to leverage the core capabilities of FinTech and RegTech solutions to tackle fundamental issues facing the superannuation sector in Australia. It is essential for Australia to seize this opportunity in order to develop world-leading data infrastructure to match Australia's world-leading superannuation system. By doing so, Australian superannuation would both address current shortcomings and redesign its underlying infrastructure with a view towards future advancements – in other words, the core of the concept of Open Super.

It should also be noted that, while Open Super may be a paradigm shift, in many respects, it is quite definitively an evolution, and not a revolution. Many of the frameworks and principles underlying the concept already exist, such as the ATO's Superstream, Supermatch, and Supertick systems, and the MyGov portal. It is arguably easier for a consumer to roll over their super than it is to port a phone number or change banking providers, and exit barriers have been further reduced now that Protecting Your Super has banned exit fees. Similarly, the Productivity Commission throughout their report noted increased competition as a method through which costs could be reduced and outcomes could be improved. Perhaps the greatest limiting factor in increasing competition to date has been a lack of member engagement – a problem for which we now have technological solutions.

Additional potential outcomes

Machine-readable product reference data may also synchronise with other data sources, such as the ATO's Superstream and Supermatch systems and the APRA reporting requirements, enabling FinTech solutions to compile and collate all information applicable to any given Australian about their super, across all products held in their name. Such a solution would be particularly invaluable given the interplay between changing employment patterns and Australia's employer-default fund system.

Consider a case study: in both the *Protecting Your Super* and *Putting Members Interests First* reforms, passed this year, the existence of unintended multiple accounts was considered a key problem area, particularly regarding erosion of member balances by unintended duplication of insurance coverage or excessive fees and costs on low member balances.[46]

ASIC's public correspondence to trustees regarding member communications surrounding these changes specifically noted the importance of providing members with context around the reforms and directing members to the ATO resources to discover their other superannuation accounts.[47] However, while the ATO resources enable members to determine what other superannuation holdings they may have, this information is limited to the existence of their accounts, and their balances therein. To determine insurance coverage, or what fees they are paying, members are

[46] Explanatory Memorandum, Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (Cth); Explanatory Memorandum, Treasury Laws Amendment (Putting Members' Interests First) Act 2019 (Cth).
[47] ASIC, *Member communications in relation to: Treasury Laws Amendment (Putting Members' Interests First) Act 2019 (PMIF) and Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019*, 29 October 2019 <https://download.asic.gov.au/media/5329160/asic-letter-to-superannuation-trustees-29-oct-2019.pdf>.

still left to navigate disclosure documents that are rendered inaccessibly complex due to technical regulatory requirements, leaving them with minimal useable information.

Imposition of the consumer data right into Open Super, including, but not limited to, requiring product reference data to be machine-readable, would facilitate the development of tools through which members could readily digest and compare information across funds and products, drive financial literacy and thereby empower members to take ownership of their retirement savings and proactively engage in decision making that will collectively promote a more adequate, sustainable, equitable and cohesive retirement system.

Key recommendation 4: Support regulatory change that promotes greater competition and consumer choice in the superannuation sector, including expansion of the Consumer Data Right framework to superannuation.

Key recommendation 5: Develop uniform standards and a framework for the promulgation of machine-readable product reference data in superannuation; enabling a transformational effect on financial literacy and engagement, competition, transparency and reporting in the superannuation industry, whilst also providing a springboard for innovation and growth in Australia's FinTech and RegTech industries.

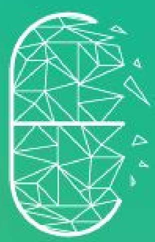
6. RegTech – towards a super efficient second pillar

Superannuation is not only the central pillar of Australia's retirement system; it is one of Australia's greatest national assets. At nearly AUD$3 trillion and growing, superannuation is possibly Australia's largest resource pool; already worth a trillion dollars more than the entire Australian Securities Exchange.

Despite the success of the Australian superannuation industry, recent reviews, including *The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* and the Productivity Commission's Inquiry Report*, Superannuation: Assessing Efficiency and Competitiveness,* have found many systemic shortcomings. As Commissioner Hayne stated: *"too little attention has been given in Australia to regulatory, compliance and conduct risks."*[48] Poor compliance was often revealed to be systemic, driven by a combination of antiquated systems, structural conflicts, culture, poor transparency, disconnected and siloed workflows, and human error, amongst other factors.

Adding to these concerns are longstanding inefficiencies within Australian superannuation. Australians currently pay over $30 billion per year in fees, with the Productivity Commission finding that total investment fees are currently about 0.68% of assets under management, much more than the expected level of 0.4% based on comparisons to relevant international systems.[49] Given this difference will lead to material losses for Australian retirees, addressing inefficiencies and reducing costs represents a key area for improvement for Australian superannuation.

As has been widely cited, Deloitte in 2014 concluded that compliance costs across the nation totalled in the hundreds of billions, choking productivity.[50] In the post-Royal Commission regulatory environment, such costs are particularly significant for superannuation funds. Facing the simultaneous challenges of an increasing regulatory burden



Facing the simultaneous challenges of an increasing regulatory burden and a focus on lower fees, trustees and fund managers must find a way to deliver enhanced compliance outcomes, all at a lower cost. Regulatory technology (RegTech) is the industry's only viable solution.

[48] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 2019, Volume 1.

[49] Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness. No. 91, 21 December 2018. Inquiry Report – Overview.

[50] Deloitte, 'Rules eat up $250 billion a year in profit and productivity' (Media Release, 29 October 2014) <https://www2.deloitte.com/au/en/pages/media-releases/articles/rules-eat-up-250-billion-a-year-271014.html>.

and a focus on lower fees, trustees and fund managers must find a way to deliver enhanced compliance outcomes, all at a lower cost. RegTech is the industry's only viable solution.

Not only can RegTech deliver the requisite improvement in compliance practices without the additional cost overlay that would otherwise be needed, the efficiencies generated can also lead to substantial cost savings. The implementation of RegTech therefore represents a win-win for the industry, ultimately ensuring members' best interests are served by enabling improved compliance standards and reduced costs and fees.

As and when members – empowered by digital tools and transparent data on fees courtesy of an Open Super platform – become more engaged with their superannuation, the cost of administering a superannuation fund will increasingly become a key battleground for funds looking to attract and retain members in a competitive marketplace.

In this section of Sargon's submission, we take a closer look at how RegTech can deliver improved efficiencies, transparency, regulation and outcomes for superannuating Australian citizens, and what barriers exist for superannuation funds to realise the potential of RegTech.

The scope for RegTech in superannuation

RegTech's potential for superannuation is vast, promising to deliver enhanced operational efficiency; cost savings; transparency; more effective compliance processes; more efficient and effective regulatory oversight; and a platform for collaboration, innovation and growth.

<u>Enhanced efficiencies</u>

Running a superannuation fund is complex, and requires the seamless operation and integration of multiple functions, from promotion and member engagement to asset and investment management, insurance, administration and compliance. In today's environment, managing these operations through conventional and manual processes creates a work-surface that is simply too large and cumbersome to effectively oversee.

Alternatively, RegTech delivers enhanced efficiencies by facilitating the automation and coordination of processes that are subject to compliance and regulation. By moving all operations to one platform, funds benefit from a seamless interface to manage all stakeholder interactions – reducing complexity, integrating workflows, removing silos, duplication and unstructured manual processes.

In this way, RegTech software delivers transparent processes and compliance oversight in fund management; purpose-built to help ensure trustees are meeting compliance obligations and serving members' best interests. The successful implementation of RegTech can drive more effective performance and efficient operations, delivering cost savings and competitive advantages to funds, and ultimately better outcomes for members.

<u>Transparent processes and actionable data</u>

Superannuation funds currently gather and report data in an inconsistent and often opaque way, which causes numerous problems for the industry.

First, poor transparency makes the role of the regulators particularly challenging, with the process unnecessarily consuming resources and wasting taxpayers' money. Secondly, inconsistent reporting practices create an uneven playing field, making it difficult for members, regulators and other stakeholders to simply, or even accurately, compare important metrics on fund performance. Finally, a lack of transparent and actionable data hinders decision making, either by fund managers, regulators or policy makers, likely leading to suboptimal results.

Inconsistent reporting practices across the superannuation industry also create the perverse situation where funds with greater levels of transparency and reporting are at risk of being penalised for their superior practices, simply because it provides regulators with better access to their data. This situation provides little incentive for change for funds who currently hide behind opaque practices and inconsistent reporting.

APRA Deputy Chair Helen Rowell has stated: "*APRA plans to usher in a new era of superannuation transparency: providing better information on trustee and product performance, and increased visibility of APRA's actions to address underperformance.*"[51]

> *The widespread implementation of RegTech solutions in superannuation would drastically improve standards of transparency and reporting across the industry.*

Moreover, robust RegTech platforms will be essential for the provision of ubiquitous machine-readable product reference data and a move towards Open Super. Taken together, RegTech and Open Super have the potential to deliver a true paradigm shift in superannuation. For regulators, easy access to rich and accurate data will not only make their job easier but drive more consistent and effective oversight. For superannuating Australians, true transparency around fees and costs, product features, and performance will enable simple like-for-like comparisons, thereby empowering consumer choice.

Streamlining, simplifying and automating processes removes operational complexity. In doing so, funds improve operational efficiency and compliance outcomes, creating transparency and a platform for collaboration and innovation across the industry.

Robust compliance

A renewed mandate for regulators[52,53] coupled with the ever-growing scale and influence of superannuation capital, means superannuation funds and trustees must adapt to a greater emphasis on compliance and transparency, with severe penalties for failure.

