ASFA/PwC CEO Report
November 2012

# Superannuation: view from the top

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# Foreword

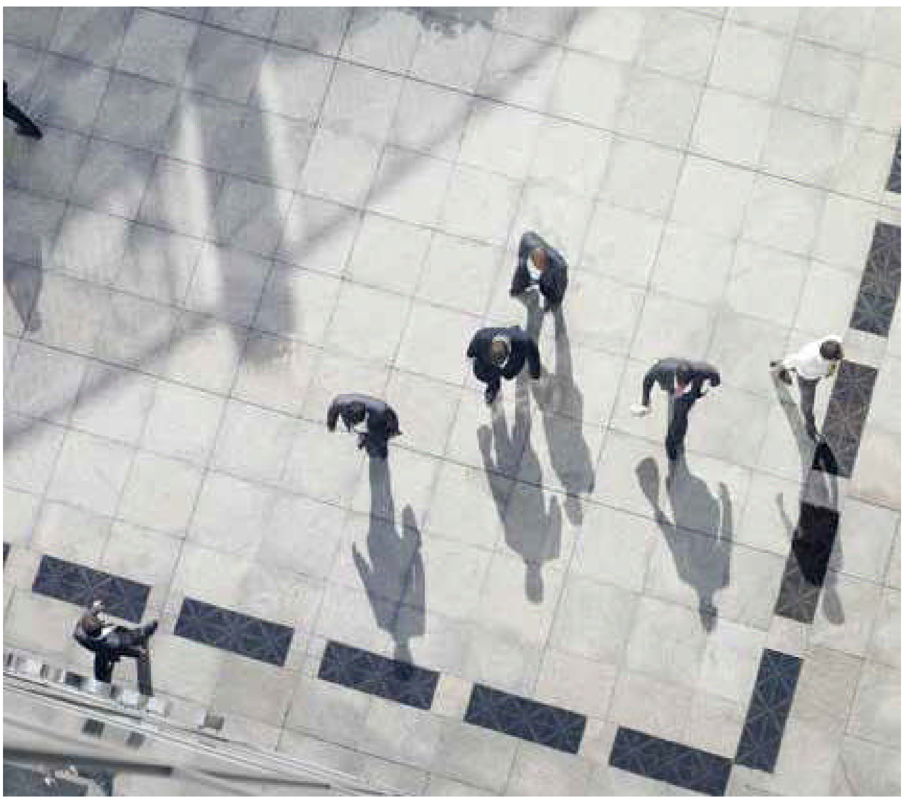
*Pauline Vamos*
*Chief Executive Officer*
*The Association of*
*Superannuation Funds of Australia*

Congratulations on the results of this survey. It shows that most funds are well on track with implementing strategy and service that is even more focussed on delivering to the individual needs of each fund member. This is a strong underlying theme of this year's ASFA national conference where many of the sessions are about how funds can manage better individual member needs and outcomes.

We know that as CEOs and leaders there are many demands on your time and completing surveys is often not top of the priority list. However speaking with leaders as part of my member outreach programme many are interested in what others are doing. This has particularly been the case this year as the ability to spend time out of the office catching up with colleagues has been a difficult challenge due to the change agenda facing the industry.

The results of the survey have already been incorporated into ASFA's agenda. Making the system tinker proof, fighting to reduce industry levies and pushing for greater transparency on how they are spent, building confidence in the brand of superannuation, measuring the effectiveness of governance and moving back the regulatory implementation timetable are all either well in train or planned.

There is a lot of pride across the industry and a real understanding of the privilege we have of "looking after other people's futures". Surveys like this help us focus and work together as an industry on the right things for fund members.



# Executive Summary

*David Coogan*
*Superannuation Industry Leader*
*PwC*

*Gennesee Rock*
*Principal, superannuation*
*PwC*

Welcome to the inaugural ASFA/PwC CEO Survey. This survey captures the views of 29 CEOs from across the superannuation industry, including industry, retail, government and corporate funds ranging in size from less than $1 billion to more than $20 billion.

This survey covers the matters on the minds of CEOs in relation to:

1. the future of the industry, focusing on regulatory reform and innovation
2. business as usual in the industry, focusing on investment governance, member engagement, data quality, advice and maintaining relationships with regulators.

