SF superfunds

contents

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Publisher
The Association of Superannuation Funds of Australia Limited (ASFA)
ABN 29 002 786 290
T 02 9264 9300
E superfunds@superannuation.asn.au
W www.superannuation.asn.au

Publishing Manager Katrina Horrobin

Editor Sara Fox

Technical Editor Julia Stannard

Senior Designer Lisa Collins

Advertising enquiries Denise Gee
T 02 8079 0801
E superfunds@superannuation.asn.au

Subscription enquiries ASFA Membership
T 02 9264 9300
E membership@superannuation.asn.au

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ON THE COVER

Investigating insurance

Following the Protecting Your Super package and the Royal Commission, insurance and superannuation will continue to be under the spotlight in the coming months.

REGULARS

Spotlight **on insurance**

Dr Martin Fahy

ASFA Chief Executive

The role of insurance in superannuation has attracted a lot of attention and scrutiny in the last few years and when I look back to 2017, I am amazed at how much has changed in the intervening period.

At the start we were concerned about account erosion, multiple accounts, duplicate insurance, coverage definitions and the claims process. Since then we have developed the Insurance in Superannuation Code of Practice which addresses most of these concerns while the Productivity Commission and a Parliamentary Joint Committee have conducted their reviews. The Government of course introduced the Protecting your Super (PYS) package last year and in its substantially amended final form we are all now scrambling to work out how to implement it by its very tight deadlines. The Royal Commission also looked at insurance in superannuation, but I think it is fair to say that in a broad sense it found little to criticise.

So where do we go from here?

The absolute priority is implementing the PYS changes and I know you would all have devoted considerable resources to this end – whiteboards, drawing up process maps and roadmaps, setting up working groups, and putting aside innovative projects and plans that you've had in place for a number of years in an attempt to meet the looming deadlines. To support you we established a cross-industry implementation reference group so that we could approach the Government and regulators in a coordinated way and I believe this, and the sharing of information, has provided a useful resource for funds as they attempt to meet these challenges.

Once the PYS dust has settled we need to look at the new regulatory environment that we find ourselves in. The Royal Commission did not find much at fault in the provision of insurance through superannuation, but it will have an enormous impact on the way the regulators go about their business. We are, in my view, moving to a regulatory style with a zero tolerance for errors. The need in the future for flawless execution will affect the delivery of insurance just as much as the other aspects of any fund's business operations.

A big contributor to attaining flawless execution will be innovation, primarily digital and technological. For innovation to work at its best we need it to emerge from a marketplace or a contest of ideas. We need the purveyors of new ideas to meet their critics – consumer, industry and member – and have those ideas tested and proven. It may sound paradoxical, but we also need to be able to bear failure in innovation; you can't innovate if success is a pre-condition. How well we explain the benefits of risk-taking in the development of new systems and processes to the regulators will be a real test for us in the coming years.

In the end we must be sure we have products that are fit for purpose, processes that deliver seamlessly and insurance benefits that meet community expectations, and of which we can be proud. When members, consumer groups and the media challenge us we need to be able to point to an evidence base that supports the suitability and delivery of superannuation insurance products.

In establishing the merits of insurance, we also must be able to communicate to our members and especially our critics, whether that be a member who feels that he or she has not been treated fairly or a journalist with a story to write. I think we sometimes tend to talk in relatively abstract terms when defending the role of insurance in superannuation. For example, we talk about loss income ratios, pay-out ratios, we talk about vulnerable consumers and more generally about engagement and communication protocols, whereas we need to match our message with the register of our audience.

Another area where there is genuine room for improvement is the standardisation of definitions or what the Royal Commission described as universal terms. I know many of you are cautious about this idea because there is a perception that this may lead to a one-size-fits-all approach or constraints on benefits tailored to specific industries or occupations. But as Jenni Baxter of Rice Warner pointed out at our recent Spotlight on Insurance event, does it really make sense for there to be a patchwork of exclusions for default TPD cover more likely derived from the accumulation of definitions over time than a conscious decision on the part of the fund? Or where there is an exclusion such as Act of War for there to be substantially different wordings across different policies for the same exclusion?

This is why ASFA is participating in a project which will look at simplifying and standardising definitions to make insurance policies easier to understand and compare where possible, but with the overriding aim of maintaining trustees' ability to tailor benefits to the specific needs of their members. After all, the tailoring of benefits, including insurance, to the needs of a fund's membership, and cohorts within that membership, will increasingly define a fund's value proposition.

I know it is hard given the immediate challenges we face but it is worthwhile occasionally to step back to look ahead and consider what success might look like in the future. Let's say in 2022…

PYS will be a fairly distant memory, the Code's measures will have been implemented as will the Royal Commission's recommendations. Setting aside the possibility of further changes and assuming the habitually underperforming funds have been dealt with, funds will be providing quality and value for money retirement outcomes for members. When those members are unable to work before reaching retirement they will benefit from targeted and affordable insurance, efficiently delivered, that will compensate them for not receiving the retirement benefit their peers will receive, and help them and their families to deal with the hardships illness, injury and death can cause. Where a member is not eligible for insurance, he or she will understand why.

