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Performance test treatment of faith-based products

Industry Super Australia (ISA) is a research and advocacy body for funds that carry the Industry SuperFund symbol. ISA manages collective projects on behalf of those funds and their five million members. Our aim is to maximise the retirement savings of all our members.

We welcome the opportunity to comment on the draft legislation outlining the proposed treatment of faith-based superannuation products under the performance test.

ISA strongly supports the policy intention of the performance test, which aims to increase transparency around product performance, protect members from underperforming products and hold funds to account for underperformance.

We also support having a diverse superannuation market that allows Australians to choose how their money is invested. However, in a compulsory system with low levels of member engagement and poor financial literacy, the products that are available on the market – particularly if they are default products – should provide members with good, sustainable net returns over the long term.

Therefore, robust performance testing of all APRA regulated products is an important consumer protection measure. This has been ISA's consistent position and was most recently advanced through consultations in relation to the Your Future, Your Super reforms.

The Government's proposal to provide differential treatment to faith-based products – by giving these products two attempts to pass the performance test – potentially undermines the intention of the test. In particular, it creates an uneven playing field between faith-based products and other superannuation products, including products that also apply values-based investment principles (such as those that are marketed as being ethical or socially responsible). The proposed process for applying for a faith-based exemption also appears to lack sufficient transparency and could be improved by ensuring APRA is required to publish the alternative index or indices used to assess the performance of the relevant faith-based products.

To the extent unintended and perverse outcomes arise as a result of applying the current performance test benchmarks to faith-based products, the same issue is likely to exist for other products, including those that apply values-based investment principles.

Accordingly, ISA recommends that the treatment of faith-based products be considered as part of the Government's broader review of the Your Future, Your Super reforms later this year. Committing to specific changes for faith-based products ahead of that review is premature and appears to add an additional layer of complexity to the review that could otherwise be avoided.

If you have any questions about this submission, please feel free to contact me.

Kind regards



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