Regulatory reform in superannuation has continued apace in 2012, presenting a multitude of challenges as the industry works out how to implement legislation that is still in the process of being finalised.

The CEOs surveyed are generally prepared for the implementation of Stronger Super, including the prudential standards, Superstream and MySuper. For example, 55% of CEOs indicated that their funds are already substantially compliant with APRA's prudential standards and 53% of CEOs say their existing default option is already substantially compliant with the proposed MySuper legislation.

Nonetheless, CEOs are wary of the heightened risk arising from the size and pace of regulatory change and there is a call for stability of regulation.

Also front of mind for CEOs is the future performance of their funds and working to improve members' confidence in superannuation as an efficient and effective investment vehicle. The CEOs surveyed believe organisations can work better together as one industry and collaboratively with APRA and the government to restore the confidence of the community in superannuation.

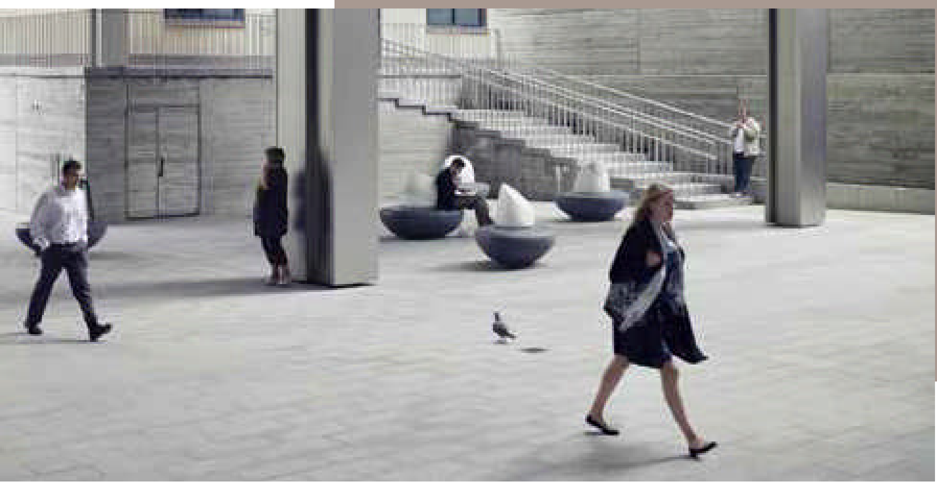
CEOs are proud of their teams and their dedication to providing high quality services to members.

CEOs are also very proud of the quality of their service offerings to members and how their own teams have adapted to the regulatory challenge. They have a genuine belief in the value of superannuation to members and society as a whole.

***CEOs are proud of their teams and their dedication to providing high quality services to members.***

# Contents





# Regulatory reform

01

*For*

# 89%

***of organisations, there will be no significant change to their strategies.***

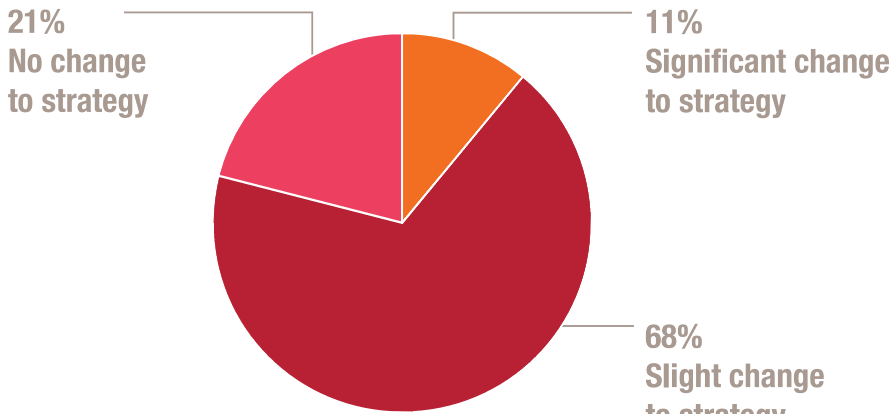
While CEOs are generally prepared for the raft of superannuation reforms, there is concern about whether there are adequate benefits flowing to members to justify the cost and resources required to implement the changes in the current timeframe. The reforms are an expensive exercise across the industry and the majority of funds have indicated that they are already substantially compliant with the Stronger Super reforms. For these funds there will be no significant change to their strategy or product.

