SUPERANNUATION CHOICE

A Tracking Study into Consumer Behaviour and Fund Performance in Australia

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SUPERANNUATION CHOICE REPORT

1. INTRODUCTION

Roy Morgan Research is the industry standard in Australia for data relating to consumers' financial behaviour and value. All major financial institutions in Australia subscribe to Roy Morgan Research data and it is used extensively in government agencies and inquiries, by financial analysts, in company presentations and by the financial press.

The reliability of Roy Morgan Research's Consumer Finance data is largely due to our uniquely large sample of more than 55,000 interviews per annum. The data is also unparalleled in terms of data coverage with continuous collection of survey data for more than 10 years. Roy Morgan International also collects comparable Consumer Finance data for the NZ, US, UK and Indonesian markets.

Since 1996 Roy Morgan Research has conducted more than 300,000 interviews with Australians holding superannuation or retirement savings account products, and from each of these interviews collected a range of details including the specific type of product, the fund manager the product is with, the value of the investment and how the investment was obtained.

Roy Morgan Research Superannuation data is also unique in that it can be linked to a vast range of other financial and non-financial information to enable a holistic understanding of each person's financial needs and behaviour. This is not possible with simple standalone surveys.

In December 2005 Roy Morgan Research released the first quarterly Superannuation Choice Report for the three months of data collected to September 2005. The report, which provided a level of detail and background not available from any other independent source, showed that Industry Funds had been the main beneficiaries of the first wave of switching due to Super Choice. Each successive report has added further to the analysis of the impact of Super Choice, including the major demographic factors segmenting the population of superannuation holders, the sex differences in superannuation savings behaviour and the relationship between financial planners and advisers and superannuation choice.

This report both interprets the findings of the first 18 month period of superannuation choice, and follows up previous analysis of financial planning and super choice with a greater level of detail than has previously been possible.

1.1 Purpose of this Report

With the changing superannuation landscape, Roy Morgan Research understands that there is a market need for a regular authoritative and independent report to track and understand consumer behaviour and company performance in this vital sector.

This report is the sixth in a series of quarterly reports issued to subscribers covering the 18 months to December 2006 and includes any relevant trend data for time periods before the introduction of super choice on July 1, 2005.

Detailed brand information has been provided throughout the report but extensive additional analysis can be provided from the Roy Morgan Research Single Source database, if required.

Roy Morgan Research has been providing accurate and actionable insights into the Australian financial services industry for many years. As the leading Australian research company with all of the key insights and trends in the superannuation industry, Roy Morgan Research intends this Superannuation Choice Report to provide the key players in the superannuation industry with the competitive edge they will need to prosper in the era of Super Choice.

1.2 The Superannuation Changes

On July 1, 2005, approximately 5 million Australians[1] became eligible to select a fund manager for their superannuation savings other than the fund manager selected by their employer. These changes were extended to a further 500,000 Australians on July 1, 2006, with the application of superannuation choice to Australians previously covered by state awards[2]. This revolutionary change in the nature of Australia's retirement savings arrangements is expected to increase competition for superannuation savings, reduce fees and charges and increase the relative returns to superannuation investors over the long term.

According to the Australian Prudential Regulation Authority (APRA), as at December 31, 2006, the value of assets held within Australian superannuation funds was $1 trillion, an increase of 19.2% for the 12 month period[3]. The largest part of this pool of superannuation assets, or 39.5%, is managed by retail superannuation funds or corporate super funds, while a further 17% is managed by Industry Funds, 15.6% by Public Sector Funds and 23.2% by self-managed super funds[4].

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[1] "Superannuation Legislation Amendment (Choice of Superannuation Fund) Bill 2003 – Revised Explanatory Memorandum", Circulated by the authority of the Treasurer, the Hon. Peter Costello, MP; p.31.
[2] "Super Choice Extended to more Employees", press release No.046, 30 June, 2006, Minister for Revenue and Assistant Treasurer, Petter Dutton. <http://treasurer.gov.au/pcd/content/pressreleases/2006/046.asp >
[3] "Statistics: Quarterly Superannuation Performance, December 2006 (issued 29 March 2007)", APRA; p.5.
[4] Ibid.

1.3 Executive Summary

Between the introduction of Super Choice in July 2005 and the end of 2006:

Rate of Superannuation Switching appears to have stabilised…

- The proportion of people switching fund manager in the last two quarters of 2006 remained at around 4% (3.8% in the September quarter). While it is too early to conclude this will remain a stable level of switching over time, "Intention to Switch" data shows only a modest increase in the December quarter (to 6% of superannuation products, from 5.4% in the September quarter), suggesting switching may remain around the current level over the first half of 2007 (section 2.1). A major determinant of whether this level of switching remains low will be whether the high returns can be maintained over the next 12 months.

Industry Funds still best Performers, but Commonwealth remains Strongest of Retail Funds in Switching Terms…

- For the 12 months to December, 2006, the Commonwealth Group's funds management operations achieved a net difference between gains and losses from switching of +2.5%, ranking second only to the Industry Funds (4.9%). This performance has been relatively consistent across the four quarters of the year (2.7%, 3.4%, 1% and 3.6% for each of the four quarters, respectively), making CBA the stand-out among the major retail fund managers in its performance under the Super Choice regime.

Satisfaction with Financial Performance of Super continued to improve…

- Satisfaction with the financial performance of superannuation (the Total of "Very" and "Fairly" satisfied) rose 4% to 60% in the 12 months to December 2006 (section 3.4). This continues an upward trend apparent since the beginning of 2004.

NAB/MLC clear leader in Superannuation "Share of Wallet" and "Cross-Sell"…

- The NAB stands out among the major banks as having the highest superannuation share of wallet of its overall Banking & Finance customer base with 17.3% of its customers' superannuation balances overall being held with the NAB. It also has the greatest penetration of superannuation products among its traditional banking customers, with 8.3% which is well above its overall penetration of the superannuation market, an indication of a good "cross-sell" performance (see sections 4.1).

Reasons for Switching show variation between Major Retail Fund Manager brands and Industry Funds …

- Breaking down the "Reasons for Switching" given by superannuation switchers in the 18 months to December, 2006, by the three major retail fund managers and Industry Funds as a group shows an interesting divergence. Former AMP, CBA and NAB customers appear distinctly more likely to have switched from a fund manager due to either "Investment Performance" or "Fees and Charges" (31%, 30% and 28% respectively), compared to Industry Funds (11%). Conversely, the reasons given for switching by former Industry Funds members in the same period is frequently "Switching Employer" only (48%), compared to lower levels of respondents switching for only this reason at both AMP (27%) and NAB (25%).

Only 25% of people switching their Superannuation get advice from a Financial Planner/Adviser or Accountant when Switching…

- Of those people who switched fund manager in the 18 months to December 2006, only 59% sought any advice at all (for balances less than $100,000 this was only 57%, and over $100,000 it was 71%) and only 42% of those seeking advice got it from a financial planner, adviser or accountant (42% of 59% = 25% overall). There appears to be a problem for low balance accounts (less than $100,000) getting access to advisers with only 21% of switchers in this group using a professional adviser, compared to 45% in the case of those with more than $100,000.