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[51] APRA Deputy Chair, Helen Rowell - Speech to the Australian Institute of Superannuation Trustees' Conference of Major Superannuation Funds, 13 March 2019.

[52] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 2019, Volume 1.

[53] Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness. No. 91, 21 December 2018. Inquiry Report – Overview.

The digital transformation of financial services and associated shift in consumer behaviour has further exacerbated the challenge. Financial services and product distribution are no longer purely the remit of banks and advisors. Instead, a myriad of digital distribution channels has led to a vastly increased pace of product launch, distribution and sales; a multitude of channels requiring regulatory monitoring; and many more disclosure requirements.

Trustees and fund managers have an ethical imperative and fiduciary duty to do what is in the best interests of their members, meaning a constant effort to reduce costs and improve returns while ensuring robust compliance processes and outcomes. The old way of doing things – spreadsheets and manual processes – no longer represents best practice and constitutes a significant and ongoing risk to products and funds. Continuing these outdated practices must surely call into question whether those responsible are meeting their fiduciary obligations.

Instead, by taking a proactive approach to compliance and utilising the latest RegTech solutions, the focus of compliance teams can be shifted to prevention, rather than simply reactively logging risks or breaches. For example, real-time monitoring and pro-active alerts powered by web crawling and machine learning technologies can help identify and address compliance concerns before they become an issue,[54] while a centralised platform to manage disclosure and compliance ensures a single source of truth, acting as a reliable data point from which updates can flow through all relevant channels.[55]

Such RegTech solutions provide an effective platform from which superannuation funds can nimbly respond to regulatory change. What's more, by integrating all compliance processes on a purpose-built RegTech platform,[56] gap analysis can quickly identify any areas where funds are non-compliant, ensuring better management of risks.

Adopting super technology

By delivering both significantly improved compliance outcomes and more efficient and cost-effective operations, RegTech can directly improve the adequacy, equity and sustainability of the second pillar of Australia's retirement income system. For RegTech to realise its potential, however, superannuation funds must be encouraged to overcome an overly conservative and risk-averse culture, and instead embrace innovative new systems and improved operations.

Trustees and fund managers should by now be aware of the various technology solutions available to them, and the benefits of RegTech and other financial infrastructure and software-as-a-service to improve processes and outcomes, while also delivering significant cost savings to the fund and ultimately to members. As Commissioner Hayne stated in his final report:

> *"it is the board and senior management of financial services entities who are responsible for… whether the entity ensures that compliance issues are identified, escalated as required, and*

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[54] See, for example, https://www.sargon.com/products/sentinel/.
[55] See, for example, https://www.sargon.com/products/metropolis/.
[56] See, for example, https://www.sargon.com/products/arcadia/.

addressed promptly and effectively; and whether the entity has an open, transparent and constructive relationship with regulators"[57]

Given these responsibilities, superannuation funds must overcome barriers to implementation to deliver the most effective and efficient compliance solutions available. If they do not, they are failing in their fiduciary duty to members.

The superannuation industry, however, has been slow off the mark, and in an atmosphere of significant regulatory uncertainty, trustees may need a push: ASIC and APRA should move beyond speaking theoretically[58] and rather take concrete steps towards encouraging – or mandating – adoption of RegTech solutions within financial services, including superannuation. Government can also play a key role in this by actively promoting and supporting innovation in RegTech to incumbents, in addition to the current support measures for startups.

Cultural change

"In looking at culture and governance, every entity must consider how it manages regulatory, compliance and conduct risks." – Commissioner Hayne[59]

The incumbent culture of the superannuation industry represents perhaps the greatest barrier to RegTech adoption in superannuation. Given the enormous responsibility of overseeing the nation's retirement savings, and the significant penalties for failure, a highly risk-averse and conservative culture is a natural evolution of the industry.

> In the face of looming technology disruption and warnings from regulators that the status quo is no longer acceptable, it is now inaction that represents the real risk to funds...

Adding to the industry's inertia is the unique structure of defined contribution superannuation. Mandated contributions and compounding investment returns mean that, in contrast to nearly every other industry, growth in superannuation funds is not earned; rather, it comes by default. The usual market forces that drive innovation therefore do not really apply to incumbent superannuation funds, or at least they apply to a much lesser extent than in other industries.

The superannuation industry also suffers from outdated attitudes towards technology. Much of the technology developed and implemented by incumbent superannuation funds to date required substantial upfront investment on their part, creating, rather than reducing risk and requiring significant change management. As a result, the superannuation industry has been slow to adopt the undeniable benefits offered by modern technology solutions, and on

57 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 2019, Volume 1.

58 ASIC gets tough on 'regtech'. James Eyers, The Australian Financial Review. Mar 27, 2019.

59 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 2019, Volume 1.

occasion been reluctant to undergo a true transformation of outdated legacy systems and manual processes required to bring operations into the 21st century.

Through this cultural lens, change is seen as a source of risk, and in the eyes of some incumbents, it is safer and easier to do nothing. However, in the face of looming technology disruption and warnings from regulators that the status quo is no longer acceptable, it is now inaction that represents the real risk to funds. In this new operating environment, the incumbent culture of superannuation industry players acts as a significant barrier to meaningful change and reform.

Compliance teams are naturally risk-averse, and funds' senior management have also become more risk-averse following the Hayne Royal Commission, even though the shortcomings of the conventional approach to compliance have been laid bare. Rather than considering compliance an operating cost, funds should recognise good compliance – and the implementation of leading RegTech solutions – as a driver of growth. Similarly, as Verifier has observed, "*[r]egulators (who publish guidelines and therefore become the 'arbiters of taste') are also naturally risk-averse*", and yet "*RegTechs constantly challenge the ways in which regulation is implemented – so they need to closely collaborate with regulators*".[60] A change in mindset is needed.

Regulators should seek to actively collaborate with RegTechs at all ends of the scale proposition, working in tandem with innovators to solve the intractable problems facing market participants and the regulators alike. Furthermore, trustees and fund managers should be mandated to constantly seek and implement best-in-class technology systems in order to better serve their members. As Verifier suggested, this could be monitored and enforced through the development of RegTech and innovation metrics by the appropriate regulators.[61] Current KPIs and incentives for fund managers typically reward business-as-usual practices, meaning new activities or initiatives often risk employees not meeting outdated metrics. Instead, KPIs should be set to ensure alignment with the pursuit of best practice operation and compliance.

Finally, the vertical integration of superannuation funds creates intrinsic conflicts of interest. As the Productivity Commission stated: *"A better definition of the term independent director is needed. Trustee directors are not independent if they are affiliated with parties related to a fund."*[62]

Without mandated independent trustees, as is the case for supervisors in New Zealand's KiwiSaver system, many integrated funds are essentially in charge of marking their own homework. It is inevitable that this conflicted model will lead to suboptimal outcomes for members who must trust their fund to oversee its own fee setting and compliance processes.

To drive change and enable widespread adoption of best practice RegTech and compliance in superannuation, incumbents can be pressured from the bottom-up – by encouraging new entrants and competition, as we discuss in section 7 of this review – or from the top-down – from pressure exerted by government and the regulators. Both approaches can and should be used in tandem.

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[60] Verifier, Submission to the Select Committee on Financial Technology and Regulatory Technology, (submission no. 33, December 2019, p 6.

[61] Verifier, Submission to the Select Committee on Financial Technology and Regulatory Technology, (submission no. 33, December 2019, p 6.

[62] Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness. No. 91, 21 December 2018. Inquiry Report – Overview.

Regulatory pressure

In speaking to the Australian Financial Review, then ASIC executive director of financial services Michael Saadat said an *"if not, why not"* approach would be adopted to force banks to explain why they aren't using the latest technology, and expects that it will reach the point where *"if you aren't using a type of technology, you have some explaining to do."*[63]

Regulators should take the same approach with superannuation, actively challenging and penalising funds who have not adopted RegTech to improve compliance and reporting standards. Funds should be set increasingly high standards for transparency and reporting, with current best-practice standards applied across the industry.

Not only would this drive change and the uptake of leading RegTech to improve and meet transparency, compliance and reporting standards, it would help to ensure a fair and level playing field across the industry, providing regulators with access to easily interpretable and directly comparable data.

Encouragement from regulators would give superannuation funds confidence that RegTech implementation is prudent and necessary, while increased demand from the superannuation industry will further enhance an already dynamic and competitive local RegTech industry, helping to develop innovative new RegTech solutions for superannuation.

Key recommendation 6: Mandate the application of current best-practice compliance and reporting standards across the superannuation industry – supported by best-in-class technology systems.

[63] ASIC gets tough on 'regtech'. James Eyers, The Australian Financial Review. Mar 27, 2019.

7. Super competition

The third prong in promoting a more effective and sustainable superannuation industry is improving competition. Building from a platform of increased financial literacy and engagement of members, and a transparent Open Super framework powered by RegTech, policy initiatives should be directed towards fostering increased levels of competition amongst funds and encouraging innovative new market entrants; thereby exerting pressure on incumbents unable or unwilling to change.

Regulation: towards a culture of competition

Following a series of reviews, regulatory change and intense media scrutiny, Australian superannuation finds itself at a critical juncture. As many incumbents desperately seek further efficiencies and scale, it is essential that competition is promoted – not only for the health of the superannuation industry, but for the financial sector as a whole. We should strive to create a superannuation industry that is dynamic, innovative and agile.

> *A sector that involves companies entering markets and pursuing new ideas at a rapid pace; quickly developing and adopting new technologies and ways of working to deliver better outcomes to members and society more broadly.*

We are inherently optimistic that this vision for superannuation can be realised. Success, however, will likely be determined by the strength of competition in the sector. This competition will occur when barriers to market entry remain low, allowing companies that bring fresh products and ideas to permeate the market.

