

# **Information Costs and Superannuation Choices in Australia: A Pitch**

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## **1. Introduction**

This letter is a discussion of the application of the ‘pitching research template’ developed by Faff (2015) to a research topic in superannuation fund setting, from the public policy and regulation perspective. The pitch is prepared for the CIFR ‘Pitching Research’ Symposium on Public Policy and Financial Regulation to be held in Sydney on 29<sup>th</sup> May, 2015. I am currently studying full time towards a PhD at the University of Queensland. The pitch is reverse engineered to reflect the core elements of my PhD thesis. Despite the fact that I am at data analysis stage of my PhD program, I still find the ‘pitching’ exercise to be very useful in organizing the key areas of my study in a ‘simple and systematic’ way (Faff, 2015). I also find the pitch template a helpful tool to assess the strengths and weaknesses of the study and discuss my research with academics and seek feedback, as it highlights the core elements of my study in a straightforward and concise manner.

The remainder of this pitch letter is organised as follows. Section 2 contains a brief commentary on the completed pitch. Section 3 provides my personal reflections on the exercise completing the pitch, while the final section concludes.

## **2. Brief Commentary on the Application of the Pitch Template**

My pitching template was completed over a period of two weeks. I spent approximately 15 hours working on the pitch, which included reading Faff (2015)'s pitching research paper and extensive array of supplementary online recourses, meeting with my supervisors, writing and updating the template. The completed pitching template is shown in the appendix for my thesis 'Information Costs and Superannuation Choices in Australia'.

To complete the pitch, I work through the template in order, 'populating' each section with relevant materials. The challenging part of this process is to confine my 80-page thesis into a 2-page pitching template. For example, I have a literature review section in my study, which mentions over 50 different research papers. However, no single paper covers all aspects of my study. As my research question is observed in 'real word' setting, which is not readily explained by the conventional Finance or Accounting literature.

A series of cues is also provided in Faff (2005) to induce me to think about a range of possible considerations. Interestingly, I find the specific cues encourage, rather than restrict, me to present my thoughts. Specifically, these cues direct me to consider issues that previously I had not considered, but which are fundamental to the publishing process. For example, section (K): targeted Journals.

## **3. Personal Reflection on the Pitch Exercise**

When initially formulating the research idea in the first year of my PhD program, I spent a lot of efforts demonstrating the sufficiency of the study to be of PhD-quality. As a result, my research proposal turns out to be extremely lengthy and specific. In

spite of the long and detailed document, my discussion with readers still involves a lot of clarifications issues. When I recall this at the current stage, Faff (2015)'s notion on 'less is more' draws my attention. If I were able to present my research using the pitching template in a clear and concise manner, it would have facilitated readers' understanding and assessment.

In my experience the pitch exercise is equally as beneficial to PhD at my stage of study. I use the template to summarize my whole thesis (which consists of 3 articles) into a pitching template. When I re-read my thesis with reference to the original template, I observe the overall thesis lacks a level of cohesion. My previous version of thesis approaches the central research question 'The association between PDS disclosure and superannuation fund family flows' in 3 steps: (1) the determinants of superannuation fund family flows, (2) the status quo of PDS disclosure practice and (3) how does PDS disclosure affect family flows. Study 1 largely replicate the managed fund studies, but in the context of superannuation setting. However, as I work through the pitching template, I note that superannuation investors are different from managed fund investors from varying aspects, including the different information needs. As a result, I refocus and broaden the first study to include marketing expenses. Marketing is a way to enhance visibility and an important consideration for uninformed investors. This results in the current central research question of 'Information costs and choices of superannuation fund families'.

#### **4. Conclusions**

This letter outlines my pitch for a public policy and regulatory study based on investigating the relationship between superannuation members' information costs and investment choices. This pitch is used for the CIFR 'Pitching Research'

Symposium to be held in Sydney on 29<sup>th</sup> May, 2015. The template is not only useful for me when starting a new project, but also helps to conduct 'health check' on the study and present the idea when meeting with the 'pitchers'. From my personal experience, I think it would be useful for research students to do both a before/after pitching templates, which contracts the perceived/actual research and guides us on the right track towards completing a quality study.

## References

Faff, Robert W. 2014. "Pitching Research." (22 March 2015) Available at SSRN: <http://ssrn.com/abstract=2462059>.

Huang, J., et al. (2007). "Participation costs and the sensitivity of fund flows to past performance." *The Journal of Finance* 62(3): 1273-1311.

Warther, Vincent A. "Aggregate mutual fund flows and security returns." *Journal of financial economics* 39.2 (1995): 209-235.