To cope with the extent of reform, funds have been focussing on APRA's prudential standards and Superstream and have now started working towards obtaining their MySuper licence. There has been much less focus on the changes to the APRA reporting requirements, perhaps in the hope that at least some of these requirements are delayed beyond their current implementation date.

## *What is your organisation's strategic response to Stronger Super?*

For 89% of organisations, there will be no significant change to their strategies – the funds will achieve compliance through modification to existing products or amendments to documentation and compliance activity.

*What is your organisation's strategic response to Stronger Super?*



## *MySuper*

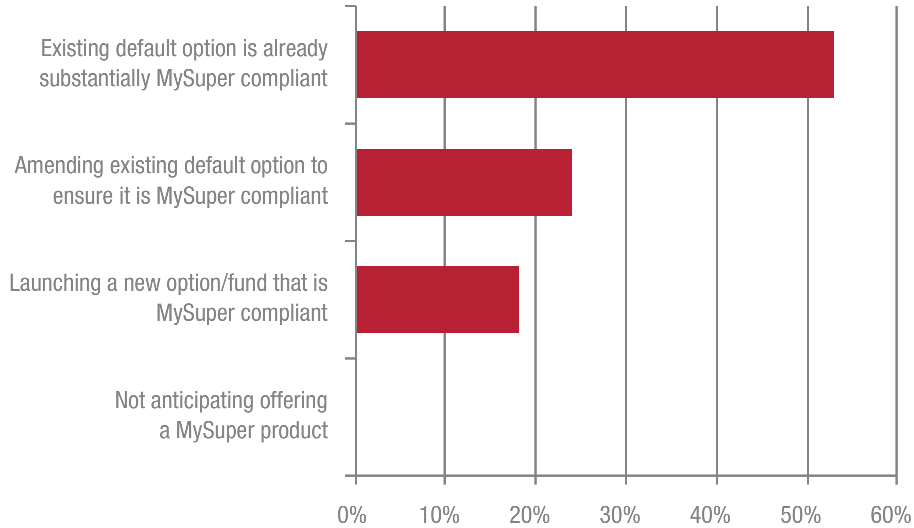
CEOs are confident they will ha MySuper compliant product in place on time. The majority of such products will be the existing default option, in some circumstances modified to be fully compliant.

CEOs were generally not concerned by the requirement that there be no-cross subsidisation between MySuper and Choice products, expecting minimal impact. It will be interesting to see how this area develops in practice – it is an area where the requirement could be applied at varying levels of detail. For example, some questions funds will need to consider include:

- Will there be an expectation that fund administration costs are analysed in detail to determine the extent of usage of services by MySuper members vis a vis other members? If so, how often would the analysis need to be performed?
- Is there a different expectation if the function is outsourced? What if the outsourced provider charges the fund a flat fee – is the fund required to 'look through' the fee charged? Will administrators provide this information?

Similar questions arise in relation to all functions performed by a fund, including investment management, advice and contact centre. There may need to be a level of pragmatism such that the costs of implementation do not outweigh the benefits.

*How prepared is your organisation for the commencement of MySuper?*



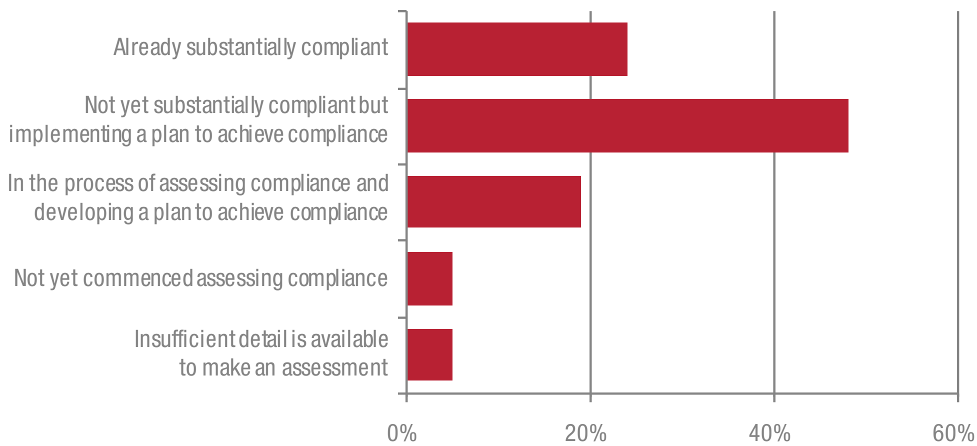

## *Superstream*

While CEOs are on course to implement Superstream, it is clearly an area where the majority of funds are not yet fully compliant. Perhaps this is why Superstream is more welcomed by the industry given it appears that it will have a genuine impact and CEOs can see the value to members.