As such, we support recommendation 5 of Fintech Australia's submission to the Select Committee on Financial Technology and Regulatory Technology Fintech Inquiry, where they recommend: "*ASIC to heed the comments of the Productivity Commission, take inspiration from Singapore and the UK, and adopt a progressive pro-competitive approach to implementing the mandate for competition, set out in the ASIC Act*."

RegTech's critical contribution to enable this competitive and dynamic environment, as discussed in section 6 of this submission, is to deliver highly efficient, effective and scalable compliance solutions. The provision of RegTech under a SaaS arrangement, or through outsourced trusteeship, decouples operational efficiency and scale. Crucially, this means that new entrants and small funds can offer alternative products to the consumer, without any associated sacrifice to member outcomes.

Increasing competition

Currently, incumbents are not scared of losing members to competition. Few people change super funds and new members are often driven by default, through employers. Significant barriers to entry for new funds and increasing pressure on smaller funds to merge or be acquired, only exacerbates this problem.

Most obviously, fewer funds means less competition. The irony here is that the trend of mergers in pursuit of operating efficiencies will, in the long term, likely lead to the opposite. A competitive industry is a proven driver of efficient operations, as entities seek a competitive advantage by improving their cost structure and value proposition – with the ultimate benefactor, of course, being the end consumer.

Similarly, competition fosters innovation. The struggle to succeed is a powerful incentive to develop new and improved product and service offerings, better ways of working and innovative new business models. Small businesses are also the most agile, the most willing to experiment and often the most likely to develop step change improvements in an industry.

For superannuation, smaller funds and new entrants can and do help provide a diversified product and service offering, helping to serve market niches and identify new market trends.

For superannuation, smaller funds and new entrants can and do help provide a diversified product and service offering, helping to serve market niches and identify new market trends. RegTech can and should be an enabling platform for these funds and for increased competition in the industry.

In contrast to merging, adopting scalable technology solutions not only removes duplication from the industry but provides a clear pathway to more efficient operations and improved outcomes for members. Moreover, this model enables smaller funds to survive and prosper, ensuring that we maintain diversity and competition amongst funds, fostering innovation and ultimately providing more choice and improved outcomes for members.

Government and regulators should therefore be cautious, in their calls for consolidation and increased scale, to ensure that barriers to entry for new, genuinely differentiated market entrants are not prohibitively high. Similarly, the regulatory environment – including 'choice of fund' laws and other rules surrounding product distribution – should ensure a level playing field for disruptors and innovators to challenge the status quo and in doing so pursue improved member outcomes for all Australians.

Fostering innovation

Super fund managers and trustees wanting to innovate and adopt leading technology solutions that better serve members' interests face the challenge of simultaneously ensuring compliance while fostering an environment for innovation and change – meaning experimentation and at times failure. This represents a fundamental area of friction between two competing priorities – priorities that may often be regarded as mutually exclusive by many in the industry.

Adoption could be facilitated by allowing RegTech to be increasingly trialled within certain parameters, with exempting liabilities and without fear of repercussions. This would encourage innovation and experimentation, increase speed of learning and help to safely identify any possible system failures.

Regulators could assist technology adoption by providing proactive guidance through negative assurance to developing RegTech applications. As Verifier observed in its submission to the Senate Select Committee on Financial Technology and Regulatory Technology, as RegTech seeks to be 'compliant by design', being approachable and willing to advise where a proposed design is noncompliant, as AUSTRAC does, could be invaluable.[64]

Key recommendation 7: Foster a more dynamic and competitive superannuation industry to drive upward pressure on incumbents (see recommendations 4 and 5).

Key recommendation 8: Enable RegTech to be increasingly trialled, within certain parameters, with exempting liabilities and without fear of repercussions.

[64] Verifier, Submission to the Select Committee on Financial Technology and Regulatory Technology, (submission no. 33, December 2019, p 6.

Appendix 1: Modelling engagement at 35

The following appendix outlines real outputs from Sargon's Decimal Digital Advice Platform when provided inputs based on a hypothetical member scenario. These are provided solely for the purpose of providing illustrative context to Sargon's submission to the Australian Government's Retirement Income Review, and should not be taken as financial product advice or relied upon as such by any person.

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When I retire, how long will my money last?

15 years

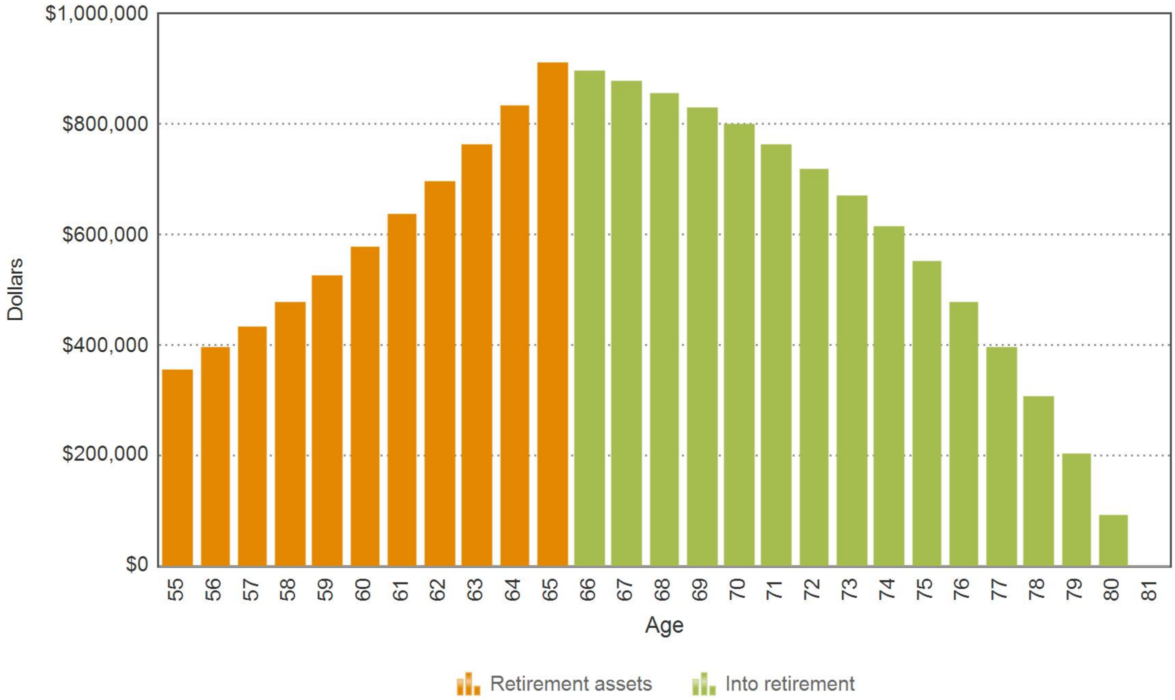
Your assets at retirement will support for 15 years your retirement income goal of $59,500 per year. As seen from the graph, this is based on projected retirement at age 65.

You expect to want to fund retirement until age 90. To achieve that you would need to accumulate in super an extra $296,846 (in today's dollars, $220,882)

Additional Advisor information - how long your money lasts

If you retired and lived on the income you have indicated is your goal in retirement, your assets would accumulate to retirement then run down as illustrated in the graph below.

By retirement your accumulated 'retirement assets' are projected to total $913,776 (in today's dollars, $679,935)



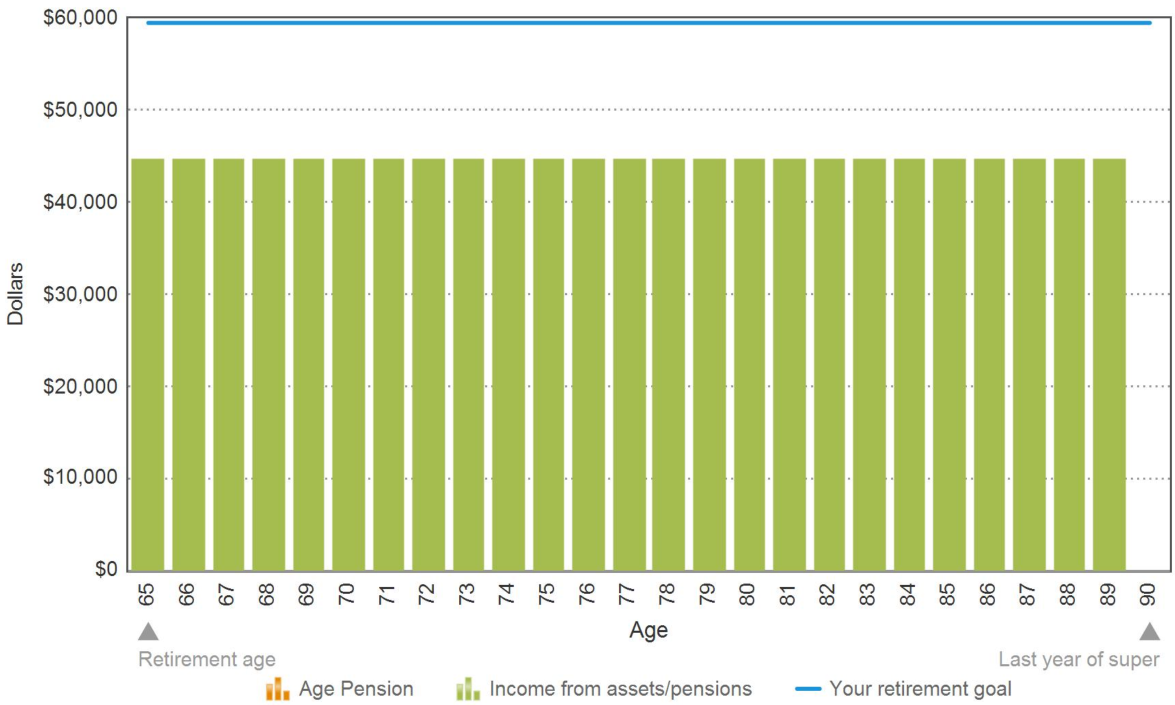
The projection shows that the retirement income does not fund retirement for the desired number of years, which leaves you with these options.You could aim to accumulate more by retirement (may be as simple as working longer), could lower your expectations for living in retirement and plan for that, or could choose to not make any adjustments, and run out of money well before the desired retirement duration. As a guideline, an increasing in saving through super, after tax, of $1,599 per month would close the gap.