Big 6 Financial Planning Groups[5] Dominate Switching through Financial Planners

- Of all superannuation products switched through financial planners, advisers or accountants and reported in the 18 months to December, 2006, 45% went through the six largest financial planning groups, including AMP, AXA, ING/ANZ, CBA/CFS, NAB/MLC and Westpac/BT. While these financial planners have been criticised for directing superannuation switchers to funds managed by associated companies, Roy Morgan data suggests this tendency has been reducing in recent years (refer to section 5.3).

Perceived Independence of Financial Planning Brands May Not Match Reality

- Data collected over the 18 months to December 2006 reinforces previous analysis of investor perception of the independence of financial planners, advisers or accountants dealt with may not match the reality of ownership by some of the Big 6 financial planning groups. In particular cases, a majority of the superannuation investors obtaining products through a brand may be under the impression the financial planner is “independent”, even where it is a subsidiary of one of the large groups of financial planners. In general, products obtained through financial planners, or advisers other than the Big 6 seem to have a higher level of satisfaction with financial performance than products obtained through Big 6 financial planners, even where that financial planner is perceived as “independent” (section 5.4).

[5] Big 6 Financial Planners: Financial planners, advisers or accountants associated with one of the following six groups of companies: AMP, AXA, ING/ANZ, CBA/CFS, NAB/MLC, WBC/BT

1.4 Content of this Report

This report is divided into several sections:

1. "Super Choice –12 Months to December 2006" – Provides the most important findings from the most recent 12 months of superannuation choice.

2. "Super Choice Winners & Losers" – Rates the different fund managers on their performance in attracting superannuation switchers (and not losing existing customers to superannuation switching) over 12 months, the last (December) quarter and on other measures.

3. "Evaluating the Performance of Super Fund Managers" – Looking specifically at the measures used by financial institutions to asses their performance in "share of wallet" and "cross-sales" terms, including the reasons why investors choose to defect from some of the major fund managers.

4. "Financial Planners & Super Switching`" – Financial Planning as a channel for obtaining superannuation is examined in detail in this section, including detailed data on the six largest financial planner, adviser and accounting groups (Big 6 Financial Planners).

2. SUPER CHOICE – 12 MONTHS TO DECEMBER 2006

2.1 Key Findings

The key findings for the most recent 12 months to December, 2006 are:

4.2% of all Australians holding Superannuation switched their Fund Manager

- 4.2% of all Australians aged 14+ and holding either work based (employer selected fund manager) or personal (respondent selected fund manager) superannuation reported switching their fund manager in the previous 12 months during the year to December, 2006. Switching in the first two quarters of 2006 was at a higher level than in the second two quarters, with the December quarter registering only 4% of people (aged 14+) switching fund manager. It now appears that the downward trend in the proportion switching has stabilised at around 4%.

Table 1: % Of People Switched Superannuation Fund Manager in the Last 12 Months
(Data period: July 2005 - December 2006, n = 47,226 people holding work based or personal super, aged 14+)

People Switched Fund Manager in Last 12 months:	Full Year 2006	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
Total Proportion of all those with Superannuation Switched (Work Based or Personal)	4.2	6.0	5.6	4.9	4.4	3.8	4.0
Total Proportion of those holding Work Based Superannuation Switched	4.1	5.9	5.7	4.7	4.2	3.6	3.9
Total Proportion of those holding Personal Superannuation Switched	5.6	7.2	6.3	6.8	5.3	5.7	4.8

3.8% of all Superannuation products held were switched.

- During the 12 months to December 2006, 3.8% of all superannuation products were switched. The first two quarters of 2006 reported higher levels of switching that the last two, with both the September and December quarters having 3.4% of superannuation products switched in total. The level of products being switched appears to have stabilised.

Table 2: % Of Superannuation Products Switched Fund Manager in the Last 12 Months
(Data period: July 2005 - December 2006, n = 57,020 work based or personal superannuation products)

Type of Products Switched Fund Manager in Last 12 months:	Full Year 2006	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
Total Proportion of all Superannuation Products Switched (Work Based or Personal)	3.8	5.3	5.0	4.4	3.8	3.4	3.4
Total Proportion of all Work Based Superannuation Products Switched	3.6	5.3	5.1	4.2	3.7	3.2	3.4
Total Proportion of all Personal Superannuation Products Switched	4.5	5.4	4.6	5.6	4.0	4.7	3.5

"Intention to Switch" increases marginally but well below earlier levels…

- During the December quarter of 2006, the proportion of superannuation products reported as "Very Likely" to be switched in terms of fund manager in the next 12 months reached it's highest level for the four quarters, at 6%. This proportion was highest for work-based superannuation products at 6.1%, compared to 5.1% for personal superannuation products. For the 12 months to December, 2006, the proportion of superannuation products reported "Very Likely" switched reached 5.6%.

Table 3: % Superannuation Products "Very Likely" to be Switched from Current Fund Manager in Next 12 Months

(Data period: April 2005 – December, 2006; n = 62,253 work based or personal superannuation products)

% Products "Very Likely" to Switch Fund Manager in the Next 12 Months	Full Year 2006	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
TOTAL Work Based or Personal Superannuation	5.6	8.3	7.7	6.5	5.9	5.3	5.4	6.0
Work Based Superannuation	5.7	8.6	7.7	6.7	5.7	5.3	5.5	6.1
Personal Superannuation	5.5	6.7	7.3	5.3	7.0	5.3	4.7	5.1

"Satisfaction" with Superannuation continues to rise

- Over the period since the introduction of Super Choice (July 2005), the trend to lower dissatisfaction and higher satisfaction with the financial performance of superannuation products has continued. However this trend pre-dates the introduction of Super Choice and is probably due to the ongoing strength of investment markets. The most recent six month period, to December 2006, shows that while the trend continues, the improvement is not as great as in previous years (also see section 3.4).

Table 4: Satisfaction or Dissatisfaction with Financial Performance of Superannuation

(Data period: July 2004 – December, 2006; n = 93,214 work based or personal superannuation products)

% Products "Very" or "Fairly" Satisfied or Dissatisfied with Financial Performance	6 months to December 2004	6 months to June 2005	6 months to December 2005	6 months to June 2006	6 months to December 2006
Total Satisfaction	48.9	52.4	55.8	58	59.9
Total Dissatisfaction	13.6	11.1	9.3	8.5	8.0

3. SUPER CHOICE WINNERS & LOSERS

3.1 Switching Scoreboard for 12 Months to December 2006

For the 12 months to December, 2006, Industry Funds continue to benefit from Super Choice at the expense of retail fund managers, achieving a net gain from switching of fund managers of 4.9% (up marginally on the 4.5% net gain in the 12 months to September 2006). However, some of the major retail fund managers continue to do well following the introduction of Super Choice, with the Commonwealth (Colonial) group in particular achieving a net gain from switching of 2.5% (up from a net gain of 1.5% in the 12 months to September 2006), followed by Suncorp with a net gain of 1.4%.