One component of Superstream is the requirement that any accounts with less than $1,000 be automatically consolidated to current active accounts unless a member requests it remains a separate account. The majority of CEOs anticipated a reduction in membership of up to 10%, although for some funds this is expected to be higher, potentially exceeding 20%. Most CEOs said that costs per member would be higher as a result of the high proportion of fixed costs being shared amongst a smaller membership base.

CEOs are pro-actively considering responding to auto consolidation by commencing member engagement or lost superannuation campaigns. Some have introduced or increased asset based fees and others have been active in transferring members to eligible rollover funds.

*How prepared is your organisation to comply with Superstream?*



*With*

# *45%*

***of funds surveyed not yet compliant with the new prudential standards, it appears that the overall governance in the superannuation industry is likely to improve as a result of these reforms.***

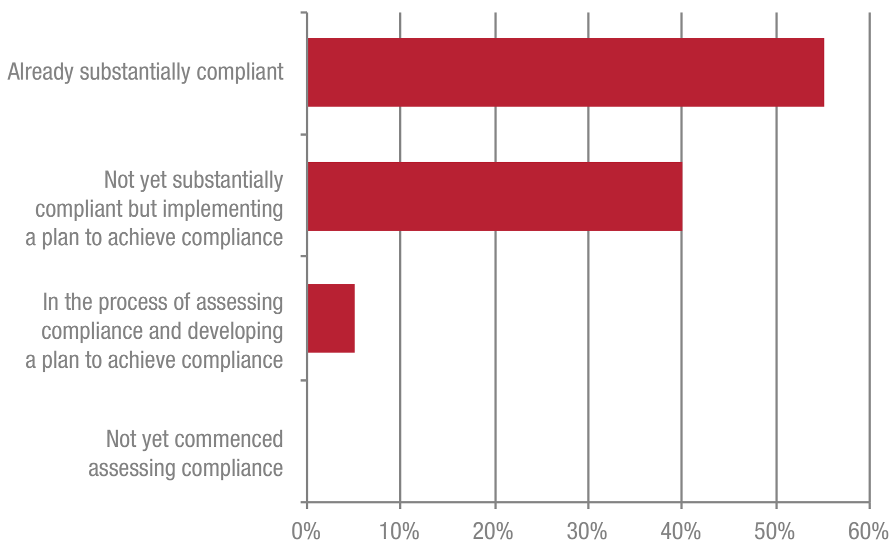
## *Prudential standards*

CEOs say they are on track to comply with APRA's prudential standards with the majority of funds already substantially compliant.

APRA released the proposed final standards in November 2012. The majority of the requirements in the prudential standards will take effect from 1 July 2013. APRA expects to release a suite of prudential practice guides for consultation in late 2012 and early 2013. It will be interesting to see how funds are positioned, once they work through the detail of the prudential practice guides.

With 45% of funds surveyed not yet compliant with the new prudential standards, it appears that the overall governance in the superannuation industry is likely to improve as a result of these reforms (albeit with increased costs).