Regular contributions at the level indicated above, increasing each year with the assumed salary increase rate would bridge the gap by allowing you to accumulate in super an extra $296,846 (in today’s dollars, $220,882)

What income can I expect in retirement?

$44,911 per year

The income your retirement assets can fund for your anticipated retirement is $44,911 per year. As seen from the graph, this is based on projected retirement at age 65 and takes into account your desire for retirement to be funded to age 89.

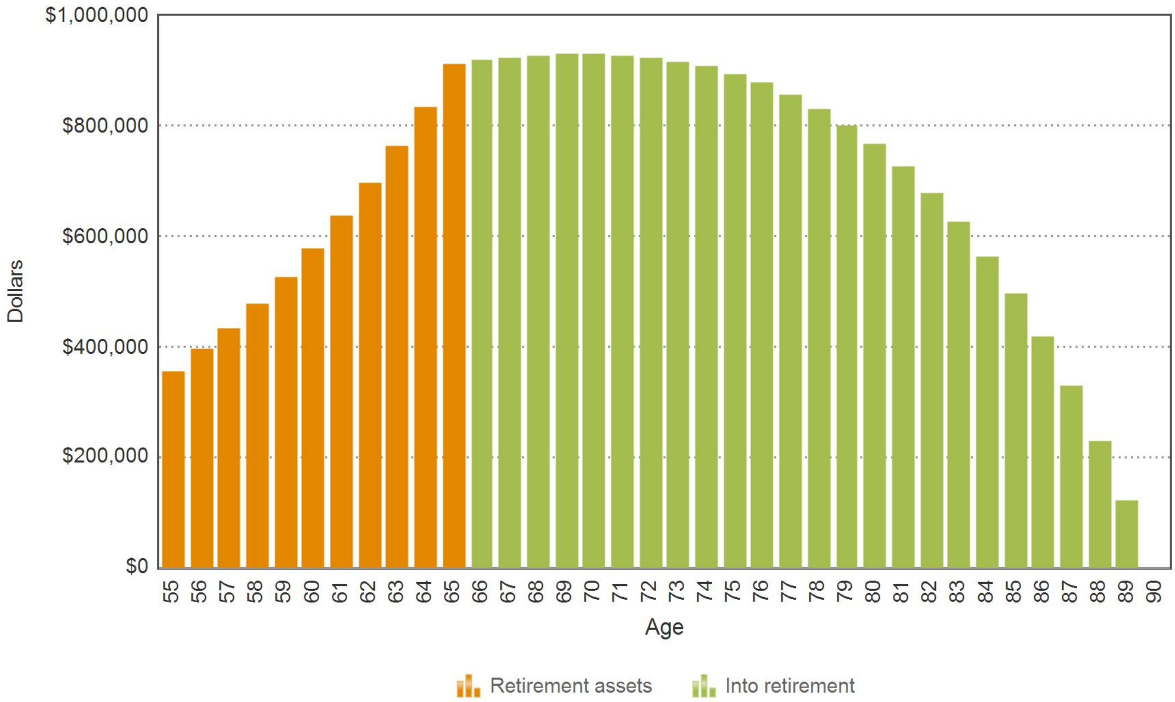


The income we have calculated your assets would support through retirement is less than your target of $59,500 per year. Additional savings would help bridge the gap of $14,589 per year.

Additional Advisor information - how much can I expect in retirement

As you can see from the graph below, living on the equivalent of $44,911 per year in today's money will run down your financial assets by around age 90.

By retirement your accumulated 'retirement assets' are projected to total $913,776 (in today's dollars, $679,935)



The fact that there is a gap means that you have some options. You could aim to accumulate more by retirement (may be as simple as working longer), you could lower your expectations for living in retirement and plan for that, or you could choose to not make any adjustments, and run out of money well before you would like to. As a guideline, an increasing in saving through super, after tax, of $1,599 per month would close the gap.

Regular contributions at the level indicated above, increasing each year with the assumed salary increase rate would bridge the gap by allowing you to accumulate in super an extra $296,846 (in today’s dollars, $220,882)

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Supporting calculation data tables

Retirement adequacy calculation detail (1040)	
Super/Pension assets available	$913,776
Other financial assets available	$0
('available' means after debts have been cleared)	
Loans on Home and Personal assets (cleared by investment drawing)	**$0**
less lump sum expenses at retirement	$0
less amount set aside to cover extra expenses in retirement	$0
plus value of extra income stream in retirement	$0
Adjusted superannuation/pensions available	**$913,776**
Adjusted other financial assets available	**$0**
At retirement, investment assets are added up and the income they could support is calculated	
Retirement income supported for life expectancy (at age 65) plus 5 years (this figure is expressed in today's dollars)	$44,911
In retirement dollars (future dollars), that is an income each year of	$44,911
and the calculations assume that the income increases in retirement each year as your salary does each year up to retirement	
Life expectancy (at retirement) plus 5 years (or specified retirement years) is how long ?	25.00 years
Age pension potentially payable at retirement age	$0
The investment asset totals shown above were used in calculating the income supported	
It was assumed that your home and personal assets would be needed, debt free, in retirement so as shown above, oustanding debts were assumed deducted from the investments total used in the calculation.	
Your home and personal assets at retirement (total value)	
Value of your home at retirement	**$0**
Personal assets at retirement	**$0**
Assets purchased by one off transactions	**$0**
Salary increase rate per annum	3.00%
Annual inflation rate applied to retirement retirement expenses	2.50%
Investment growth rate per annum	4.20%
Income each year as a percentage of investment balance	3.40%
Franked part of investment income	34.73%
Superannuation accumulation growth rate (after earnings tax) before fees	7.75%
Pension growth rate before fees	8.81%
Pension annual fees assumed	0.88%

Super until retirement annual fees assumed	0.88%
Investment annual fees assumed	0.84%
Average tax rate assumed on investment income	18.30%
Pension growth rate after allowing for fees	7.89%
Super growth rate after allowing for fees - used to calc topup conts	7.89%
Investment growth rate after allowing for fees and income tax	6.14%
Given the above assumptions, one dollar per year of retirement income needs how much in super?	$15.14
Given the above assumptions, one dollar per year of retirement income needs how much outside super?	$17.85
Later qualifies for age pension at age	67
qualifies for age pension at age	67
After tax annual saving needed to fund retirement gap	$19,191
Gap funding year 1 salary sacrifice cont option	$9,597
After tax extra annual cont needed year 1 if using sal sac option	$11,034
After tax year 1 impact of salsac combo to fund retirement gap	$17,320

Appendix 2:
Modelling engagement at 55

The following appendix outlines real outputs from Sargon's Decimal Digital Advice Platform when provided inputs based on a hypothetical member scenario. These are provided solely for the purpose of providing illustrative context to Sargon's submission to the Australian Government's Retirement Income Review, and should not be taken as financial product advice or relied upon as such by any person.

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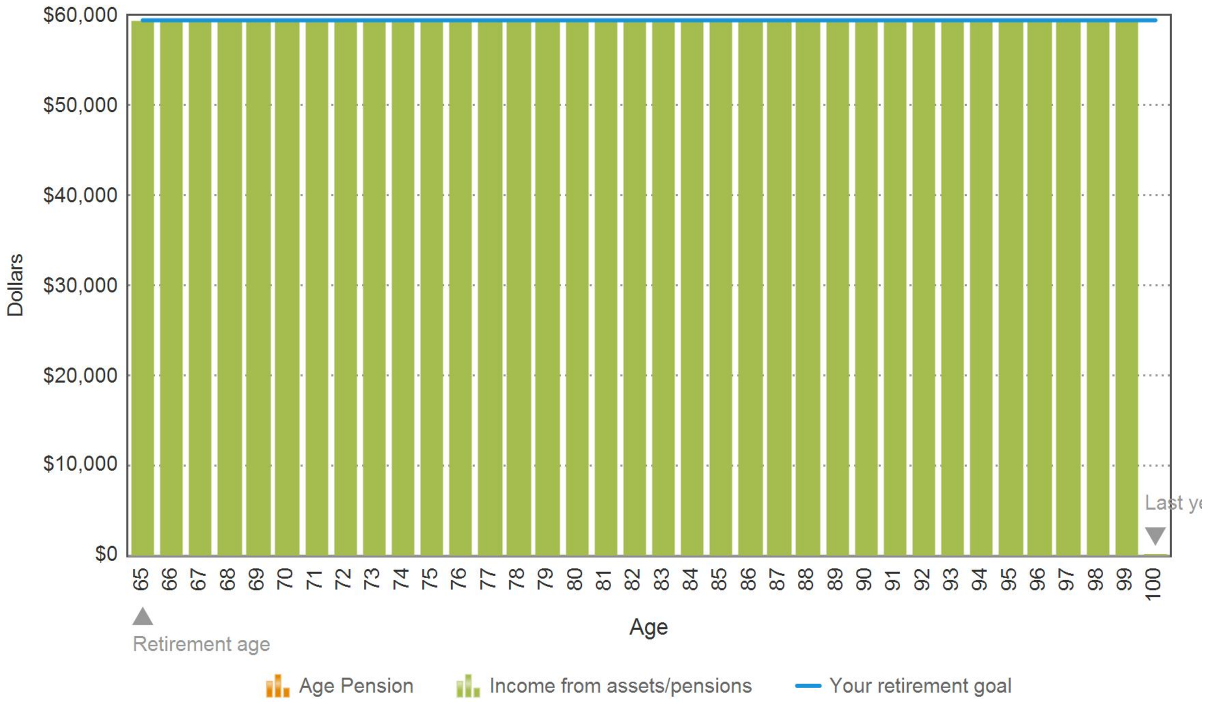
When I retire, how long will my money last?