Our critics would say this picture is fanciful, but I think it well within our reach. **SF**

HEADLINES

QSuper to support Royal Flying Doctor Service

The Royal Flying Doctor Service (Queensland section) (RFDS) Flight Nurses will be supported by QSuper to continue providing vital health care to QSuper members, and all Queenslanders in regional and remote communities.

As part of this new partnership, QSuper will be sponsoring nominated RFDS Flight Nurses to attend the internationally recognised STAR program, which delivers all the essential aspects of aeromedical retrieval.

"QSuper's investment in our Flight Nurse training and their continued professional development is paramount to the continued success of our organisation," said RFDS (Queensland Section) CEO, Meredith Staib.

Staib noted in a 12-month period, RFDS Flight Nurses deliver care to patients on more than 11,000 aeromedical retrieval missions. 75 per cent of these taskings are "Nurse only" flights, where they must be prepared to handle any eventuality that may occur at 15,000 ft.

Viridian Financial Group acquires part of Westpac's BT Financial Advice business

Viridian has entered into an agreement to acquire part of Westpac's BT Financial Advice business.

As part of the transaction, Viridian will also offer BT Group Licensees practices, currently operating under the Securitor and Magnitude brands, the opportunity to join a Viridian owned licensee advice model operating under an Australian Financial Services Licence (AFSL) being established. Viridian also intends to acquire the Securitor and Magnitude brands under its new model, subject to finalising terms with Westpac.

The purchase agreement results in the transfer to Viridian of part of the BT Financial Advice business and some of BT Financial Group's financial advisers and support staff. Viridian will have national adviser presence through both an employee adviser channel and a licensing model for separately run advisory firms.

The BT Financial Advice advisers, support staff and clients who agree to the transition are expected to transfer to Viridian on the anticipated completion date 30 June 2019. BTGL practices that accept the Viridian licensing model will also be able to commence transferring to the newly established AFSL at a later date.

AMP monthly data is super interesting

According to AMP's technical superannuation adviser support team, accessing super and understanding the conditions for release was the key issue financial advisers helped their clients with last month.

Data from more than 2000 calls made by advisers in February showed a spike in queries about early access to super.

Other key issues being raised by financial advisors in February included:

- how much can be contributed to super through non-concessional contributions
- how transition to retirement pensions work
- understanding how the superannuation death benefit works
- understanding how total and permanent disability insurance works within superannuation.

MetLife panel discusses mental health

Speaking at the MetLife Panel Discussion on Mental Health in the Workplace in Melbourne, Margo Lydon, SuperFriend CEO said: "Insurers and super funds are seeing more and more mental health claims, but they mustn't overlook the wellbeing of their own people. With a quarter suffering high stress and a third concerned about job security, financial services workers are a vulnerable group."

Mark Raberger, MetLife chief claims officer and panel facilitator said that for claims assessors particularly, it can be stressful helping a customer through this difficult time, which is why training for these employees is so important – both in terms of providing a caring experience for customers, as well as protecting their own mental wellbeing.

Raberger also said: "At MetLife, we've seen a substantial increase in Mental Health claims, with 25 per cent of our income protection and 21 per cent of our total and permanent disability claims having a primary mental health-related cause. This has effectively doubled over the past six years and it is likely to continue to increase if we don't take action."

Lydon also said, "Financial services organisations need to apply best practice to their workplaces if they have any hope of supporting their customers. Look at your policies, capabilities, leadership, culture and connectedness, and think about if they are truly giving your people what they need."

ASFA & National Rural Women's Coalition Ltd (NRWC) Superannuation Simplified Webinar

ASFA Learning is conducting a lunchtime learning webinar on the 10th April 2019 for the NRWC, a national not for profit organisation that seeks to connect rural, regional and remote (RRR) women with government and policy makers. The webinar will provide attendees with the knowledge and skills to understand and effectively manage their superannuation. ASFA is proud to support the NRWC in their work towards:

- greater participation of women in the workforce
- positive life-long economic security for women
- reduction of domestic violence.

To find out more visit www.nrwc.com.au

ASFA SUBMISSIONS

ASFA's policy team has been working on a number of submissions lately. The most recent are:

- Submission to The Treasury
  Protecting your Super package regulations and explanatory materials consultation paper
- Submission to The Treasury
  ASFA response to Consultation Paper: Review of the early release of superannuation benefits
- Submission to the Senate Economics Committee
  Inquiry into Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018
- Submission to the Australian Law Reform Commission
  - Review of the Family Law System – Discussion Paper 86 – issues with respect to superannuation
- Submission to the Productivity Commission:
  - ASFA response to the Supplementary Paper – Investment performance: Supplementary analysis
- Submission to the House of Representatives Standing Committee on Economics:
  - Inquiry into the implications of removing refundable franking credits
- Submissions to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry:
  - Response to the Interim Report – issues with respect to regulation and the regulators
  - Response to Round 6 insurance in superannuation policy questions
  - Response to Round 5 superannuation policy questions
- Submission to the Treasury on the work test exemption for recent retirees – draft legislation and regulations

INDUSTRY MOVEMENTS

REI Super CEO to step down

REI Super has announced that long-serving CEO of REI Super, Mal Smith, will be stepping down from the role later in 2019. REI Super chairperson Claire Higgins said that Smith has elected not to pursue another contract renewal with the fund, as he would like to explore new professional opportunities.