Pitcher's Name	Natalie Xiaowen Peng	FoR category	Regulation/Public Policy	Date Completed	26/04/2015
(A) Working Title	Information Costs and Superannuation Choices in Australia				
(B) Basic Research Question	While superannuation investors' information cost is not directly observable, this study examines the mechanisms to reduce information costs: i.e. fund visibility (marketing) and transparency (PDS disclosure), and how they affect those investors who have actively 'made a choice' at fund family level.				
(C) Key paper(s)	Huang, J., et al. (2007). "Participation costs and the sensitivity of fund flows to past performance." <i>The Journal of Finance</i> 62(3): 1273-1311.				
(D) Motivation/Puzzle	Australian superannuation investors are ill-equipped to handle their increasing financial responsibilities due to limited financial sophistication, complicated superannuation regulation, an overwhelming array of choices, and labyrinthine PDS disclosure. Such criticisms led to ASIC's review on superannuation PDS in 2010, which was implemented through the Short PDS Regime in the same year.				
THREE	Three core aspects of any empirical research project i.e. the "IDioTs" guide				
(E) Idea?	Compared to their managed funds counterparts, average superannuation investors tend to be less financially sophisticated and less actively engaged. This is because of the broader cohort of superannuation investors (due to the compulsory Superannuation Guarantee contribution which cannot be withdrawn until preservation age) and the fact that employees can have their compulsory SG contribution directed to only one fund family, whereas manage fund investors can easily invest in multiple families simultaneously. Thus the return-chasing behaviour and the asymmetric flow-performance relationship observed in managed funds may not map directly onto superannuation funds. Recognizing the differences, this study turns to highlight the role of investor information acquisition and process costs, rather than performance, in explaining the level and the pattern of superannuation fund family flows.				
(F) Data?	<p>- Sample: APRA-regulated Australian superannuation fund families. I exclude non-public-offer, Defined Contribution, Eligible Rollover Fund superannuation families, and families with year-end other than 30<sup>th</sup> June. The final sample consists of 1004 family years from 2006 to 2013 when the Choice of Fund Policy is in place.</p> <p>- The unit of analysis is superannuation fund family. (1) Although fund families are certainly interested in the level of fund flow to each of their individual funds, the central interest lies in the aggregate flow to the entire family of funds. (2) From the investors' perspective, the investment selection usually starts with fund family brand recognition, which precedes fund product selection. (3) Superannuation families tend to coordinate actions across funds in the family. Disclosure is a family-level decision, as evidenced by consistent disclosure content and format across different funds in the same family.</p> <p>- Data on superannuation fund family institutional attributes is sourced from the periodic Superannuation Reporting Forms (SRFs) submitted by superannuation funds to APRA. Superannuation fund families are contacted individually to obtain the historical PDSs. When a family fails to process the request, its PDS is retrieved from archived webpages.</p> <p>- I use the APRA-reported rollover from one superannuation entity to another entity after adjusting for transfers from winding up funds to derive the member-initiated transfers.</p> <p>- Marketing expense is reported under the Other Operating Expense in SRF 200.</p> <p>- Useful PDS disclosure should not only (1) contain all relevant information, but also needs to be (2) presented in an easy-to-understand manner. I therefore code each PDS using content analysis index based on ASIC regulatory guide 168 (the resulting content analysis index includes 11 parts and 144 items) and computational linguistic readability scores (Flesch Reading Ease and Fog Index).</p>				
(G) Tools?	- The main econometric software utilised is Stata. The baseline regression is performed using panel data analysis with fixed year and family type effects. Dynamic panel data analysis (system GMM) is also conducted to provide an alternative 'unexpected' flow measure by Warther (1995).				

	<ul style="list-style-type: none"> <li>- Each Short PDS is coded manually from 2012 to 2014 since the Short PDS regime was fully commenced.</li> <li>- Fathom package in Peal is used to generate readability scores.</li> </ul>
<b>TWO</b>	<b>Two key questions</b>
(H) What's New?	<ul style="list-style-type: none"> <li>- Previous literature approximates fund net flow using total net asset and return. The application of this measure in the superannuation context is less desirable due to its failure to isolate SG mandated contribution (which leads to a high autocorrelation in the flows) and payments of member benefits in the form of pension. Therefore, I use the actual decision-making measure, member-nominated rollovers (net/inward/outward rollovers).</li> <li>- Level of Choice: Much of the literature focuses on the choice at individual fund level, whereas this study looks at choices of fund families. This is more consistent with the spirit of Choice of Policy.</li> <li>- As opposed to various fund characteristics related to fund visibility to proxy for the reduction in information costs, this study examines a large sample of superannuation PDSs in a systematic fashion. The proposed disclosure measure combines a subjective measure (disclosure index) and an objective measure (readability score).</li> </ul>
(I) So What?	<ul style="list-style-type: none"> <li>- To academics: While managed funds have been extensively researched, superannuation funds differ significantly from managed funds in terms of investor attributes and investment decision process. This study provides an understanding of retail superannuation investors' behaviour and adds a new perspective to examine fund families' managerial incentives (the use of PDS disclosure to attract investors).</li> <li>- To regulators and policy makers: This study investigates the disclosure practice in the Australia superannuation industry. It examines whether funds still treat PDS disclosure as a 'compliance tool' to minimise their legal liability, or as a marketing mechanism to attract investors, which leads to enhanced market competition.</li> <li>- To fund families: Winning business from other families is important as managers are compensated at a percentage of assets under management, and it is amplified by persistency of superannuation fund flows. This study provides insights into the use of PDS disclosure, as a less costly tool compared to marketing, star-creating and portfolio disclosure to attract investors.</li> </ul>
<b>ONE</b>	<b>One bottom line</b>
(J) Contribution?	The study provides understanding of an area that economically and socially is extremely important to Australia but where there has been little academic research. It provides understanding of the extent and readability of superannuation PDS disclosure in Australia.
(K) Other Considerations	<ul style="list-style-type: none"> <li>- Internal collaboration, and external collaboration with APRA statistics team.</li> <li>- Targeted journal: Realistically, A-ranked Journal. To be discussed.</li> <li>- The risk of generating meaningful results is low. Given the time-consuming aspect of data collection and analysis, the risk of being duplicated by other academics is moderate. Although some researchers may address some of the issues using a smaller sample size.</li> </ul>