35 years

Your assets at retirement will support for 35 years your retirement income goal of $59,500 per year. As seen from the graph, this is based on projected retirement at age 65.



You expect to want to fund retirement until age 90. Your current plans are projected to satisfy that requirement.

Additional Advisor information - how long your money lasts

If you retired and lived on the income you have indicated is your goal in retirement, your assets would accumulate to retirement then run down as illustrated in the graph below.

By retirement your accumulated 'retirement assets' are projected to total $2,557,146 (in today's dollars, $1,053,510)

As you have funded the desired retirement income level for the desired retirement duration, you are projected to have additional flexibility in retirement. This protects somewhat against adverse investment conditions once retired or offers additional spending flexibility if outcomes are as projected.

What income can I expect in retirement?

$69,586 per year

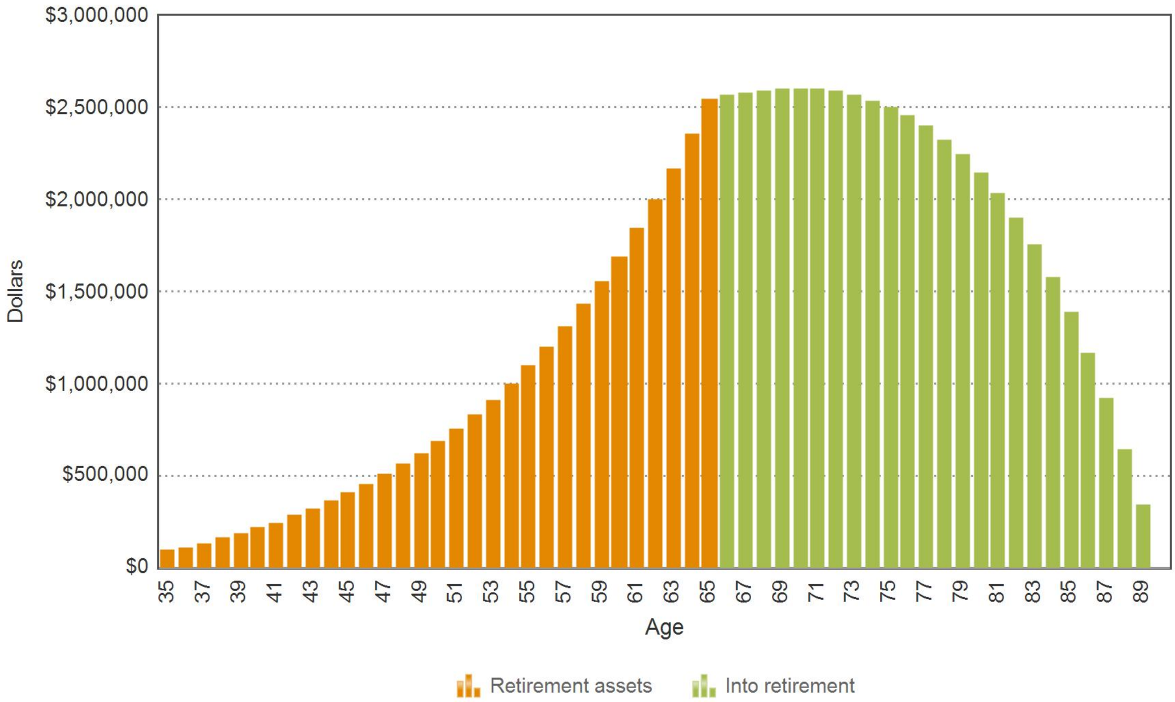
The income your retirement assets can fund for your anticipated retirement is $69,586 per year. As seen from the graph, this is based on projected retirement at age 65 and takes into account your desire for retirement to be funded to age 89.

Your goal for income in retirement is $59,500 per year, which is achieved by this projected outcome. That means that in addition to the other retirement goals you have specified, you have extra retirement living flexibility.

Additional Advisor information - how much can I expect in retirement

As you can see from the graph below, living on the equivalent of $69,586 per year in today's money will run down your financial assets by around age 90.

By retirement your accumulated 'retirement assets' are projected to total $2,557,146 (in today's dollars, $1,053,510)



The income calculated as supportable through retirement is more than the target retirement income - that's good!

What does that really mean?

Firstly keep in mind that these are projections into the future based on assumptions. Actual outcomes could be better or worse than projected.

With that in mind, the surplus funding gives you the flexibility to maybe do some extra things in retirement, provides a buffer in case they live longer than expected, and some protection against unexpected events.

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Supporting calculation data tables

Retirement adequacy calculation detail (1040)	
Super/Pension assets available	$2,557,146
Other financial assets available	$0
('available' means after debts have been cleared)	
Loans on Home and Personal assets (cleared by investment drawing)	**$0**
less lump sum expenses at retirement	$0
less amount set aside to cover extra expenses in retirement	$0
plus value of extra income stream in retirement	$0
Adjusted superannuation/pensions available	**$2,557,146**
Adjusted other financial assets available	**$0**
At retirement, investment assets are added up and the income they could support is calculated	
Retirement income supported for life expectancy (at age 65) plus 5 years (this figure is expressed in today's dollars)	$69,586
In retirement dollars (future dollars), that is an income each year of	$69,586
and the calculations assume that the income increases in retirement each year as your salary does each year up to retirement	
Life expectancy (at retirement) plus 5 years (or specified retirement years) is how long ?	25.00 years
Age pension potentially payable at retirement age	$0
The investment asset totals shown above were used in calculating the income supported	
It was assumed that your home and personal assets would be needed, debt free, in retirement so as shown above, oustanding debts were assumed deducted from the investments total used in the calculation.	
Your home and personal assets at retirement (total value)	
Value of your home at retirement	**$0**
Personal assets at retirement	**$0**
Assets purchased by one off transactions	**$0**
Salary increase rate per annum	3.00%
Annual inflation rate applied to retirement retirement expenses	2.50%
Investment growth rate per annum	4.20%
Income each year as a percentage of investment balance	3.40%
Franked part of investment income	34.73%
Superannuation accumulation growth rate (after earnings tax) before fees	7.75%
Pension growth rate before fees	8.81%
Pension annual fees assumed	0.88%

Super until retirement annual fees assumed	0.88%
Investment annual fees assumed	0.84%
Average tax rate assumed on investment income	18.30%
Pension growth rate after allowing for fees	7.89%
Super growth rate after allowing for fees - used to calc topup conts	7.89%
Investment growth rate after allowing for fees and income tax	6.14%
Given the above assumptions, one dollar per year of retirement income needs how much in super?	$15.14
Given the above assumptions, one dollar per year of retirement income needs how much outside super?	$17.85
Earlier qualifies for age pension at age	67
qualifies for age pension at age	67
After tax annual saving needed to fund retirement gap	-$2,935
Gap funding year 1 salary sacrifice cont option	$0
After tax extra annual cont needed year 1 if using sal sac option	-$2,935
After tax year 1 impact of salsac combo to fund retirement gap	-$2,935

Appendix 3:
Modelling engagement at 35 and interactions with age pension

The following appendix outlines real outputs from Sargon's Decimal Digital Advice Platform when provided inputs based on a hypothetical member scenario. These are provided solely for the purpose of providing illustrative context to Sargon's submission to the Australian Government's Retirement Income Review, and should not be taken as financial product advice or relied upon as such by any person.

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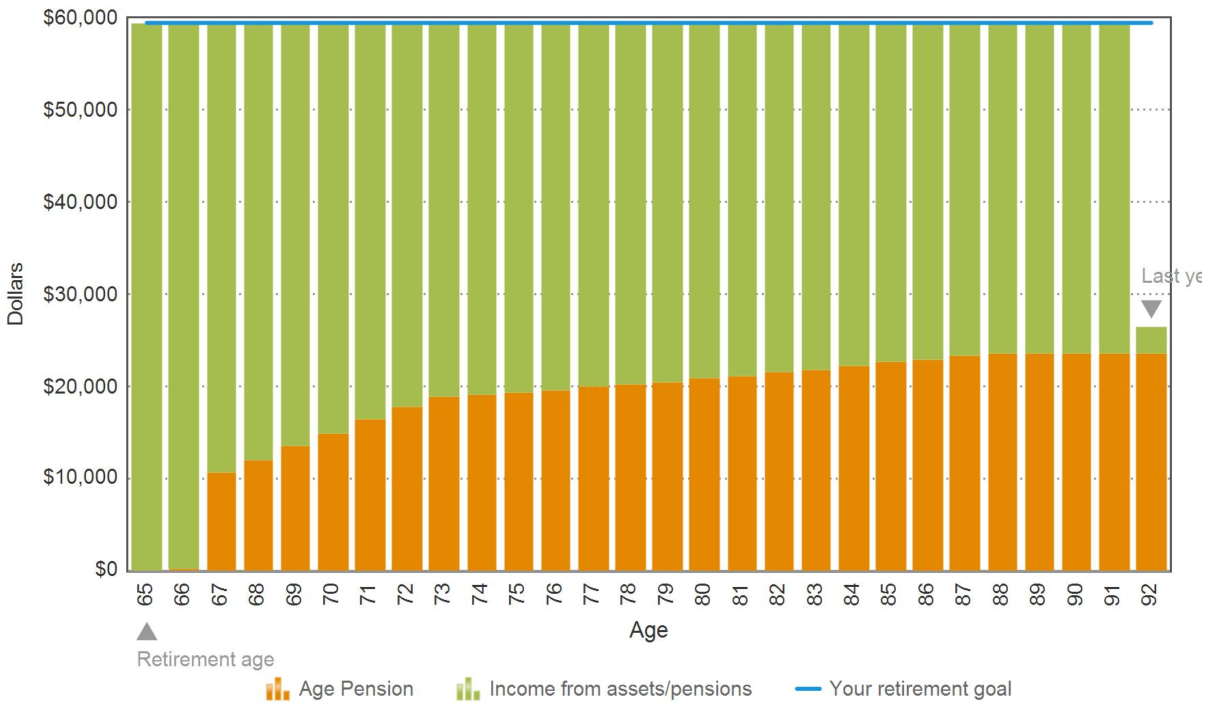
When I retire, how long will my money last?