"Mal has been the driving force behind REI Super's growth and stability for the last 15 years and has successfully steered the fund through countless changes and challenges in the superannuation industry and the broader economic environment," said Higgins.

Smith thanked the REI Super board, trustee staff and service providers and the fund's members and employers for their support.

"I've really loved this role and I've been energised and supported by the team around me and by our members and employers. Our members have a real passion for the real estate industry, which is inspiring," said Smith.

Vision Super announces new chief risk officer

Vision Super, has welcomed Nikki Schimmel who has taken up the new position of chief risk officer.

Schimmel joins Vision Super from LUCRF Super, where she was chief risk and compliance officer for over seven years. Prior to this she worked for KPMG for more than a decade.

"Nikki has joined Vision Super to oversee the risk and compliance functions," Vision Super CEO Stephen Rowe said.

"The last few years have seen an unprecedented pace of legislative and regulatory change, and the Productivity Commission and Royal Commission final reports look set to increase that pace even further.

"We're delighted to welcome Nikki to the team," Rowe said.

Mine Super appoints new CIO

Mine Super has announced the appointment of Seamus Collins to the role of chief investment officer (CIO), effective Monday 1 April.

This follows him successfully taking on the acting CIO role following David Bell's departure in December 2018.

Collins joined the fund in November 2017 as executive manager, portfolio implementation following over a decade with JP Morgan Chase Bank N.A. in their superannuation segments, as well as various senior management roles with the Australian Securities Exchange and Australian Stock Exchange.

legalsuper expands member service capability

legalsuper has continued expanding its member service team with the appointment of experienced superannuation industry professional Sophie Harris into a newly-created client service manager role in Melbourne.

legalsuper's chief executive Andrew Proebstl, said Harris' appointment brings the number of new, member-facing appointments to nine, made in less than three years and is in direct response to member and employer feedback.

Harris joins legalsuper after more than five years with industry fund LUCRF and a professional career of more than 18 years. She has post-graduate qualifications in financial planning and additional qualifications in training and assessment.

Westpac announces executive changes

Westpac has announced that BT Financial Group (BTFG) chief executive Brad Cooper will depart following the businesses' realignment into the consumer and business divisions.

Westpac Group chief executive, Brian Hartzer, said "Brad is a highly-regarded executive, whose contribution to the Group over the past 12 years spans roles including CEO of Westpac New Zealand, leading the transformation and integration of the St.George merger and chief executive of BT Financial Group."

In other re-organisation of group executive responsibilities, Westpac also announced that its consumer division will be led by the current business bank chief executive David Lindberg. Also, consumer bank chief executive George Frazis will leave the Group to pursue other leadership opportunities.


MLC Life appoints new chief of group and retail partners

MLC Life has appointed Sean McCormack as chief of group and retail partners in March 2019, after serving as the company's chief customer officer, retail insurance.

Prior to this, McCormack was chief operating officer, responsible for operations, technology and enterprise program management office. In this role he was the executive sponsor for the program to re-platform MLC Life's technology systems as part of the divestment from NAB.

McCormack replaces Suzanne Smith, chief customer officer, Group Insurance, who left after accepting a senior role in the superannuation team at APRA.

TAL appoints chief commercial officer following Suncorp life insurance

Following TAL's announcement of the completion of its acquisition of Suncorp's Australian life insurance business, TAL has appointed Andrew Howard to the newly created role of chief commercial officer. In this role, he will be responsible for the performance of the (former) Suncorp Australian life business as well as supporting employees as they transition to TAL. Prior to his role at TAL, Howard was the chief operating officer and Interim CEO at Rest.

TAL Group CEO and managing director, Brett Clark, said, "We are delighted that Andrew has joined the team to manage the integration of Suncorp's Australian life insurance business. Andrew has a strong track record of leading growth and transformation programs, and engaging people through times of change."

Rest appoints new group executives

Rest has announced the appointment of two new group executives: Tyrone O'Neill will join the fund as group executive, member engagement, and Brendan Daly as group executive, product and operations. Member engagement, and product and operations are both new groups formed as part of the refreshed internal structure announced in late 2018.

O'Neil and Daly join other recent appointments to lead Rest's new internal groups: Gemma Kyle, group executive, corporate services; Deborah Potts, group executive, employer, industry and engagement; and Trevor Evans, group executive, people and change. Recruitment continues for the remaining position of group executive, innovation and transformation, with an appointment expected in the coming months.

AMP announces retirement of Geoff Roberts

AMP has announced that Geoff Roberts will retire from its board at the conclusion of the 2019 annual general meeting (AGM) on Thursday, 2 May in Sydney.