*How prepared is your fund to comply with APRA's Prudential Standards?*



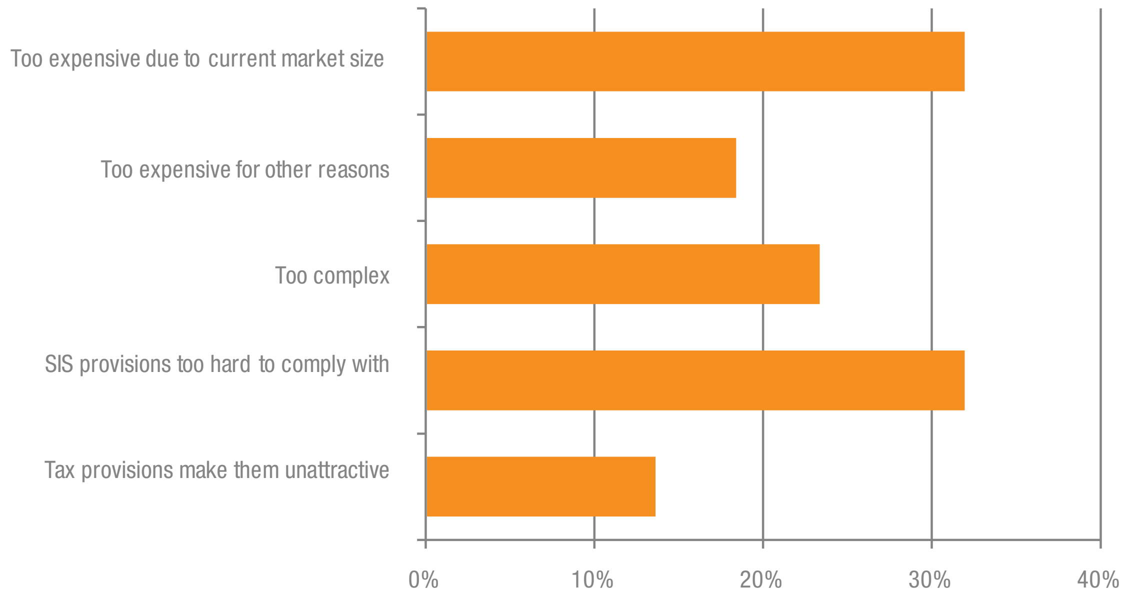
# Innovation

02

The industry can be proud of the innovation achieved to date – with many funds already offering a range of products with flexible investment, insurance and fee arrangements, various advice arrangements, some direct investment options and some very effective member engagement/ lost superannuation initiatives.

The industry will continue to innovate, including in response to the ageing population, regulatory reform, the economic environment and the evolving nature of the industry. One area of focus for innovation may be in post-retirement products, however, there is no easy solution. Barriers to development of these products are considered to include SIS requirements, tax laws and the changing regulatory framework.

*What are the barriers to development of the next generation of post-retirement products?*




> ***Retirees need a suite of solutions to suit very differing circumstances.***
> *~ Fund CEO*

> ***Due to the high level of regulatory and governance requirements innovation is stifled.***
> *~ Fund CEO*

> *Talk to people outside of the industry. Look for examples of how other industries have dealt with change.*
>
> *~ Fund CEO*

> *Organisations are turning into reactive compliance driven bodies. [Government should] provide some certainty moving forward and this will allow organisations time to focus and dedicate resources to enhancing member services and benefits.*
>
> *~ Fund CEO*

## *Roadblocks to innovation in superannuation*

CEOs recognise that funds need to innovate to attract new members and suggested one way to do this is to learn from other innovative industries to fast track innovation in superannuation.

Many of the CEOs surveyed believe that a significant impediment to innovation is the ever-changing regulatory framework and the industry should work together to seek to achieve stability.

# 03

# Business as usual

CEOs are also focusing on the 'business as usual' of running their organisations and managing their funds to maximise the retirement outcomes for their members. So, in addition to implementing sweeping regulatory reforms and innovating to keep pace with the industry, they are working to improve investment governance, increase member engagement, address data quality issues and enhance their advice models – all the while maintaining strong relationships with the regulator.