27 years

Your assets at retirement will support for 27 years your retirement income goal of $59,500 per year. As seen from the graph, this is based on projected retirement at age 65 and the support of the age pension.

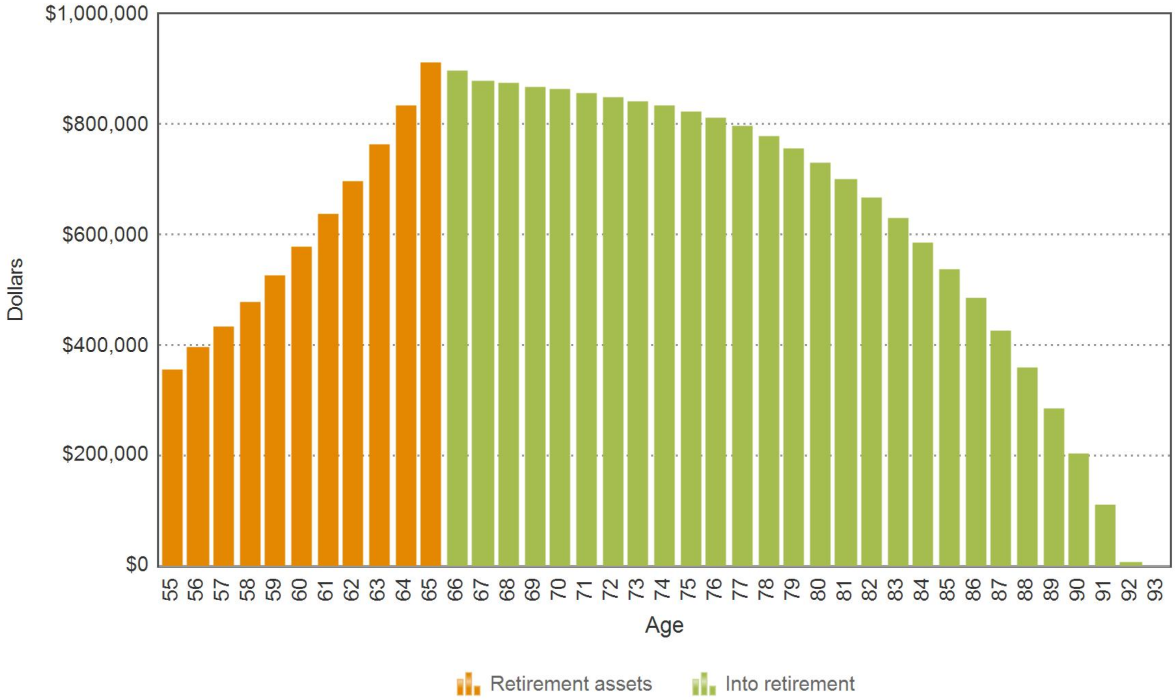


You expect to want to fund retirement until age 89. Your current plans are projected to satisfy that requirement.

Additional Advisor information - how long your money lasts

If you retired and lived on the income you have indicated is your goal in retirement, your assets would accumulate to retirement then run down as illustrated in the graph below.

By retirement your accumulated 'retirement assets' are projected to total $913,776 (in today's dollars, $679,935)

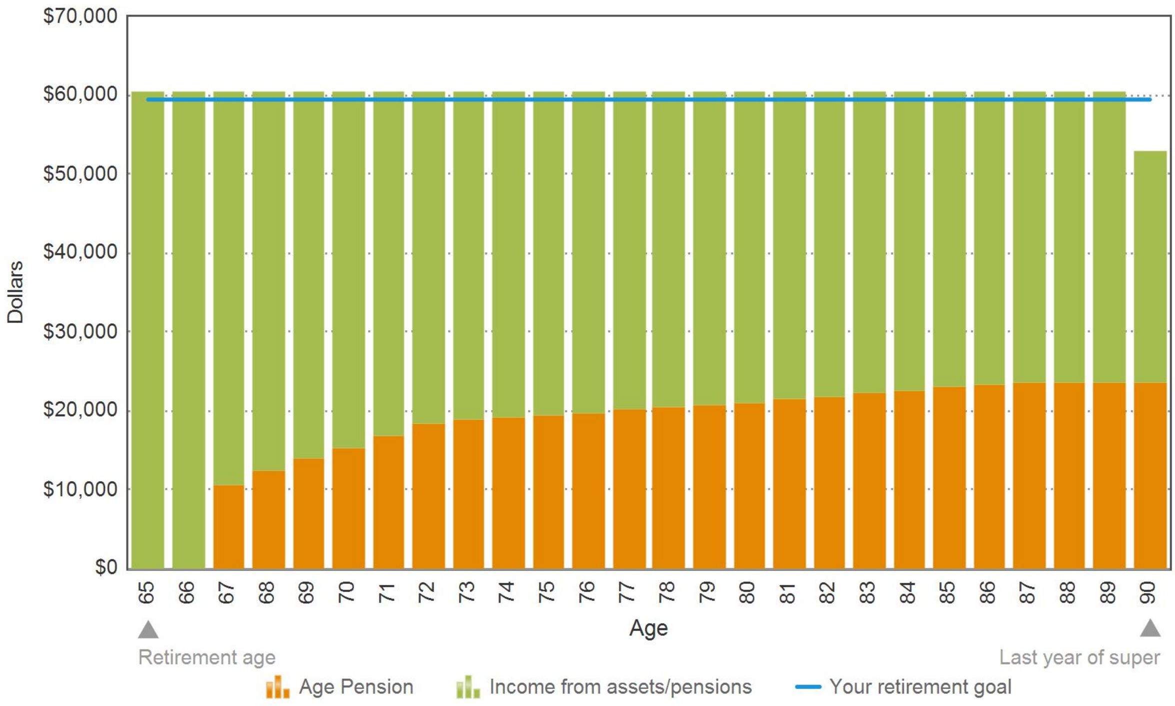


As you have funded the desired retirement income level for the desired retirement duration, you are projected to have additional flexibility in retirement. This protects somewhat against adverse investment conditions once retired or offers additional spending flexibility if outcomes are as projected.

What income can I expect in retirement?

$60,656 per year

The income your retirement assets can fund for your anticipated retirement is $60,656 per year (including, after age 67, age pension of up to $23,786 per year). As seen from the graph, this is based on projected retirement at age 65 and takes into account your desire for retirement to be funded to age 89.

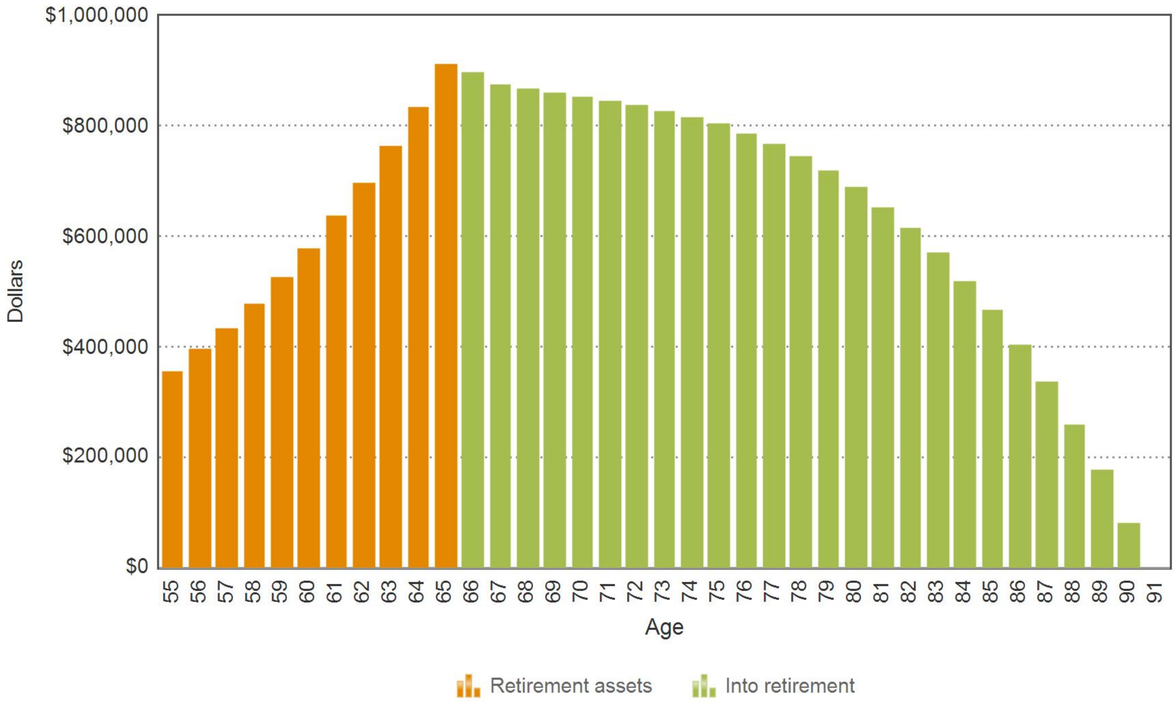


Your goal for income in retirement is $59,500 per year, which is achieved by this projected outcome. That means that in addition to the other retirement goals you have specified, you have extra retirement living flexibility.