Roberts joined the board in July 2016 and has been chairman of the audit committee since that time. He has also held positions as a member of the risk and remuneration committees and as a non-executive director of the AMP Life board. More recently, he was appointed to the AMP Bank board, as chairman of the AMP Bank audit committee and as a member of the AMP Bank risk committee. Following Roberts' retirement, Andrea Slattery will be appointed as chairman of the AMP Limited and AMP Bank audit committees.

APRIL 2019

02 TUE — **VIC I WA** Risk and Compliance Discussion Group	03 WED — **Sydney** Budget Briefing	04 THU — **Brisbane** Budget Briefing **VIC** Fund Taxation Discussion Group
05 FRI — **Melbourne** Budget Briefing	08 MON — **Perth** Budget Briefing	09 TUE — **Adelaide** Budget Briefing **NSW** Legislation Discussion Group
16 TUE — **VIC** Member Insured Benefits Discussion Group **VIC** Investment Discussion Group	24 WED — **VIC I WA** Member Services Discussion Group	29 MON — **VIC** Legislation Discussion Group
30 TUE — **VIC I NSW** SMSF Discussion Group		

Events | Learning courses | Discussion Groups | *Superfunds* deadlines

See the ASFA website for more information/to register. Dates subject to change.

MAY 2019

- **01 WED** — **VIC | WA** Risk and Compliance Discussion Group
- **02 THU** — **Melbourne** Spotlight on Risk and Compliance in Super; **VIC** Fund Taxation Discussion Group
- **09 THU** — **Melbourne** Core Governance for Superannuation
- **14 TUE** — **NSW** Legislation Discussion Group
- **16 THU** — **Melbourne** Super Governance Masterclass – Information Security
- **20 MON** — **VIC** Legislation Discussion Group
- **21 TUE** — **Sydney** Super Governance Masterclass – Information Security
- **22 WED** — **Melbourne** RG 146 Superannuation Three-day workshop
- **23 THU** — **National** Financial Crime Discussion Group
- **28 TUE** — **NSW | VIC** SMSF Discussion Group
- **29 WED** — **VIC | WA** Member Services Discussion Group; **QLD** General Discussion Group
- **30 THU** — **Brisbane** Super Governance Masterclass – Information Security

A matter of control

Ross Clare
Fellow of ASFA

ASFA Director of Research

In recent weeks there has been media and other commentary about the role of superannuation funds as investors, particularly what they are doing and may do in terms of influencing decisions made by the boards and management of Australian listed companies. Some commentators see superannuation funds playing an activist role, even displacing the traditional owners of control, that is, men of a certain age who belong to upmarket clubs in Melbourne (or Sydney) and who sit on multiple company boards. Certainly, superannuation funds are becoming increasingly significant investors in Australian listed companies and other investment classes.

Over the fifteen year—from 2004 to 2019—super fund assets in aggregate increased a bit over four times the 2004 level, while the market capitalisation of the ASX is around 2.5 times what is was 15 years ago.

Growth in super fund assets is likely to continue to outstrip growth in the ASX market capitalisation. Market capitalisation of the ASX tends to grow in line with growth in GDP, but super fund assets are projected to grow from the current level of around 150 per cent of GDP to 170 per cent of GDP by 2030.

The increase in super assets relative to ASX market capitalisation has led to, and will continue to lead to, super funds adjusting how they invest.

In 2004 super funds held shares equivalent to around 25 per cent of the ASX market capitalisation, with this percentage increasing to a relatively modest amount to 31 per cent in 2019. Super funds do not dominate investments in the ASX.

Funds have cut their allocation to domestic listed shares from 33 per cent to 22 per cent on average over the 15 year period and the allocation is likely to fall further in the future. By 2030 superannuation funds are likely to still own less than 35 per cent of the overall market capitalisation of the ASX.

Super funds have been looking for the best available investments and the benefits of diversification.

They have increased allocations to international shares, infrastructure, hedge funds, unlisted equity, and unlisted property amongst other things. This has at times led to concerns by the traditional owners of super normal profits from private equity, that is, overseas based hedge funds and venture capital funds.

The superannuation sector is not very concentrated relative to other parts of the financial sector, with even the largest funds responsible for less than 5 per cent of total assets under management, with domestic shareholdings equivalent to less than 2 per cent of ASX capitalisation.

Although sometimes super funds will vote in similar ways, this is usually on the basis of advice from advisory bodies and is based on improving corporate governance getting the best possible outcomes for shareholders and fund members.

Super funds take their responsibilities as shareholders seriously, applying appropriate corporate governance principles to how they vote and deal with companies. While this is not always a comfortable experience for company boards, responsibility to shareholders can and does lead to better outcomes for companies and their shareholders.

Integration of ESG considerations into investment decisions is hardly anything new, but just how far trustees should go is a matter for debate.

The underlying arguments about the duties and responsibilities have bounced about ever since the case of Cowan v Scargill back in 1985.

It is clear that factors which will impact on the future financial performance of an investment can properly be taken into account by trustees. Bad corporate governance or investment in areas where future developments, if unchecked, will lead to poorer financial outcomes are examples of this.

A bit trickier is when future developments are already built into the price of an asset, or where ethical concerns loom stronger than financial.

