



ASFA Conference
Inspiring superannuation excellence

25-27 November 2015
Brisbane Convention and Exhibition Centre

ASFA 2015: KEYNOTE ONE

Industry oration: a vision for a thriving future

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Wednesday, 25 November 2015

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Transcript of speech by AustralianSuper Chief Executive, Ian Silk to 2015 ASFA Conference

Industry Oration: Vision for a thriving future

Good morning. It's a great personal privilege to be asked to present the ASFA oration for 2015, and doubly so given that we will shortly be joined by one of the most famous people in modern times. It was in May 1961 that the United States launched into outer space their first manned spacecraft, and at that time President Kennedy boldly declared that before the end of the decade the United States would land a man on the moon. In fact, in 1969 the United States landed two men on the moon and, as I said, one of them will be with us shortly.

But take yourself back to 1961. Can you imagine what sort of statement that was from the United States President? How visionary. What courage. What audacity to make that bold proclamation. The question for us as we sit here today, 2015, "What is the Australian superannuation industry's man on the moon moment? What is our grand ambition?" It's not going to be as exotic as landing a man on the moon, but in the context of our industry, what is our grand ambition? You may well ask, "Do we need a grand ambition in this industry?" And I would say we do need a grand ambition, because this industry is a special industry. It's unique. It was created by the federal parliament, a whole range of measures, but the two critical design features of course being that it's a compulsory system, and that there are significant taxation benefits for the industry and ultimately for beneficiaries.

The system was created by the parliament and then gifted to us to operate. This is essentially an outsourcing of public policy and we are implementing that public policy. And as a consequence, there are special responsibilities and obligations on us to operate not just exceptionally well but with a level of trust and integrity consistent with public policy. Special obligations and responsibilities on us. I think it's fair to ask, "Have we as an industry acknowledged those special responsibilities and obligations? Indeed, have we embraced them, and are we operating true to them?" I think the answer is that we have not done that as well as we might.

So before coming to what our grand ambition might be, let's just look at the foundation that exists today. How is the superannuation industry performing today? And I would say that on most objective analyses of how we as an industry are performing on behalf of members, we're doing a good job. Last year the superannuation industry paid out, in the form of super benefits to Australians, more than \$61 billion. That's more than the government pays out by way of aged pension payments. Billions of dollars invested in infrastructure and property.

Michael Easson spoke before about the national pool of savings that's the superannuation system, and how it buttressed the Australian economy through the choppy waters of the GFC. The superannuation industry is doing a good job, but that's not the question. The question for this industry, in the context of those special responsibilities and special obligations, is "Are we doing the optimum job? Are we performing optimally or are we just performing well?" I would say there's a significant gap between our good performance and the optimum performance that we owe our members.

So what might the grand ambition of the industry be? I think most of us would coalesce around an idea something like this: that we do all in our power to help all Australians have an adequate retirement income. We do all in our power to help all Australians have an adequate retirement income. Now, I dare say many of you would listen to that and say, "Well, that's pretty much where we are. That's what the industry's doing; nothing particularly grand about that." If that is your instinctive response, I'd like to challenge that thinking, because I think there's a significant gap between how we operate now and the realisation of that particular grand ambition.

But if we were to achieve that grand ambition, what a wonderful thing that would be, in particular from the sense of community support, community trust, community goodwill towards the retirement income system of this nation. We should be looking to build a self-reinforcing compact between the parliament on the one hand that established the system, the industry that's operating that system, and the beneficiaries of the system. Trust needs to be at the heart of this system, and we should have at the epicentre of the system the guiding principle of acting in the best interests of members and not diluting a singular focus on that objective.

So if that's the grand ambition, what do we actually need to do to get from good to optimal? For me it's not a new product, it's not a new way of investing. The single most important catalyst for change in this industry will be a change in culture. Now, I daresay every organisation in this room has a set of corporate values and truth be told, they're very similar: we're all pursuing excellence; our actions are all rooted in trust; we're all exceptionally innovative. So if we have this virtually common set of values, why is it that the performance is so wide-ranging?

We have some organisations whose performance is excellent. We have some organisations whose performance is woeful. Even more worryingly, why are there behaviours in the industry that diverge so much, from the exemplary to the frankly disgusting? Clearly, stated values aren't enough. The obvious point is that words are words, and deeds are deeds. I could list you example after shameful example of organisations in the financial services industry, including our sector of that industry, that the highest minded corporate values and whose behaviours to their customers, their members, are languishing somewhere in the gutter. I'm not going to name them. I don't have to because they're on the front page of the newspaper every other day. They're revealed in parliamentary enquiries every other day. They're on social media all of the time.