Additional Advisor information - how much can I expect in retirement

As you can see from the graph below, living on the equivalent of $60,656 per year in today's money will run down your financial assets by around age 90.

By retirement your accumulated 'retirement assets' are projected to total $913,776 (in today's dollars, $679,935)



The income calculated as supportable through retirement is more than the target retirement income - that's good!

What does that really mean?

Firstly keep in mind that these are projections into the future based on assumptions. Actual outcomes could be better or worse than projected.

With that in mind, the surplus funding gives you the flexibility to maybe do some extra things in retirement, provides a buffer in case they live longer than expected, and some protection against unexpected events.

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Supporting calculation data tables

Retirement adequacy calculation detail (1040)	
Super/Pension assets available	$913,776
Other financial assets available	$0
('available' means after debts have been cleared)	
Loans on Home and Personal assets (cleared by investment drawing)	**$0**
less lump sum expenses at retirement	$0
less amount set aside to cover extra expenses in retirement	$0
plus value of extra income stream in retirement	$0
Adjusted superannuation/pensions available	**$913,776**
Adjusted other financial assets available	**$0**
At retirement, investment assets are added up and the income they could support is calculated	
Retirement income supported for life expectancy (at age 65) plus 5 years (this figure is expressed in today's dollars)	$60,656
In retirement dollars (future dollars), that is an income each year of	$60,656
and the calculations assume that the income increases in retirement each year as your salary does each year up to retirement	
Life expectancy (at retirement) plus 5 years (or specified retirement years) is how long ?	25.00 years
Age pension potentially payable at retirement age	$0
The investment asset totals shown above were used in calculating the income supported	
It was assumed that your home and personal assets would be needed, debt free, in retirement so as shown above, oustanding debts were assumed deducted from the investments total used in the calculation.	
Your home and personal assets at retirement (total value)	
Value of your home at retirement	**$0**
Personal assets at retirement	**$0**
Assets purchased by one off transactions	**$0**
Salary increase rate per annum	3.00%
Annual inflation rate applied to retirement retirement expenses	2.50%
Investment growth rate per annum	4.20%
Income each year as a percentage of investment balance	3.40%
Franked part of investment income	34.73%
Superannuation accumulation growth rate (after earnings tax) before fees	7.75%
Pension growth rate before fees	8.81%
Pension annual fees assumed	0.88%

Super until retirement annual fees assumed	0.88%
Investment annual fees assumed	0.84%
Average tax rate assumed on investment income	18.30%
Pension growth rate after allowing for fees	7.89%
Super growth rate after allowing for fees - used to calc topup conts	7.89%
Investment growth rate after allowing for fees and income tax	6.14%
Given the above assumptions, one dollar per year of retirement income needs how much in super?	$15.14
Given the above assumptions, one dollar per year of retirement income needs how much outside super?	$17.85
Later qualifies for age pension at age	67
qualifies for age pension at age	67
After tax annual saving needed to fund retirement gap	$0
Gap funding year 1 salary sacrifice cont option	$9,597
After tax extra annual cont needed year 1 if using sal sac option	$11,034
After tax year 1 impact of salsac combo to fund retirement gap	$17,320

Appendix 4:
Modelling engagement at 55 and interactions with age pension

The following appendix outlines real outputs from Sargon's Decimal Digital Advice Platform when provided inputs based on a hypothetical member scenario. These are provided solely for the purpose of providing illustrative context to Sargon's submission to the Australian Government's Retirement Income Review, and should not be taken as financial product advice or relied upon as such by any person.

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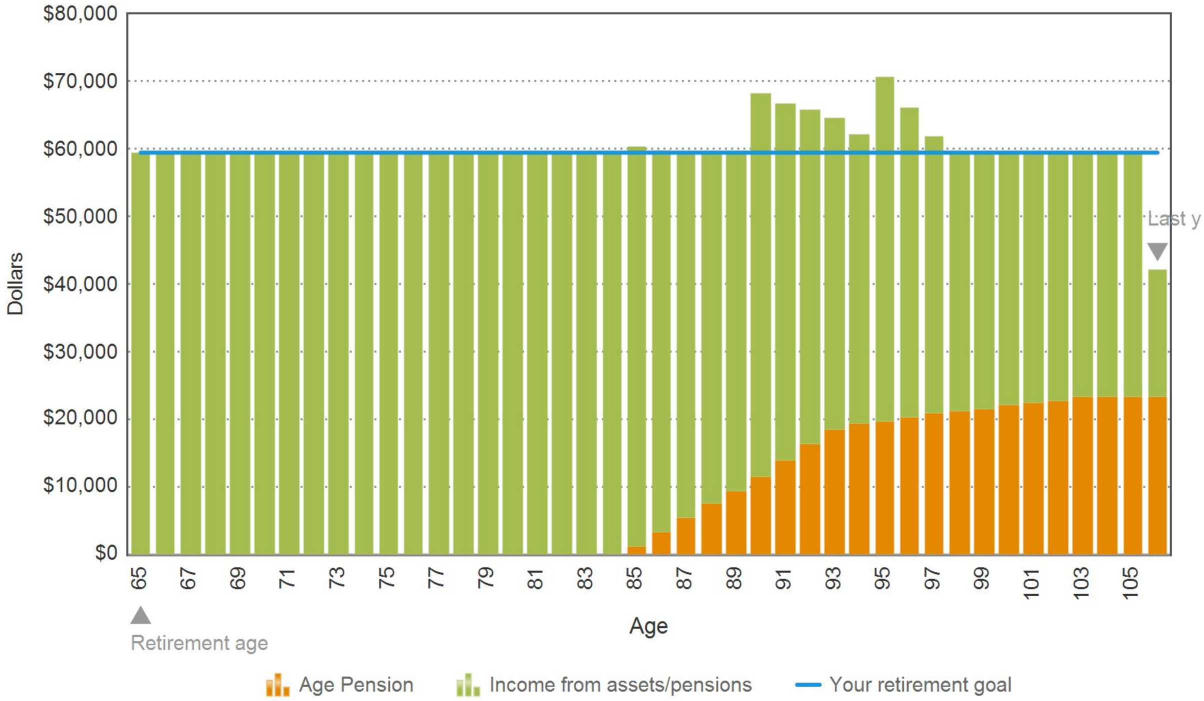
When I retire, how long will my money last?

41 years

Your assets at retirement will support for 41 years your retirement income goal of $59,500 per year. As seen from the graph, this is based on projected retirement at age 65 and the support of the age pension.

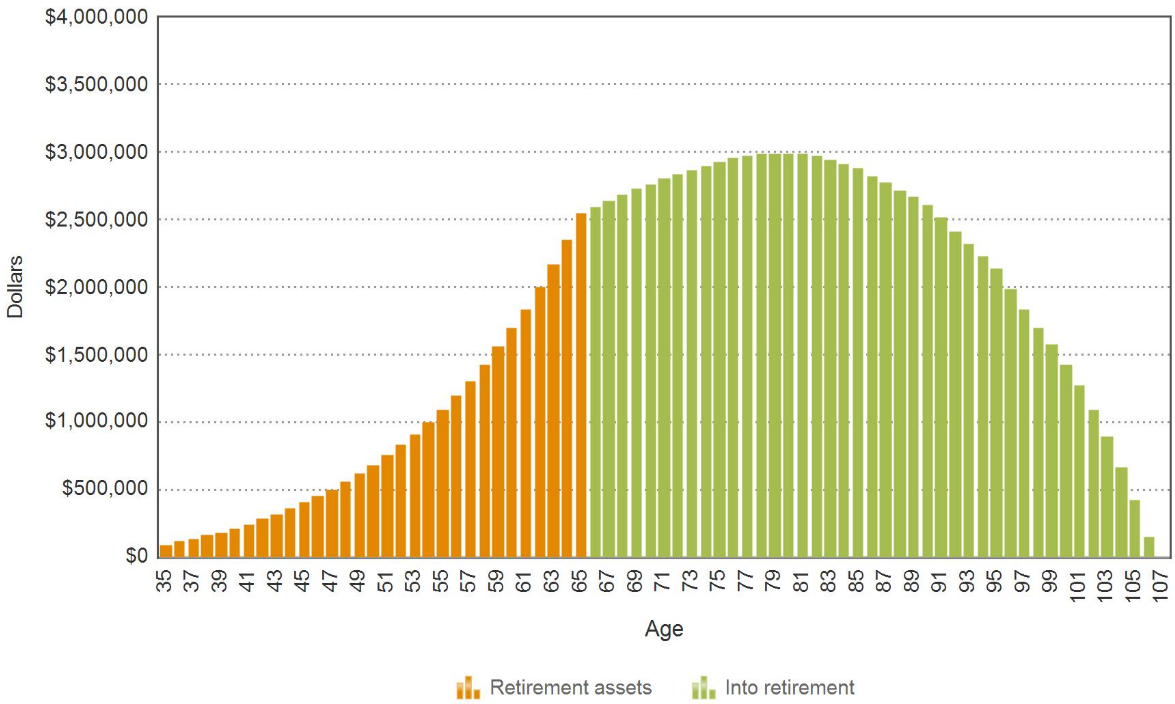


You expect to want to fund retirement until age 89. Your current plans are projected to satisfy that requirement.