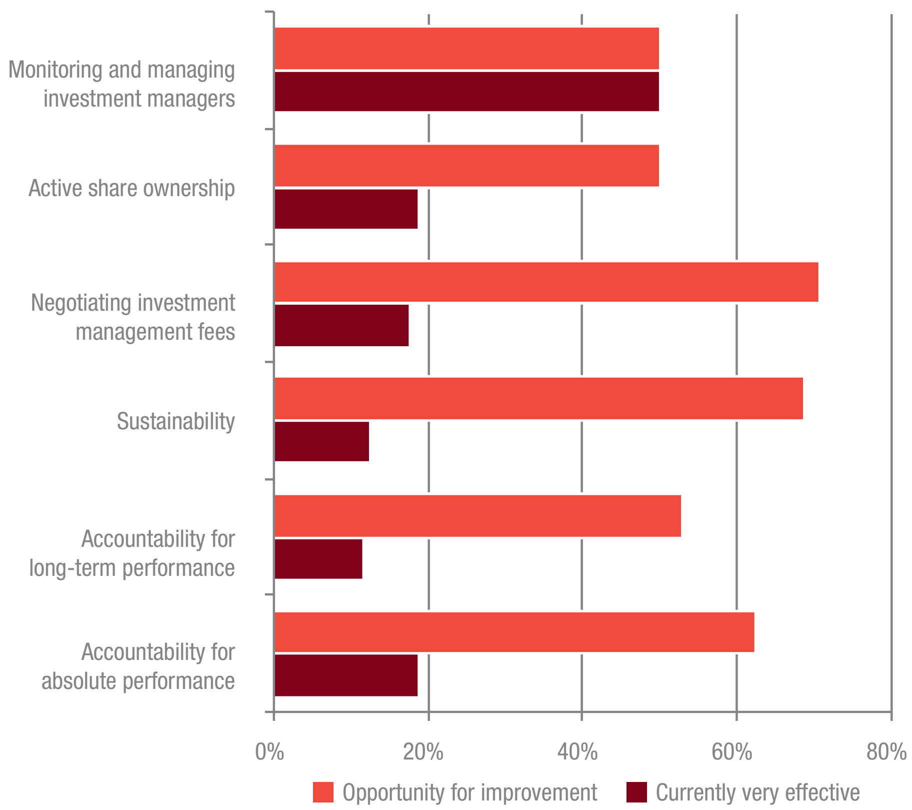
## *Investment governance*

The area of investment governance that CEOs consider the industry performs best in is monitoring and managing investment managers.

The majority of CEOs believe there are opportunities for improvement in nearly all areas of investment governance, particularly negotiating investment management fees, sustainability and absolute and long-term performance.

CEOs said that monitoring of costs charged by fund managers can be difficult due to the lack of transparency in reporting. However, the balance of power may be beginning to shift towards trustees with some fund managers providing greater clarity over fees.

*What are the areas of investment governance that the industry does effectively?*
*What areas of investment governance could improve significantly?*

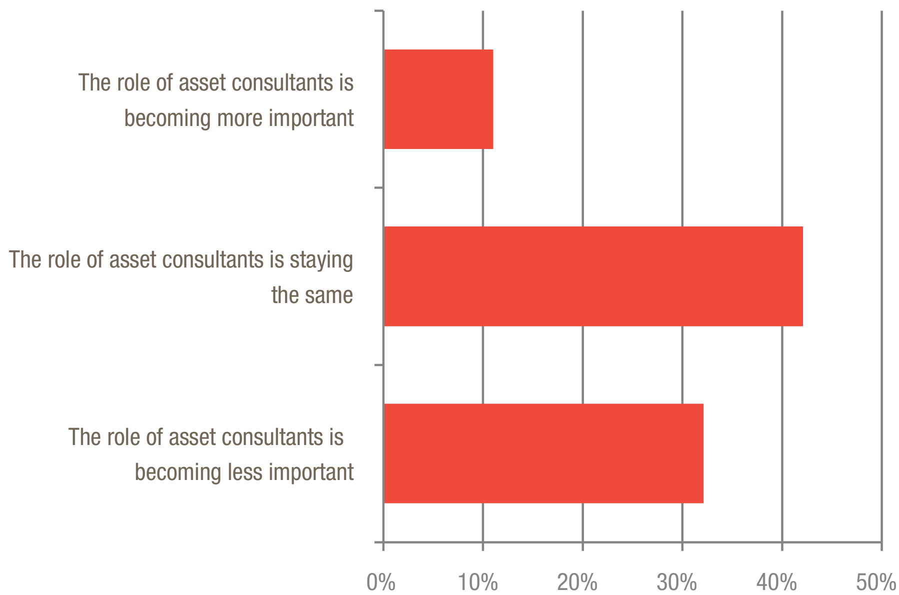


***Only***

# ***11%***

***of CEOs surveyed believe asset consultants are becoming more important.***

*Is the role of asset consultants changing for the industry as a whole or for your fund?*




## Is the role of asset consultants changing for the industry as a whole or for your fund?

Only 11% of CEOs surveyed believe asset consultants are becoming more important. The majority of CEOs thought the importance of asset consultants would stay the same. 32% of funds consider that the role of the asset consultant is becoming less important, perhaps because they are considering insourcing parts of the traditional asset consultant's role.