<u>Table 5</u>: Switching Fund Manager – Full Year 2006 Results

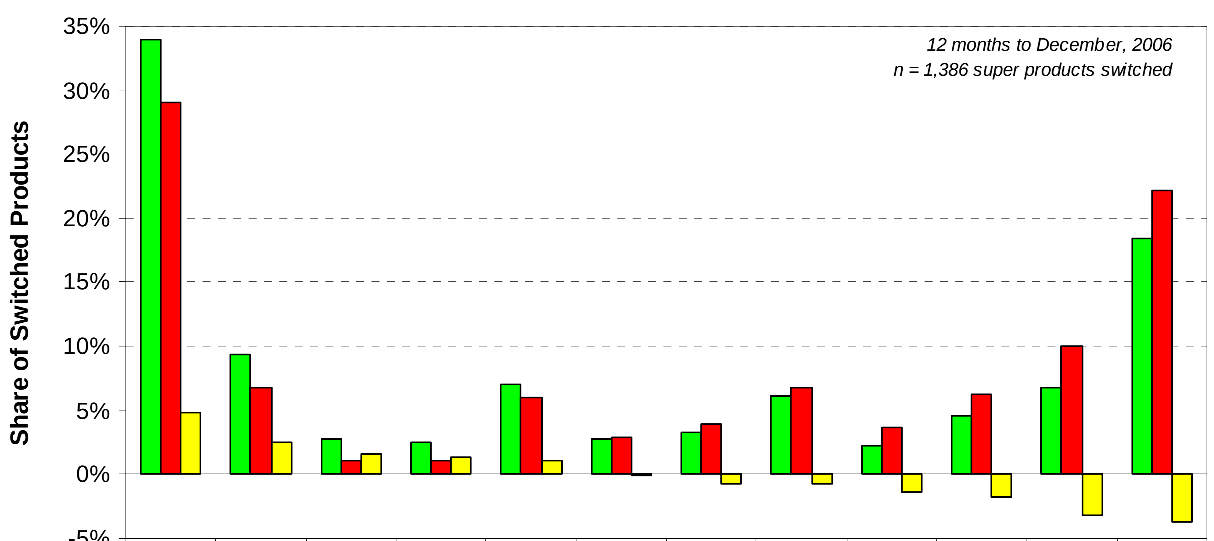
(Data period: January - December 2006, n = 1,386 work based or personal superannuation products switched; Excludes new entrants to superannuation market)

	12 Months to December, 2006		
Superannuation Fund Managers	**% of Switched Products Gained**	**% of Switched Products Lost**	**Net Share of Switched Products**
Industry Fund	33.9	29.1	4.9
Commonwealth Group	9.4	6.8	2.5
Suncorp Group	2.5	1.1	1.4
St George Group	2.8	2.8	-0.1
Westpac Group	3.3	4.0	-0.7
National Group	6.1	6.8	-0.8
AXA Group	2.3	3.7	-1.4
ING Group (inc. ANZ JV)	4.6	6.3	-1.7
AMP Group	6.8	10.0	-3.1
Public Sector Funds	7.1	6.0	1.1
Self managed funds	2.8	1.1	1.6
Other	18.5	22.2	-3.7
TOTAL	100.0	100.0	0.0
% of all superannuation products:	**3.8**	**3.8**	

AMP continues to show the largest negative net movement of products switched in the last 12 months,(3.1% greater losses from switching than from gains) followed ING (including the ANZ group) and AXA (net switching -1.7% and -1.4% respectively). However, while this indicates a share of switched products leaving these fund managers greater than the share of switched products gained, this need not imply a fall in product numbers.

Figure 1 below shows the overall position of switching results:

Figure 1: Net Gains and Losses from Super Switching, 12 months to December 2006



	Industry Fund	Common-wealth Group	Self managed funds	Suncorp Group	Public Sector Funds	St George Group	Westpac Group	National Group	AXA Group	ING Group (inc. ANZ JV)	AMP Group	Other
Gains	33.9%	9.4%	2.8%	2.5%	7.1%	2.8%	3.3%	6.1%	2.3%	4.6%	6.8%	18.5%
Losses	29.1%	6.8%	1.1%	1.1%	6.0%	2.8%	4.0%	6.8%	3.7%	6.3%	10.0%	22.2%
Net	4.9%	2.5%	1.6%	1.4%	1.1%	-0.1%	-0.7%	-0.8%	-1.4%	-1.7%	-3.1%	-3.7%

Table 6 below also shows the performance of the largest Industry Funds over the 12 month period.

Table 6: Industry Funds' Switching Performance over 12 months to December 06
(Data period: January – December 2006, n = 1,386 work based or personal superannuation products switched; Excludes new entrants to superannuation market)

Superannuation Fund Managers	12 Months to December, 2006 % of Switched Products Gained	% of Switched Products Lost	Net Share of Switched Products
AustralianSuper	6.1	3.7	2.4
CARE Super	1.0	0.9	0.2
Cbus	1.3	1.1	0.1
HESTA	3.3	2.3	1.0
HOSTPLUS	2.8	2.3	0.5
MTAA Super	1.0	1.1	-0.1
REST Super	2.8	5.1	-2.3
Sunsuper	4.6	2.8	1.7
TWU Super	0.3	0.0	0.3
Other Industry Fund	10.4	9.7	0.7
Total Industry Funds	**33.9**	**29.1**	**4.9**

3.2 Quarterly Switching Results: December Quarter 2006

Table 7 below shows the superannuation fund manager switching results for the December quarter of 2006. Compared to the results for the full year (Table 5 above), CBA, Suncorp, NAB and ING improved their position slightly.

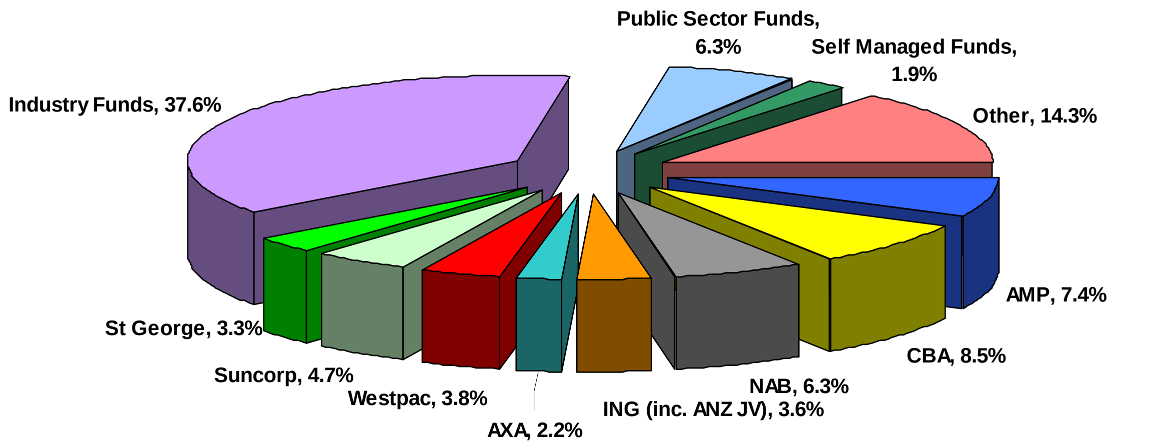
Table 7: Switching Fund Manager in the last 12 months – December Quarter, 2006
(Data period: October to December 2006, n = 324 work based or personal superannuation products switched; Excludes new entrants to superannuation market)

Superannuation Fund Managers	3 months to December, 2006		
	% of Switched Products Gained	% of Switched Products Lost	Net Share of Switched Products
Industry Funds	37.6	33.2	4.4
Commonwealth Group	8.5	4.9	3.6
Suncorp Group	4.7	1.5	3.1
NAB Group	6.3	4.6	1.7
St George Group	3.3	2.4	0.9
ING Group (inc. ANZ JV)	3.6	3.4	0.2
Westpac Group	3.8	6.1	-2.3
AXA Group	2.2	4.6	-2.4
AMP Group	7.4	11.6	-4.2
Public Sector Funds	6.3	6.1	0.2
Self Managed Funds	1.9	1.2	0.7
Other	14.3	20.4	-6.1
TOTAL	100.0	100.0	0.0
% of all superannuation products:	**3.4**	**3.4**	

Figures 2 and 3 illustrate the results for the December quarter of 2006 in more detail.