But there's a very recent international example in the form of VW, which we're all familiar with. It's a classic case where stated values are so much at variance with the reality of what that organisation is doing, and we see examples in our own industry. Now, not only does that damage the brand, ultimately presumably the market share of those organisations, but it has ripple effects for everybody in the industry. If we are going to pursue something like the grand ambition I spoke of, we need to have members at the centre of everything we do, and if we do, we won't see some of those behaviours that have been revealed over the last few years. By definition, that won't occur if we're doing all in our power. Trust is the critical issue here. Performance, doing the right thing, and trust; what we do and how we do it.

I'll just give you a quick anecdote, and this is an Australian Super anecdote, it's something I observed very recently, but very many of you will have something like this occur many times in your own organisations. Australian Super has just concluded a series of member briefings around the nation. We had around 3,000 members attend these briefings, and the format is we have an investment presentation; the one I'm thinking of was given by our Head of Equities, Innes McKean, who's a Scottish guy. I gave a presentation, and Heather Ridout, our Chair, gave a presentation.

The briefings conclude, most people are invited around for a coffee to chat, but usually a number of people come up to the stage and seek to engage the speakers. This particular briefing concluded, it was in Canberra, I jumped down to meet the throng of people who were doubtless coming to speak with me. On that occasion, not a single solitary soul wanted to speak with me. Big queue with Heather, enormous queue with Innes, so I rationalised that I'd given a flawless presentation ...

... no errors, it was pretty obvious. And the ever-lengthening queue snaking out the door to see Innes was clearly because people hadn't been able to understand him, and to ask him what he's been banging on about for the last 20 minutes. But I looked at the people who were speaking with Innes asking questions, a very serious countenance on their face. The trust that they had in him, and by extension the organisation, frankly was heartwarming. And as I said, many of you will have seen this happen many times in your organisations. That's the sort of behaviour and relationship with members that we want to have universally across this industry.

The final point is: what are the implications of such a change? What does it mean in practice for us? When all of our organisations were established, they were established to be successful. But somewhere along the line, the definition of success has become lost for some in the industry. The definitions of success are not the normal corporate metrics; they're not just about profit; they're not just about market share; they're not just about margins; it's not just about money. It's about people, as I said, being at the epicentre of this industry, and their best interests being the prism through which every decision should be made.

So to those of you who thought the grand ambition wasn't all that grand, let me just run a couple of contemporary issues through you, and just ask yourself, "Are these issues being debated in the context of what's in the best interests of members, or are there other interests at play which are diluting that focus on members' best interests?" First one is on fees. There are organisations in this industry that loudly proclaim they have no fee products. Is the message that's being sought to be imparted to consumers genuinely consistent with the reality there? That might be a legally correct interpretation of the product feature of such products, but is it really consistent with what's being sought to be communicated? Is that consistent with the grand ambition of this industry?

Or more worryingly, the recent trend about passive investment. So there are some organisations that have the view that passive investment is superior to active investment, and an entirely credible position that is. There are other organisations that say that active investment is superior to passive investment, and that's also an entirely credible view.

But what's not credible is that those organisations that have active investment at the root of their investment philosophy to create default products which are based on passive investment because by their own organisation's philosophy they're defaulting people into suboptimal products. Is that putting the member at the core of the decision-making process? Hardly.

And the final example is one that we're all familiar with: multiple accounts. This industry has around two-and-a-half accounts on average for every member in the system. Is that a good outcome for consumers? Manifestly not. Is it a good outcome for the industry? Well, many of us seem to think so. If regulators and governments don't impose a system on the industry that encourages much greater automaticity of account consolidation, what is to stop us coming together as an industry to provide a better system for members? There's only one thing stopping us: self-interest; the interest of the agents of the industry, not the interest of the beneficiaries of the industry.

So they're just a few examples, and if time allowed me, I could bang on about this for quite some time. They're just a few examples of where the industry is falling short of optimal performance, where pursuit of that grand ambition is not being realised. We should have a grand ambition. It should be something along the lines that I've suggested. And if we were to do that, and if we were to pursue better outcomes for our members, we would have this self-reinforcing compact which ultimately is going to drive better outcomes for our members. That would be a grand ambition.

Thank you very much.

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