Not investing in a company that relies on forced labour in an overseas country may seem clear enough on the financial and other risks involved, but other situations are less clear cut. What about an investment in a company that pays poorly overseas and locks its workers into firetraps to avoid stock being pilfered? What about a company that is flouting local employment laws? What about a company that is lawfully replacing employees with contractors?

One thing is clear; debate and discussion about the proper role of superannuation funds as responsible investors will continue in the months and years ahead. SF

Spotlight on Insurance

Sydney

25 February

Photography:
Ingrid Ansted


Richard Millington and David Lugsdin


John Pedersen and Jenny Oliver


Hannah Bush and Victoria Simpson


Tyson Johnston and Matthew Larkin


David Barton and Meagan Birch

Waheed Rahman and Leon Blair


Sally De Freitas and Michael McCormick


George Stavliotis and Maria Falas

rules and regs

Implementing the Royal Commission recommendations

JULIA STANNARD reports on recent legislative and regulatory news and developments affecting the superannuation industry.

April sees the industry continuing to work through the fallout from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. While any substantive legislation will be delayed by the upcoming election, the Government has moved to commence the process of implementing the Commissioner's recommendations. A number of consultations are underway — or already concluded — on the Government's proposed response to specific recommendations.

APRA CAPABILITY REVIEW

The final report from the Royal Commission recommended that APRA and ASIC should each be subject to at least quadrennial capability reviews, with a capability review to be undertaken for APRA as soon as reasonably practicable (recommendation 6.13).

In its earlier responses to the report, the Government accepted the recommendation, committed to a capability review of APRA in 2019, and appointed a review panel chaired by Graeme Samuel AC. The Government indicated that it anticipated the panel would specifically consider APRA's capability to regulate superannuation entities for the benefit of members.

In mid-March the review panel released its terms of reference, seeking submissions from interested parties. The terms of reference state that the objectives of the review are to:

- assess APRA's capability to deliver upon its statutory mandate under the Australian Prudential Regulation Authority Act 1998 and relevant industry acts
- undertake a forward-looking assessment of APRA's ability to respond to an environment of growing complexity and emerging risks for APRA's regulated sectors
- identify recommendations to enhance APRA's future capability, having regard to the changing operating environment and any relevant organisational initiatives which are already underway.

The terms of reference require the review panel to evaluate the extent to which a number of factors support APRA to deliver its statutory mandate. These include:

- strategy, decision-making and culture
- internal governance arrangements, resource allocation and staffing
- processes and outcomes across APRA's core supervision, policy and resolution functions
- appropriate engagement with Australian financial sector regulators
- fit-for-purpose statutory powers.

The panel is also required to take into account relevant recent reviews and reports as they relate to APRA. Submissions close on 10 April and the review panel will report to the Government by 30 June.

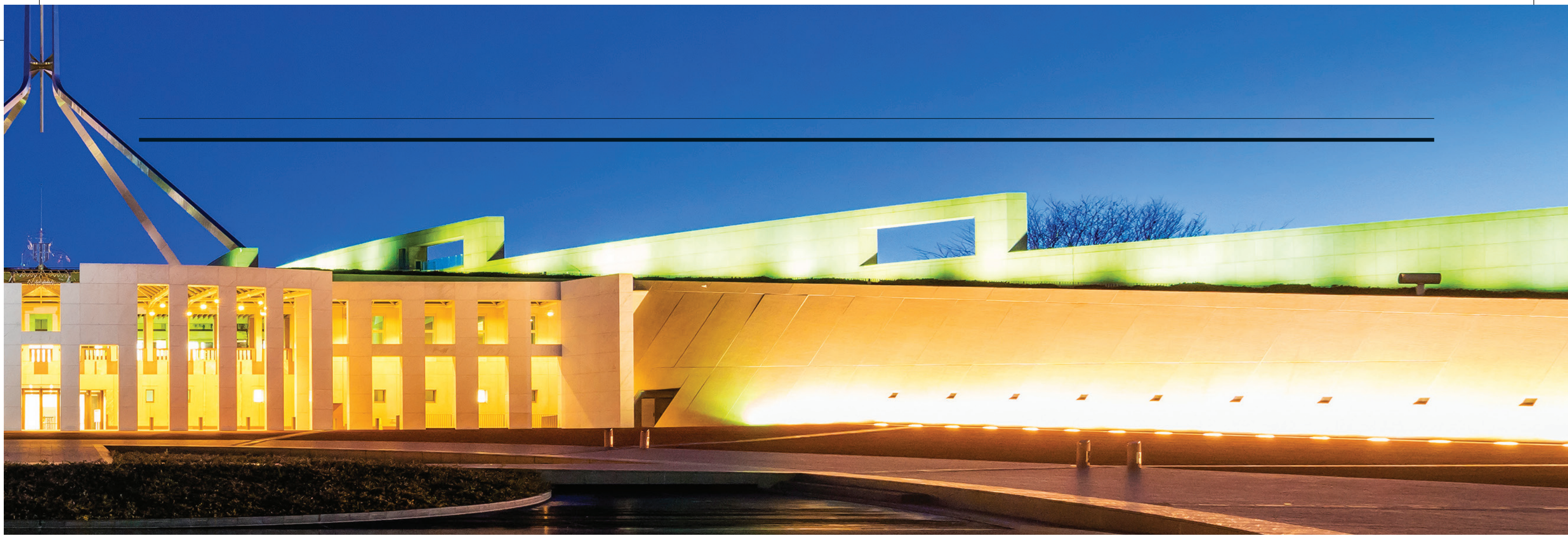
ENFORCEABILITY OF FINANCIAL SERVICES INDUSTRY CODES