Figure 2: % of Switched Products Gained by Fund Managers

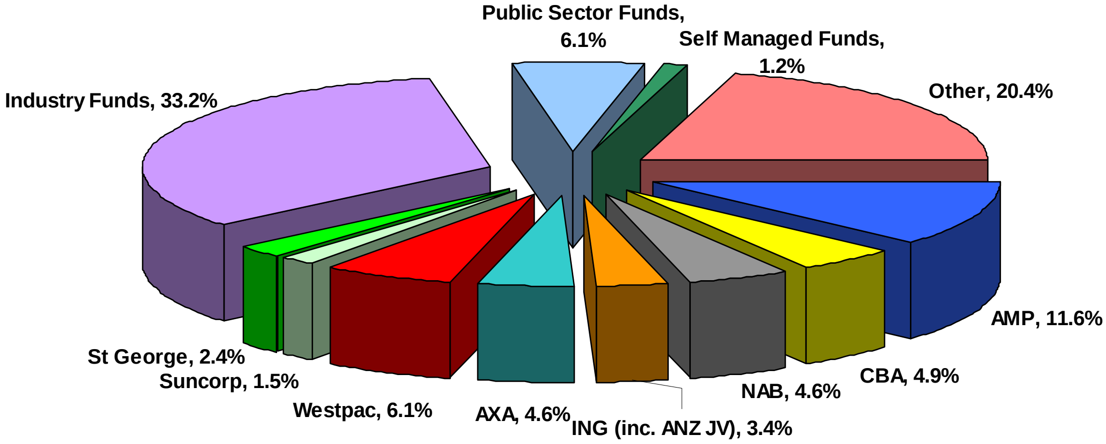
Data Period: October – December, 2006
Sample: n = 324 work based or personal superannuation products



Figures 2 and 3 show that while Industry Funds account for a relatively large proportion of gains (37.6%) in the quarter to December 2006, they account for a lower proportion of losses (33.2%). The opposite is the case for "Other", which includes small retail funds and corporate funds (14.3% of gains, compared to 20.4% of losses).

Figure 3: % of Switched Products Lost by Fund Managers

Data Period: October – December, 2006
Sample: n = 324 work based or personal superannuation products



3.3 Intending Switchers

According to Table 4 (page 7) the four quarters to December 2006 saw the total proportion of work-based or personal superannuation products considered “Very Likely” to switch fund manager in the coming 12 months rise slightly, from a low of 5.3% in the June quarter to 6% in the December quarter. Overall the proportion of products “Very Likely” to switch was 5.6%.

For the 12 months to December 2006, Westpac had the highest proportion of products indicating they were “Very Likely” to switch fund manager within the next 12 months, at 7.7% (Table 8). Table 8 also shows the proportion of all products “Very Likely” to switch coming from each fund manager or group.

Table 8: Intending to Switch Fund Manager in the next 12 months
(Data period: January – December, 2006, n = 36,632 work based or personal superannuation products)

	12 Months to December, 2006	
Superannuation Fund Managers	**% of Products "Very Likely to Switch"***	**% Share of all Products “Very Likely to Switch"**
AMP Group	7.0	9.2
AXA Group	6.6	2.7
Commonwealth Group	7.3	6.0
ING Group (inc. ANZ JV)	7.5	4.0
NAB Group	6.1	4.3
St George Group	6.7	1.4
Suncorp Group	5.4	1.0
Westpac Group	7.7	3.2
Industry Funds	5.7	35.3
Public Sector Funds	3.1	7.3
Self managed funds	4.3	1.6
Total for all Work Based or Personal Super Products	**5.6**	**100.0****

* “Very likely” to switch superannuation fund manager within next 12 months is one point on a five point scale also including “Fairly likely”, “Neither likely nor unlikely”, “Fairly unlikely” and “Very unlikely”.
** Brands shown account for 76% of all products “Very Likely” to switch.

Table 9 (below) shows that between the first and second halves of 2006 the proportion of superannuation products “Very Likely” to switch at an overall level remained fairly steady, rising from 5.6% to 5.7%. The proportion of intending switchers at different fund managers shows no major differences between the two periods, with the exception of St George which declined from 10.4% to 3.2%.

Table 9: Intention to Switch Fund Manager Trend
(Data period: January to December, 2006, n = 36,632 work based or personal superannuation products)

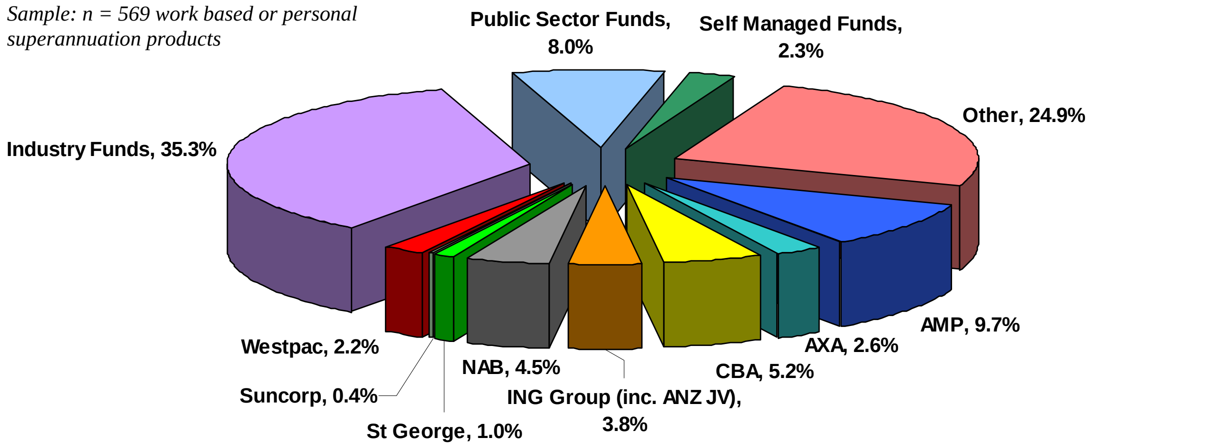
Superannuation Fund Managers	% of Products "Very Likely to Switch"*		
	January to June, 2006	July to December, 2006	Difference
AMP Group	6.3	7.8	+1.5
AXA Group	6.1	7.2	+1.1
Commonwealth Group	7.4	7.1	-0.3
ING Group (inc. ANZ JV)	7.8	7.2	-0.6
NAB Group	4.8	7.4	+2.6
St George Group	10.4	3.2	-7.2
Suncorp Group	6.7	4.2	-2.5
Westpac Group	7.6	7.8	+0.2
Industry Funds	5.7	5.6	-0.1
Public Sector Funds	3	3.2	+0.2
Self managed funds	4.5	4	-0.5
Total for all Work Based or Personal Super Products	**5.6%**	**5.7%**	**0.0**

* "Very likely" to switch superannuation fund manager within next 12 months is one point on a five point scale also including "Fairly likely", "Neither likely nor unlikely", "Fairly unlikely" and "Very unlikely".