Additional Advisor information - how long your money lasts

If you retired and lived on the income you have indicated is your goal in retirement, your assets would accumulate to retirement then run down as illustrated in the graph below.

By retirement your accumulated 'retirement assets' are projected to total $2,557,146 (in today's dollars, $1,053,510)

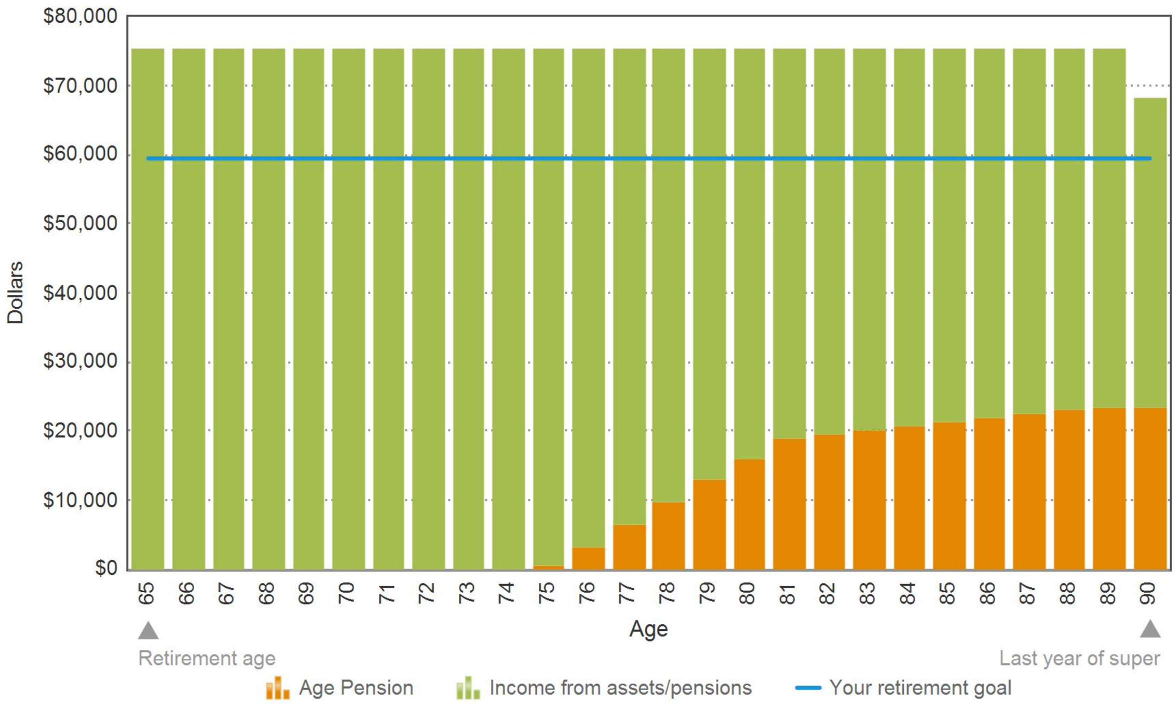


As you have funded the desired retirement income level for the desired retirement duration, you are projected to have additional flexibility in retirement. This protects somewhat against adverse investment conditions once retired or offers additional spending flexibility if outcomes are as projected.

What income can I expect in retirement?

$75,465 per year

The income your retirement assets can fund for your anticipated retirement is $75,465 per year (including, after age 67, age pension of up to $23,562 per year). As seen from the graph, this is based on projected retirement at age 65 and takes into account your desire for retirement to be funded to age 89.

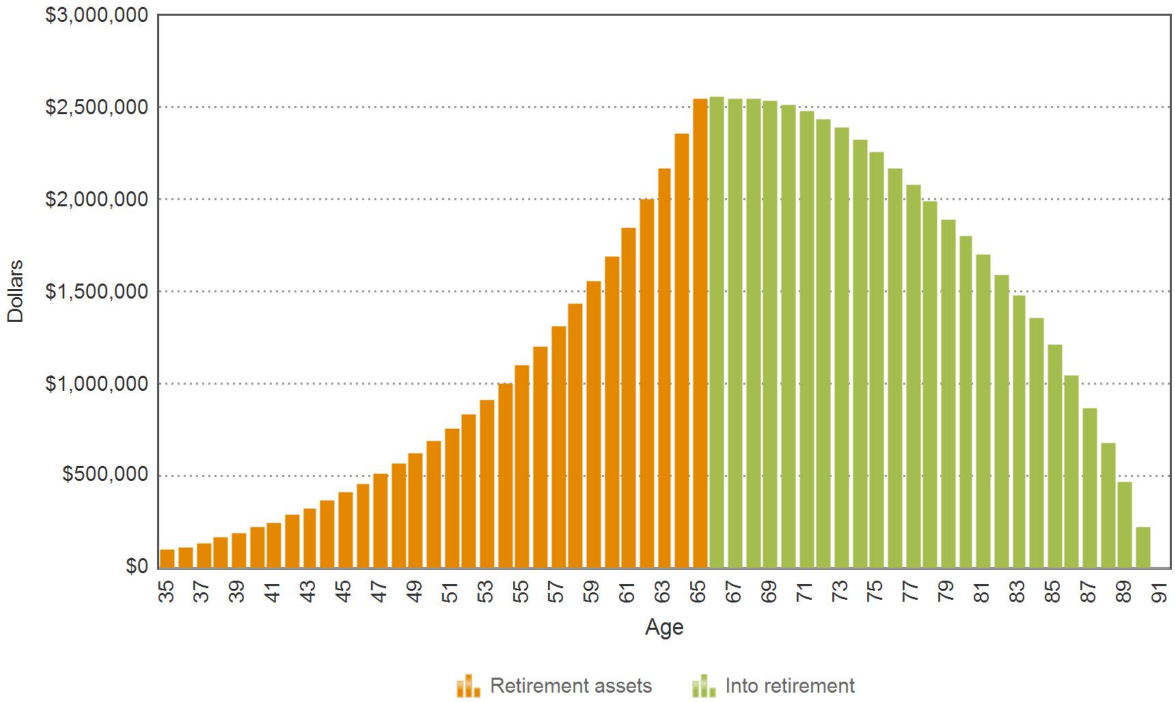


Your goal for income in retirement is $59,500 per year, which is achieved by this projected outcome. That means that in addition to the other retirement goals you have specified, you have extra retirement living flexibility.

Additional Advisor information - how much can I expect in retirement

As you can see from the graph below, living on the equivalent of $75,465 per year in today's money will run down your financial assets by around age 90.

By retirement your accumulated 'retirement assets' are projected to total $2,557,146 (in today's dollars, $1,053,510)



The income calculated as supportable through retirement is more than the target retirement income - that's good!

What does that really mean?

Firstly keep in mind that these are projections into the future based on assumptions. Actual outcomes could be better or worse than projected.

With that in mind, the surplus funding gives you the flexibility to maybe do some extra things in retirement, provides a buffer in case they live longer than expected, and some protection against unexpected events.

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Supporting calculation data tables

Retirement adequacy calculation detail (1040)	
Super/Pension assets available	$2,557,146
Other financial assets available	$0
('available' means after debts have been cleared)	
Loans on Home and Personal assets (cleared by investment drawing)	**$0**
less lump sum expenses at retirement	$0
less amount set aside to cover extra expenses in retirement	$0
plus value of extra income stream in retirement	$0
Adjusted superannuation/pensions available	**$2,557,146**
Adjusted other financial assets available	**$0**
At retirement, investment assets are added up and the income they could support is calculated	
Retirement income supported for life expectancy (at age 65) plus 5 years (this figure is expressed in today's dollars)	$75,465
In retirement dollars (future dollars), that is an income each year of	$75,465
and the calculations assume that the income increases in retirement each year as your salary does each year up to retirement	
Life expectancy (at retirement) plus 5 years (or specified retirement years) is how long ?	25.00 years
Age pension potentially payable at retirement age	$0
The investment asset totals shown above were used in calculating the income supported	
It was assumed that your home and personal assets would be needed, debt free, in retirement so as shown above, oustanding debts were assumed deducted from the investments total used in the calculation.	
Your home and personal assets at retirement (total value)	
Value of your home at retirement	**$0**
Personal assets at retirement	**$0**
Assets purchased by one off transactions	**$0**
Salary increase rate per annum	3.00%
Annual inflation rate applied to retirement retirement expenses	2.50%
Investment growth rate per annum	4.20%
Income each year as a percentage of investment balance	3.40%
Franked part of investment income	34.73%
Superannuation accumulation growth rate (after earnings tax) before fees	7.75%
Pension growth rate before fees	8.81%
Pension annual fees assumed	0.88%

Super until retirement annual fees assumed	0.88%
Investment annual fees assumed	0.84%
Average tax rate assumed on investment income	18.30%
Pension growth rate after allowing for fees	7.89%
Super growth rate after allowing for fees - used to calc topup conts	7.89%
Investment growth rate after allowing for fees and income tax	6.14%
Given the above assumptions, one dollar per year of retirement income needs how much in super?	$15.14
Given the above assumptions, one dollar per year of retirement income needs how much outside super?	$17.85
Earlier qualifies for age pension at age	67
qualifies for age pension at age	67
After tax annual saving needed to fund retirement gap	$0
Gap funding year 1 salary sacrifice cont option	$0
After tax extra annual cont needed year 1 if using sal sac option	-$2,935
After tax year 1 impact of salsac combo to fund retirement gap	-$2,935

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