The Royal Commission recommended that certain provisions of financial sector codes should be 'enforceable code provisions' and that ASIC should have additional powers to approve and enforce code provisions (recommendation 1.15).

In its response to the Royal Commission, the Government agreed to take action in relation to 'enforceable code provisions', and supported industry and ASIC acting on the other recommendations concerning existing industry codes.

Treasury has released the consultation paper Enforceability of financial services industry codes: Taking action on recommendation 1.15 of the Banking, Superannuation and Financial Services Royal Commission. The paper sets out a series of questions which will inform the development of legislation to enact the Government's commitment to implement recommendation 1.15.

The paper also sets out further information on the current code framework and Government-mandated codes, and deals with the recommendations of the ASIC Enforcement Review Taskforce and the other Royal Commission recommendations in relation to codes. Submissions close on 12 April.



AFCA: EXTENSION OF REMIT FOR 'LEGACY COMPLAINTS'

The Royal Commission recommended that the Government establish a compensation scheme of last resort for the financial services industry (recommendation 7.1). The Government accepted that recommendation but has not yet provided any further detail about its proposed compensation scheme. The Government's initial response did, however, commit to requiring the Australian Financial Complaints Authority (AFCA) to consider disputes dating back to 1 January 2008, which had not actually been recommended by the Commission.

In late February the Government made the AFCA Scheme (Additional Condition) Amendment Authorisation 2019 to commence the process of extending AFCA's remit to consider these 'legacy complaints'. The direction requires AFCA to permit an eligible person to make a complaint if that complaint:

- relates to a compulsory member of the AFCA scheme who is a member of the AFCA scheme at the time the complaint is made
- is not an 'excluded complaint'
- is not otherwise excluded by the AFCA rules (other than because of a time limit in the scheme rules)
- is made to AFCA during the period 1 July 2019 to 30 June 2020.

The definition of 'excluded complaint' specifically excludes complaints about conduct that occurred and ended before 1 January 2008, as well as complaints in relation to which a decision or determination has been made by a court or tribunal or under a predecessor scheme or AFCA. Importantly, the definition also excludes "a complaint in relation to a superannuation death benefit", but no other types of superannuation complaints (for example, disability complaints).

In mid-March, AFCA released a consultation package comprising a consultation paper, proposed change to its rules to extend its remit, and a draft update to its operational guidelines. The latter confirms that some superannuation complaints will be eligible to be considered as legacy complaints under AFCA's expanded remit. Submissions close on 12 April.

INSURANCE CLAIMS HANDLING

The Royal Commission recommended that the definition of 'financial service' be expanded to specifically include handling and settlement of insurance claims (recommendation 4.8) and stated that it should not be unreasonable to ask an insurer to handle claims efficiently, honestly and fairly.

The Government accepted this recommendation but acknowledged there are industry concerns with the removal of the exemption leading to a number of unintended consequences — for example, claims handling staff may be deemed as providing personal financial advice.

During March, Treasury sought submissions on a consultation paper, Insurance claims handling – taking action on recommendation 4.8 of the Banking, Superannuation & Financial Services Royal Commission. The paper addressed a number of questions relevant to the recommendation. Submissions closed on 29 March.

ENDING GRANDFATHERED CONFLICTED REMUNERATION

The Royal Commission recommended that the grandfathering arrangements for conflicted remuneration in relation to financial advice provided to retail clients should be removed as soon as is reasonably practicable (recommendation 2.4). The Government announced that it would end grandfathering of conflicted remuneration to financial advisers effective from 1 January 2021.

Treasury has conducted a consultation on draft legislation to achieve this outcome. The draft legislation:

- removes the grandfathering arrangements for conflicted remuneration and other banned remuneration from 1 January 2021
- enables the regulations to provide for a scheme under which amounts that would otherwise have been paid as conflicted remuneration are rebated to affected consumers.

Submissions closed on 22 March.

The Government's response to the Royal Commission also indicated it would commission ASIC to monitor industry renegotiation of current arrangements to remove grandfathered conflicted remuneration to ensure that any benefits flow through to clients ahead of 1 January 2021. The Australian Securities and Investments Commission (Investigation into Grandfathered Conflicted Remuneration for Financial Advice) Direction 2019 has been issued to give effect to this response. The Direction commences on 1 July 2019. SF

Unpacking insurance

The Royal Commission has signalled the need for super and insurance to take a strong look at the way it operates and establish a new benchmark around community expectations.