Figure 4 shows the source of the products "Very Likely" to be lost to switching within the next 12 months based on data collected in the December quarter of 2006.

Figure 4: Source of the Super Products "Very Likely" to be switched in Next 12 Months
Proportion "Very likely" to switch superannuation fund manager within next 12 months. "Very Likely" is one point on a five point scale also including "Fairly likely", "Neither likely nor unlikely", "Fairly unlikely" and "Very unlikely".

Data Period: October - December, 2006
Sample: n = 569 work based or personal superannuation products



3.4 Satisfaction & Superannuation Switching

The logic underlying the implementation of Super Choice in part rested on the assumption that workers restricted to Employer (work based) superannuation were being denied opportunities to invest their superannuation as they wished, and were thus less likely to be satisfied with the performance of their superannuation fund manager than if they had selected it themselves. Overall personal superannuation generally has achieved a 10% higher level of satisfaction than work based superannuation.

Table 10 shows that satisfaction with the financial performance of superannuation has a major impact on the switching intentions level, with currently only 3.6% of satisfied customers having an intention to switch compared to 17.6% for dissatisfied customers.

Table 10: Satisfaction with Super and Intention to Switch – Work Based Superannuation
(Data period: July 2005 – December 2006, n = 50,871 work based superannuation products)

% of Work Based Superannuation Products	July – December, 2005	January – June, 2006	July – December, 2006
"Very" or "Fairly" Satisfied with Financial Performance	54.5	56.5	58.4
- Of which "Very Likely" to Switch…	*3.8*	*3.5*	*3.6*
"Very" or "Fairly" Dissatisfied with Financial Performance	8.7	7.9	7.2
- Of which "Very Likely" to Switch…	*19.8*	*15.2*	*17.6*
Of all Work Based Super, % "Very Likely" to Switch	***7.2***	***5.5***	***5.9***

Table 11 compares the levels of satisfaction and dissatisfaction for fund managers from the six months to December 2006 with the six months to December, 2005 (Figures 5 and 6 illustrate these trends) with all major players showing an improvement over the last 12 months.

Table 11: Satisfaction with Financial Performance
(Data period: July-December 2006, n = 18,782 work based or personal superannuation products)

Fund Managers	% "Satisfied" *		% "Dissatisfied" **	
	Jul-Dec06	12 month Change	Jul-Dec06	12 month Change
AMP Group	53	+5	15	0
AXA Group	51	+3	14	+1
Commonwealth Group	60	+5	12	-1
ING Group (inc. ANZ JV)	60	+9	13	-3
NAB Group	55	+3	14	-2
Westpac Group	61	+5	11	-2
Industry Funds	61	+5	8	-2
Public Sector Funds	69	+3	7	-1
Self managed funds	84	+2	6	+2
Total Retail or Corp. Funds	56	+4	11	-1
Total Work Based or Personal Super Products	**60**	**+4**	**9**	**-1**

* Proportion "Very" or "Fairly" Satisfied with the financial performance of work based or personal superannuation on a five point scale.
** Proportion "Very" or "Fairly" Dissatisfied with the financial performance of work based or personal superannuation on a five point scale.

Figure 5: Total Satisfied with Financial Performance of Superannuation
Proportion "Very" or "Fairly" Satisfied with the financial performance of work based or personal superannuation on a five point scale that also includes "Neither satisfied nor dissatisfied", "Fairly dissatisfied" and "Very dissatisfied".

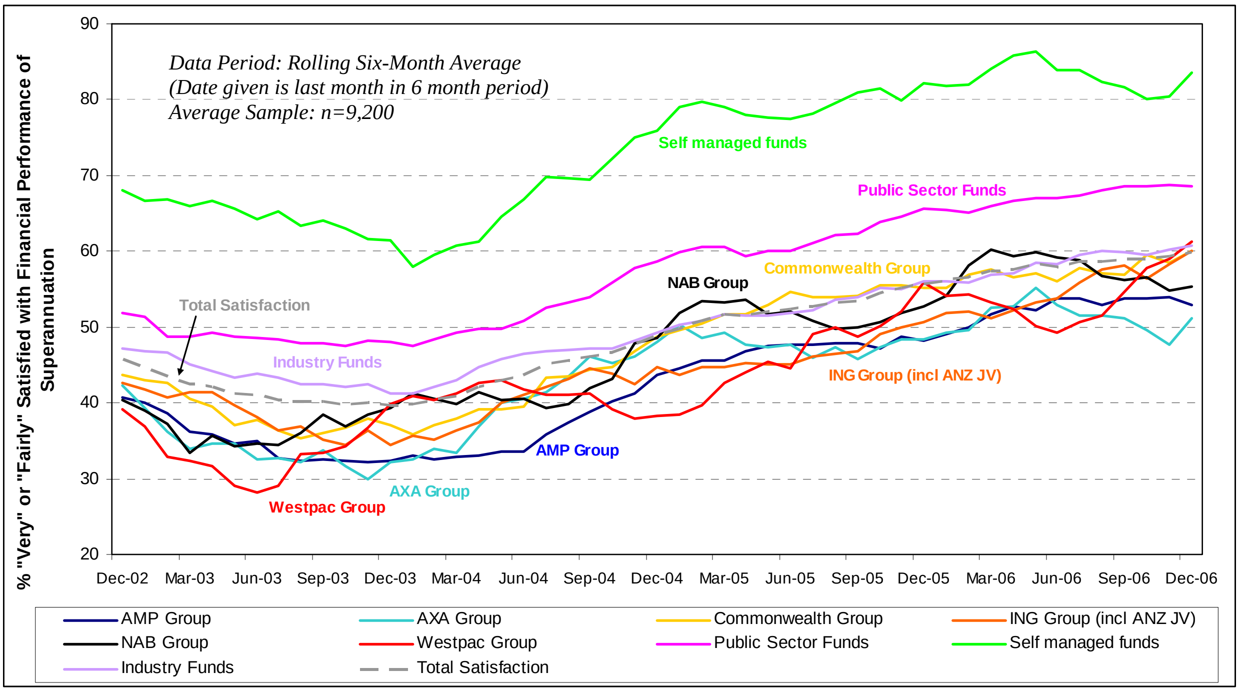
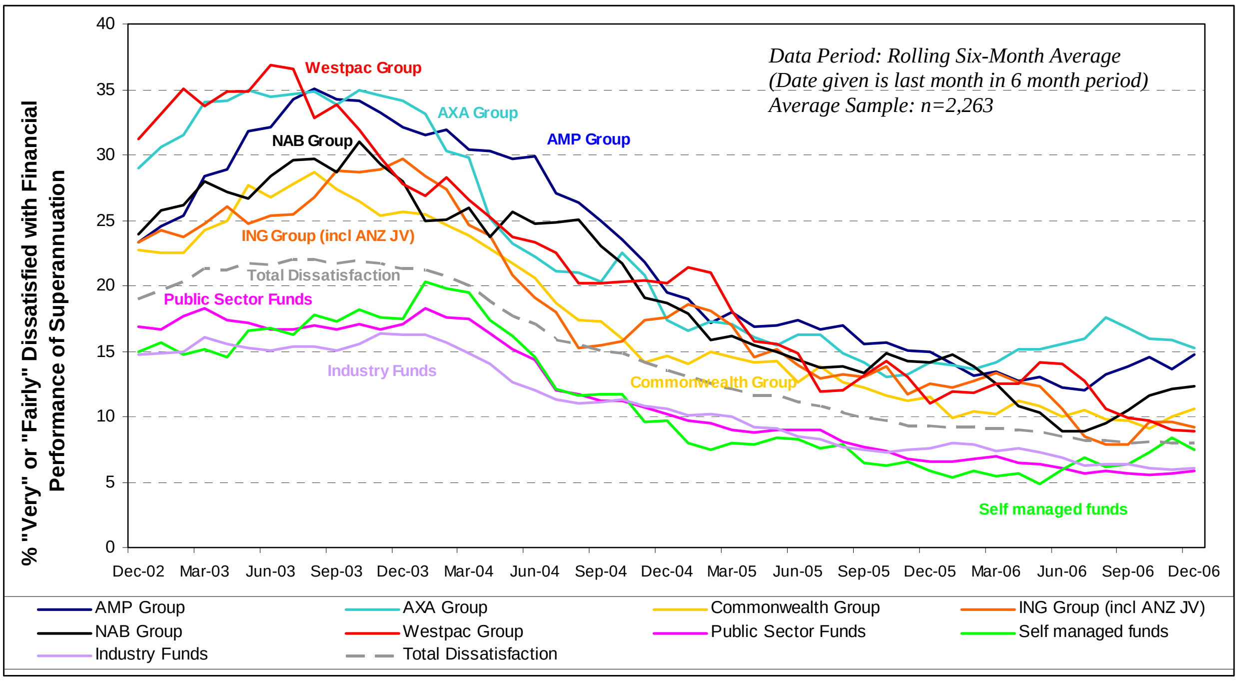