> ***"Relationships need to change as Trustees can no longer just accept one consultant's recommendations. They need to outline options and Trustees need to make considered decisions."***
> *~ Fund CEO*

> *Data is what our business is about – the management and correctness of it.*
> *~ Fund CEO*

## *Member engagement*

94% of CEOs said their funds had been effective in increasing member engagement in the last three years.

CEOs believe the key ways the industry can improve member engagement are to lobby for cessation of changes to superannuation and to increase educational offerings.

## *Data quality*

### Why do data quality issues arise and how can funds deal with these?

CEOs believe that data quality issues often arise for a variety of reasons, including:

- gaps in take-on information from employers or other funds
- system deficiencies, for example, antiquated systems or the implementation of a new system without sufficient checks being performed
- constant regulatory change restricting resources available to deal with data issues. One CEO noted that rushing through regulatory change on the introduction of RSE licensing was a significant contributor to current data quality issues – CEOs must be mindful of this as they implement the current tsunami of regulatory reform
- poor administration practices
- lack of engagement with members and employers
- nature of members, for example, one CEO cited a young and transient membership base. Another CEO noted that for industry funds commencing in the 1990s, member details were compromised by the high volume of new members and incomplete member data.

To deal better with data quality issues, CEOs recommend that funds work closely with employers and their payroll providers. Re-investment in cleaning up administration systems and processes is also essential. Better engagement with members is another solution.

## *Advice*

### Are you anticipating changing your current advice model in the next three years?

The CEOs we surveyed represented organisations with a broad spectrum of advice models including in-house, outsourced and alliances with other organisations.

58% of CEOs said they were likely to change their current advice model in the next three years. While some organisations are planning a comprehensive review, others are building on their existing models. Many CEOs said they would be moving towards a scaled advice model.

### Regulator engagement

Despite the pressures of regulatory change, CEOs said they had a good relationship with APRA. All CEOs said they have regular, transparent and open communications with APRA.

04

# What keeps you awake at night?

CEOs are most concerned about regulatory change - the size and pace of it and the impact on cost and resources. There is frustration over the political tinkering with superannuation. Some question the member benefit of such change, particularly with APRA's proposed reporting standards. The proposed standards are very detailed and funds will struggle to capture the granularity of detail required. Custodians and administrators will be particularly impacted.

There is also a concern about the accountability by regulators for the levies they receive. One CEO said that APRA levies leave funds doing the right thing funding the mistakes of others.

Investment performance is another concern among CEOs.

CEOs are also thinking about the role of the board and how to establish effective governance that contributes to innovation and growth and ensures the board does not stagnate over time.

A broad concern is a continued loss of confidence by members in superannuation as a long term savings vehicle. Some believe the brand and reputation of superannuation has been significantly damaged over recent years.

> *"My fear is the cost of constantly responding to regulatory change on timetables that have little regard to the practical implications from resourcing to robust project management."*
> *~ Fund CEO*

# 05

# *What are you most proud of?*

CEOs are most proud of the value and personalised service they provide to members. This includes fund performance, education and giving members the best chance of achieving an adequate retirement.

CEOs are also proud of their own teams and how they are able to both manage the impact of regulatory change and service members effectively and professionally.

Being well regarded by regulators, particularly APRA, is another source of pride.

CEOs are proud of their funds' contributions to their communities, including employees, employers and the broader community through taking leadership positions in wide-ranging matters such as addressing the issues with commission-based advice, sustainable investment and health and well-being initiatives.

> ***"Looking after people's futures is an amazing privilege."***
> *~ Fund CEO*

# 06

# *About the survey*

The ASFA/PwC Survey 2012 was conducted from October to November 2012. Respondents are CEOs from a wide range of organisations across the superannuation industry including industry, corporate, retail and government funds. In total 29 CEOs took part in the survey.

Fund sizes represented ranged from less than $1 billion to over $20 billion and member numbers ranged from less than 1,000 to more than 500,000.

This report provides an overview of the survey findings together with analysis and interpretation of the results. We have also included some direct quotes from CEOs throughout the report. These quotes reflect individual views and demonstrate the passion and/ or breadth of CEOs' views and are not necessarily consistent with the overall survey findings.

We thank the CEOs who participated for their time and insight.

Thanks to Claire Keating, Craig Cummins, Andrew Wilson and Nicole Oborne for support and production assistance.

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