MICHELLE DUNNER looks at whether Kenneth Hayne's six principles are the roadmap to better culture and governance within the superannuation industry.

In an era where governments and regulators have signalled zero tolerance for any failings by financial services organisations, how can superannuation set itself up to meet the challenges of the post-Hayne world. Indeed, what will success look like?

In the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Commissioner Hayne handed down 76 recommendations that both sides of politics said they would support, and no doubt organisations will be moving to implement reforms and tick these off their list. But is there greater value for superannuation to focus on his six principles in terms of creating a stronger and more transparent industry?

The ASFA Spotlight on Insurance unpacked the Royal Commission and looked at the journey on which superannuation needs to embark to ensure the industry delivers for its members.

With an opening address from Deanne Stewart, chief executive of First State Super, and a robust panel discussion also featuring TAL chief risk officer Anne Clarke, and Rice Warner's executive general manager of insurance Jenni Baxter, the session acknowledged that super and insurance has work to do to meet criticism, regain trust and continue to develop good public policy outcomes.

DELIVERING ON COMMUNITY EXPECTATIONS

Deanne Stewart said the clear message from the Royal Commission is the need for insurance in super to deliver on community expectations.

"As we think of that, and setting the standards or the benchmark for the industry, it's important to recognise the purpose of superannuation and the role insurance plays inside that, whether in default mode or not.

"If, as a result of the Royal Commission, insurance hawking and commissions get dialled back, there may be quite a role for us to play for insurance inside super that is not default. It certainly warrants thinking about. And we clearly need to reinforce the benefits. This is a critical part of all the debates and discussion of insurance inside super."

Stewart called out three specific challenges for insurance within super from the Royal Commission. "One is affordability – as an industry we try to pre-empt that and it's certainly a core element of the insurance in super code. The second is account erosion, which is being tackled by the Code and also what comes out of the Protecting Your Super package.

"So, what are the community expectations here? What are we hearing from the great majority of 21 year olds? How do we make sure we actually stand up for them as opposed to protecting any vested interests.

"And the third is helping members make informed decisions. I'm sure if you stood around a barbecue and you turn to your family and friends and ask: 'are you exactly aware of what insurance you've got inside your super?' it would be miraculous if they could tell you. But if you followed that up with: 'can you define when you would or wouldn't be able to get TPD?', the conversation wouldn't go much further.

"So how do we make it simple? How do we make it more standard, possibly, so the average Australian worker can get to grips with what they have inside their superannuation? We have a code in place, which touches on more timely complaints handling as an example, but the Royal Commission is looking to take that further in terms of making it law. It's great to have a code but if everyone's breaching it how can it be enforceable and how does it lead to stronger member protections and rights?"

SIX KEY PRINCIPLES TO GUIDE BEHAVIOUR

Given the work the super industry has already commenced to address, affordability and account erosion in particular, Stewart believes Commissioner Hayne's preamble to the report—featuring six key principles—is of significant value for the industry.

"Does there need to be a whole bunch of laws changed, or powers increased? I would challenge us to think about what his six principles mean for our industry and how we can use them to guide us to a higher order of behaviours, standards and benchmarks that we set," Stewart said.

She outlined Hayne's six principles and what they mean in the context of superannuation.

- **Obey the law**
  "This could be taken to mean, which we saw in many cases across financial services, to do the minimum. But actually, obey the law could mean well above that in terms of the integrity and ethics of our industry."
- **Do not mislead or deceive**
  "Our terms need to keep up with that. Rather than be very technical, we need to look at this through the eyes of our consumers. Again, there's a higher order principle here."
- **Act fairly**
  "Financial services needs to act fairly, honestly and efficiently."
- **Provide services that are fit for purpose**
  "Default insurance inside super – is it fit for the purpose of superannuation? Is it fit for every age group?"
- **Deliver services with reasonable care and skill**
  "Are we making sure we have the highest-qualified people working in underwriting and claims, delivering reasonable care and skill?"
- **When acting for another, act in the best interests of that other**
  "As we're setting our standards, as we're setting the next iteration of the Code, do we have this at the heart?"

THE WAY FORWARD

Doubling-down on efforts to ensure compliance with the Code is of paramount importance, Stewart believes. "We need to do that as quickly as possible because there's a huge expectation that we get this right.

"Then, as community expectations become the norm, how might we use a more principle-based approach to better guide our actions?

"The way the Code is written today is quite prescriptive but are we clear about the principles that should be governing insurance inside super? Should we look at this from an industry level rather than a fund level? From First State Super's perspective, we're certainly working on it to ensure our members are clear on our principles and that's what they can judge us by.

"We also need to lead the way in articulating how our contract with members should be enforceable. I've been on the other side of the fence and I've seen general agreement that it should become enforceable, so let's lead the debate on that."

So, where do we start in terms of simplification? Is it the product, the process or the definitions and terms? Stewart said while many consumers are used to instant gratification, an average TPD claim takes anywhere between four and six months. "There's plenty of room for innovation there. As this relates to letting most members know what they're entitled to with their insurance inside super, I'd probably start with terms. I think a lot of Australians are very confused about what they've got and when they can or can't claim.