Figure 5 shows that the level of satisfaction with the financial performance overall has trended upwards to 60% but has then plateaued at that level, while dissatisfaction is now steady on only 9% (Figure 6).

Figure 6: Total Dissatisfied with Financial Performance of Superannuation
Proportion "Very" or "Fairly" Dissatisfied with the financial performance of work based or personal superannuation on a five point scale that also includes "Neither satisfied nor dissatisfied", "Fairly satisfied" and "Very satisfied".



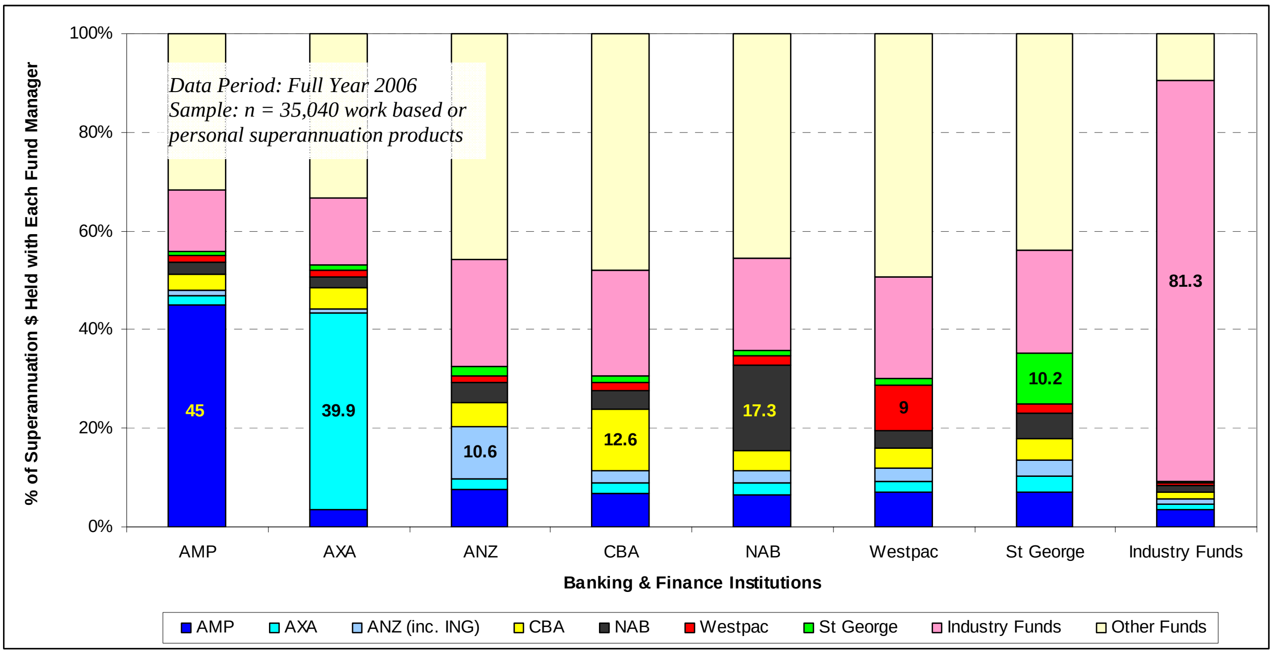
4. EVALUATING THE PERFORMANCE OF SUPER FUND MANAGERS

Superannuation fund managers are generally evaluated according to the financial performance of their funds under management. However, as superannuation increasingly becomes a retail financial service in the Super Choice era, the types of performance measures applied to other financial institutions, particularly banks, may also be appropriate. This section will look first at "cross-sales" and "share of wallet" among superannuation customers of the major banking groups, then also examine some service measures, specifically, the reasons given by fund switchers for leaving particular superannuation fund managers.

4.1 Superannuation – "Share of Wallet" and "Cross-Sell"

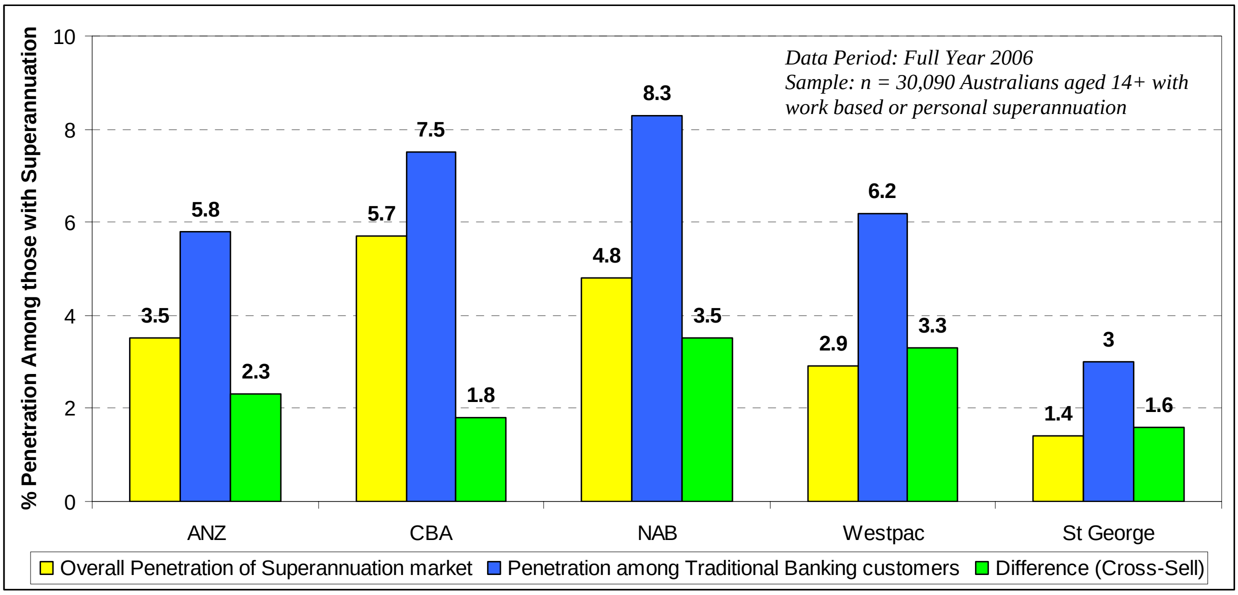
One measure of the success for the larger banks in particular is the extent to which they have succeeded selling superannuation to their banking customers. This "share of superannuation wallet" will obviously be higher for financial institutions with few non-superannuation customers (e.g. Industry Funds), but much lower for banks with strong banking operations with relatively small funds management divisions. NAB clearly stands out as the leader among the big four banks in achieving share of the superannuation wallet of its banking customers in Figure 7 below.

Figure 7: Superannuation Share of Wallet among All Banking & Finance Customers
Proportion of dollars held in Superannuation (work based or personal) at each Financial Institution by customers who have any kind of financial service at each Financial Institution.



Another measure of success in "cross-selling" superannuation products to non-superannuation customers of the same financial institution is the relative penetration of each financial institution for a particular type of product among its own customers, compared to the general population. If a financial institution has a higher penetration for superannuation among its customers than the general population, then it is performing better at "cross-selling". Figure 8 (below) illustrates this for the major Australian financial institutions.

Figure 8: Cross-Sales of Superannuation to Traditional Banking* Customers
"Cross-Sell" in this instance is the difference between the overall penetration rate of each financial institution among the overall superannuation market, and their penetration among their own traditional banking customers who hold superannuation anywhere.*



* "Traditional Banking" customers are customers who hold any kind deposit or savings account, credit or debit card or loan at the same financial institution.

The NAB is the most successful of the major banks in "cross-selling" superannuation to its own traditional banking customers because its superannuation penetration of its customers at 8.3% is 3.5% higher than it superannuation penetration of the population holding superannuation in general. Westpac appears to be close behind NAB in cross-sell performance (3.3% vs. the NAB's 3.5%), despite the gap in performance between the two in share of wallet terms (Westpac 9% compared to 17.3% for the NAB).

4.2 Reasons for Switching Superannuation

Table 12 details the reasons given by for switching away from four of the largest fund managers over the 18 months since the introduction of Super Choice.

Table 12: Reasons Given for Switching Superannuation – Four Largest Fund Managers
(Data period: 18 months to December, 2006, n = 945; Respondents with work based or personal superannuation who have switched fund manager in the last 12 months, aged 18+, and who provided a reason for switching)

Reasons given for Switching	% of Switchers	% of Those Switching From…			
		AMP	CBA	NAB	Industry Funds
Switched Employer	49	38	52	39	58
"Switched Employer" Only Reason for Switching	***40***	***27***	***46***	***25***	***48***
Investment Performance	15	21	22	16	7
Fees and Associated Charges	12	21	13	17	5
Either Switched due to "Investment Performance" or" Fees and Charges"	***22***	***31***	***30***	***28***	***11***
Employer switched fund manager	17	14	8	18	17
Consolidation of Funds	**13**	**24**	**18**	**21**	**11**
Recommended by others (eg: financial planner, family, etc.)	**9**	**8**	**11**	**11**	**12**
Other reason	18	25	15	19	14

Table 12 shows there are distinct differences between the reasons people choose to switch away from Industry Funds, when compared to the three largest Retail Fund Managers. For Industry Funds the most important reason for switching is clearly switching employer (58% overall, but 48% switched *only* for this reason) and very few switched out for reasons of "investment performance" (only 7% compared to around 20% for the other major players) or "fees and associated charges" (5% compared to 13% - 21% for the other majors). By comparison, more people switched from AMP and NAB due to either "Investment Performance" or "Fees and Charges" than switched solely due to switching employer.

5. FINANCIAL PLANNERS & SUPER SWITCHING

5.1 Sources of Advice for Switching Superannuation

The differences between sources of advice used by superannuation switchers are particularly evident when switchers are divided according to the value of their overall holdings of superannuation, as in Table 13. Evidently the more superannuation held, the greater the proportion of switchers reliant on financial planners/adviser for advice.

Table 13: Sources of Advice by Total Value of Superannuation
(Data period: 18 months to December 2006, n = 1,396 switchers aged 18+ and giving source, of which n=854 sought advice)

% of those who switched super fund manager in the last 12 months who sought advice	**All of those switching in the last 12 months**	**Total Value of all Superannuation Held**	
		Less than $100,000	**$100,000 or more**
	59	57	71
% of those who sought advice from each source of advice	**All those seeking advice:**	**Less than $100,000**	**$100,000 or more**
Your employer	40	44	23
Financial planner /adviser	**34**	**30**	**53**
Friend / Family	17	18	12
Accountant	**10**	**8**	**17**
Financial Institution Directly	8	7	10
Other Sources of Advice	8	7	11
Financial Planner, Adviser or Accountant	***42***	***37***	***64***

Overall, it would seem that those with lower amounts in superannuation (less than $100,000) are at a disadvantage when switching their superannuation because a lower proportion of them sought any advice (57% got advice compared to 71% for those with $100,000) and amongst those who did far fewer got professional advice.

It is not possible to tell at this stage whether the lower use of financial advisors/planners amongst the lower balance group was due to indifference due to the magnitude of the issue, or lack of knowledge as to how to go about getting advice or the inability of advisers to service this group profitably.

5.2 Financial Planners Channelling Superannuation Funds to Managers

Table 14 compares the proportions of all switched superannuation products going to each type of fund manager listed through each of the different channels. While 20% of super products that switched to Major Retail Funds came through Financial Planners or Accountants, only around 4% of switched superannuation funds going to Industry Funds came through these same channels.

Table 14: Channels Used to Obtained Switched Super Products in Last 12 Months
(Data period: 18 months to December, 2006, n=1,892 work based or personal super products switched in last 12 months)

Type of Fund:	% of Superannuation Products at Fund Manager Obtained through…					
	Tied Financial Planner	Independent Financial Planner	Account -ant	Financial Institution Directly	Employer	Other Source
Major Retail Funds	11	8	1	2	78	0
Industry Funds	2	1	1	1	94	1
Public Sector Funds	5	2	0	1	92	1
Self Managed Super Funds	21	31	21	4	16	6
Other Retail or Corporate Funds	10	12	3	3	70	2
Total Population	**8**	**7**	**3**	**2**	**79**	**1**

Table 15 shows that 39% of all superannuation products switched through a financial planner, adviser or accountant end up with a Major Retail Fund. A further 20% ended up with other Retail or Corporate Funds, compared with only 9% of products being directed to Industry Funds.

Table 15: Share of Switched Super Products Obtained Through Channels
(Data period: 18 months to December, 2006, n=1,892 work based or personal super products switched in last 12 months)

Type of Fund:	% of Switched Super Products Going to Fund Manager Through…		
	All Financial Planners and Accountants	Employers	Other Sources
Major Retail Funds	39	35	27
Industry Funds	9	41	27
Public Sector Funds	4	10	0
Self Managed Super Funds	28	2	18
Other Retail or Corporate Funds	20	13	27
Total:	**100**	**100**	**100**

5.3 The Big 6 Financial Planners and Super Choice

Given the highly fragmented nature of the financial planning market and the relatively low incidence of this activity among consumers only the major financial planning groups are examined in this report over the first 18 months of Super Choice, as shown in Table 16.

Table 16: Planning Groups Used to Obtain Superannuation
(Data period: 18 months to December, 2006, n=4,333 work based or personal superannuation products)

Big 6 Financial Planning Groups:	% of all Products Obtained Through Financial Planners	% of all Products Obtained Through Financial Planners that were Switched in Last 12 months
AMP	21	12
NAB/MLC	11	9
CBA/CFS	9	11
AXA	8	4
ANZ & ING	5	5
Westpac/BT	4	6
Total Big 6	**58**	**45**

Each of the Big 6 financial planning groups shown in Table 16 is also associated with a major funds management group. Table 17 shows the proportions of superannuation products obtained through each of these financial planning groups that ended up with fund manager from the same group of companies as the financial planner.

Table 17: Proportion of Superannuation Products Obtained through Financial Planners also with same Fund Manager
(Data period: 18 months to December, 2006, n=2,492 work based or personal superannuation products)

% Of Products From Each Financial Planning Group Also With Same Fund Manager	All Products	Number of Years Product Has Been Held…		
		3 or less	4 to 5	6 or more
AMP	83	63	73	88
NAB/MLC	63	61	36	68
CBA/CFS	74	71	76	76
AXA	77	77	61	81
ANZ & ING	44	56	51	41
Westpac/BT	64	59	79	68

Table 17 shows a relatively high proportion of superannuation products obtained through the Big 6 financial planners ended up with the a fund manager from the same group. However it is noticeable that for many of the financial planning groups, products that were obtained 6 or more years ago and are still held were more likely to have been directed towards a fund manager of the same group as the financial planner, than is the case for products obtained in the last three years (88% for products 6 or more years old and held at AMP, compared to 63% of AMP Financial Planner products obtained in the last 3 years).

It would appear from this that AMP has improved its performance over the last three years in terms of being more independent in the brands of products supplied through its planning network.

Evidence that the Big 6 Financial Planners are improving in terms of their independence or impartial advice can be seen in Table 18 which shows that a lower proportion of products switched in the last 12 months through the Big 6 Financial Planners ended up with a fund manager within the same group than was the case for all superannuation products obtained through Big 6 in total over time (56% compared to 75%). The proportion of recently switched products obtained through other Financial Planners going to the Retail Funds associated with the Big 6 fund managers is much lower than the level of switching to the same funds through the Big 6 Financial Planners (33% vs. 69%).

Table 18: Share of Super Products Obtained Through Each Channel Held with Each Fund Manager
(Data period: 18 months to December, 2006, n=48,934 work based or personal superannuation products)

% of superannuation products currently held at each type of fund manager:	**Channels Used to Obtain Products:**		
	Big 6 Financial Planners		
	Overall	**Switched last 12 months**	**"Very Likely" to switch next 12 months**
Big 6 Retail Funds	85	69	87
Same Fund Manager as Financial Planner (Big 6 only)	***75***	***56***	***68***
Industry Funds	3	8	3
Public Sector Funds	1	3	0
Self Managed Funds	3	5	6
Other Funds	7	16	5
% of superannuation products currently held at each type of fund manager:	**Other Financial Planners**		
	Overall	**Switched last 12 months**	**"Very Likely" to switch next 12 months**
Big 6 Retail Funds	34	33	44
Industry Funds	7	9	2
Public Sector Funds	3	2	1
Self Managed Funds	16	11	18
Other Funds	41	45	35
% of superannuation products currently held at each type of fund manager:	**Non-Financial Planners**		
	Overall	**Switched last 12 months**	**"Very Likely" to switch next 12 months**
Big 6 Retail Funds	23	31	30
Industry Funds	43	40	43
Public Sector Funds	20	10	10
Self Managed Funds	1	1	0
Other Funds	14	19	17

It is also worth noting that neither of the two groups of Financial Planners is very likely to direct switching funds towards Industry Funds, when compared to funds switched through channels excluding financial planners, advisers or accountants (3% for the big six financial planners, 7% for other financial planners, vs. 43% for non-financial planner channels).

5.4 Perceptions of Financial Planner Independence

For each superannuation product captured, the question “Who did you obtain that [product] from?” is asked. Among the answers respondents are able to provide to this question are:

- “Through a financial planner/adviser who works for a financial institution”[tied]
- “Through an independent financial planner/adviser”[independent]
- “Through an accountant”

Since these responses measure the respondent’s perception of whether the financial planner or adviser is independent, it is useful to compare this to brands of financial planners actually given for the same products, to see whether consumer perceptions of the “independence” of financial planner brands is in fact accurate.

<u>Table 19</u>: Perceptions of Financial Planner brand Independence for Superannuation Products
(Data period: 18 months to December, 2006, n=7,343 work based or personal superannuation products obtained through a financial planner, adviser or accountant)

% of Products through each Financial Planner brand Perceived as…		Perceived Type Of Financial Planner, Adviser Or Accountant:		
		Tied	Independent	Accountant
Big 6 Financial Planning Groups				
AMP Group	AMP	70	26	5
	Hillross*	40	52	8
NAB/MLC Group	NAB	72	20	9
	MLC	65	32	3
	Garvan	35	58	8
	Apogee*	46	44	9
CBA Group	Commonwealth	73	14	13
	Colonial FS	54	41	5
AXA Group	AXA	65	32	4
ING/ANZ Group	ANZ	82	9	9
	RetireInvest	41	58	1
Westpac Group	Westpac	80	11	9
Non-Big 6 Financial Planners				
ABN AMRO Morgans		51	33	16
Challenger (Genesys)		41	51	8
Count Wealth		16	18	66
Macquarie*		41	39	20
Suncorp		78	19	3

* Due to small sample size, figures should be treated as indicative only.

Table 19 shows that for at least a few financial planner brands such as Hillross (52%), Garvan (58%) and RetireInvest (58%), the majority of products obtained appear to be owned by respondents perceiving that planner to be an independent advisor.

Overall it would appear that there is still a great deal of confusion amongst consumers over the term “Independent Adviser” particularly when a brand other than the parent or group name is used. Consumers using advisers from ANZ, Westpac, CBA and NAB are generally aware they are dealing with a tied planner but there is a lot of uncertainty as to the status of most of the other brands.

It is also possible to examine the levels of satisfaction with financial performance with superannuation products obtained through each of these channels, as shown in Table 20.

Table 20: Satisfaction with Financial Performance of Super – By Financial Planner and Perceived Independence

(Data period: 18 months to December, 2006, n=4,293 work based or personal superannuation products obtained through a financial planner, adviser or accountant)

% Of Products Obtained Through Each Channel "Very" Or "Fairly" Satisfied:	**Perceived Type Of Financial Planner, Adviser Or Accountant:**		
	Tied	**Independent**	**Accountant**
Big 6 Financial Planning Groups	60	67	70
Used Big 6 Financial Planner and have Fund Manager from same Group	***60***	***64***	***72***
Other Financial Planners	70	74	73

Table 20 shows that satisfaction with financial performance of superannuation is higher for those obtaining it through "Independent" planners, advisers or accountants, rather than those using "Tied" planners.