"First State Super has the most amazing member base – teachers, nurses, police officers, firies. We have the carers of society. Success for me would be that those who genuinely claim, are able to do so really easily, really efficiently.

"And for those that actually want a little bit more cover and top up, that there's a great way for them to do that too. I want all members to be aware they've got insurance and actually be happy with it, to look at more, or tell us they don't need it. Lifting the bar on that awareness and simplicity is key for me."

EDUCATING YOUR MEMBERS

Session chair Martin Fahy asked TAL's Anne Clarke what is standing in the way of achieving what Stewart characterised as success for her fund.

"It's a challenge we all know very well, to get our members engaged with what they actually have," Clarke said. "But when Deanne talked about the barbecue conversation, we're faced with a lot of people having absolutely no idea that they even have insurance in their superannuation. They can't tell you how much money they have in super and don't know the benefits provided. They only engage when something happens and need to find out.

"I think we're in a better place than we were, say, five years ago (in engaging with members) but the challenge remains for members to understand what they have, whether it's appropriate or if they need to dial it up or down."

Clarke agrees with Stewart regarding adopting Hayne's six principles. "They need to be at the centre of everything you do; take those principles and apply them every day. Then your customers will be at the centre of everything." SF

> They [Hayne's six principles] need to be at the centre of everything you do; take those principles and apply them every day. Then your customers will be at the centre of everything.
>
> Anne Clarke, TAL

The impact on cost

In terms of the likely impact on the configuration of insurance inside super in the post-Hayne environment, Jenni Baxter said Rice Warner has been looking at the risk pool and the likely impact on premiums. Will the Hayne report fundamentally change the current offering in terms of price or product features?

"There is a number of changes in the Royal Commission report that will nudge things to be in favour of claimants and possibly absolutely rightly so. These are extremely difficult to estimate. We like to have a bit of data to work from, but we don't have any on some of these things," Baxter said.

"One of the other big things that came out is the recommendation that Treasury, in consultation with the industry, explores and determines the practicality and likely pricing impacts of these universal terms, conditions and exclusions.

"To put this into context, we looked at 73 default products, the number of exclusions that are in play and the number of products that use them – and they're all over the shop. Sixteen percent of those default products don't use any exclusions at all.

"Then, if we drill down into one of them, even within the exclusions, the wordings are very different and that could potentially mean a very different impact at claims time.

"So we have a lot of variation right now, and if the industry wants to retain some or all of that, it's going to need to put forward a very carefully considered response, and the message can't be: 'the reason we have all this variation is because we just can't agree.' We've got to actually really think about it, and look at where it's appropriate to standardise; there are pros and cons of standard definitions for sure.

"The pros are generally trying to make a complex product more simple. If you've got a member who's making multiple claims for default products, and they've got different terms, and definitions and exclusions, that must be totally confusing for a member. If we had one set of universal terms, how easy would it be for your claims teams? How much easier would it be to engage with medical practitioners? So it's a very sensible question to ask.

"On the other hand, the group industry has funds which still have very specific demographics. What may represent material risk for one fund may have an immaterial pricing impact on another. So, if we go to the extreme of standardised definitions, and terms and exclusions, some funds will have premium increases, some funds will have premium decreases.

"At the extreme end we may get into a situation where if we do have a spike in claims, possibly following another economic downturn, the only lever to pull in the short term is price."

Communicating **value**

While the ramifications from the findings of the Hayne Royal Commission continue to be felt, insurers and trustees are working to put systems and processes in place to help staff raise the level of engagement and build customer trust.

ASFA's Spotlight on Insurance in Super event held last month touched on the critical issue of looking after the most vulnerable members of the community. One of the big takeaways from the day was the significant opportunity that exists for the industry to reinvent traditional perceptions about the value and role of life insurance.
By STEPHANIE PHILLIPS.

RAISING AWARENESS

As an industry under immense scrutiny, life insurance faces low levels of engagement and financial literacy which reinforce the misconception that the only benefit insurers provide is the payment of claims.

It is not uncommon for insurers to discover that customers do not value life insurance until they understand it. This is often the case with disadvantaged members of the community – often the members of society who would most benefit from having life insurance. Group insurance is valuable as it helps to protect those who are less likely to be able to afford it or otherwise seek it out.

Currently here is a clear gap in awareness for members, many of whom do not understand their default insurance cover or are even aware that they have it. This can mean that cover does not meet the members' needs or that they fail to take advantage of it when they can claim.

AIA research has found that awareness is low – only 3 in 10 working Australians know they have insurance in their super. However, once aware and informed, 75 per cent think it is valuable.

It is imperative that the insurance industry works diligently to shift consumer views away from a model focused on the payment of claims, to one with a broader agenda paying attention to community engagement and the health and wellbeing of its customers.

To achieve this, insurers need to change the way they operate—from being a provider that not only helps customers during their time of greatest need—to also delivering value as soon as engagement begins, to become a long-term, trusted and engaged partner.

IMPROVING RELEVANCE

Despite the changing consumer landscape, life insurance remains a complex financial product and it is imperative that insurers and trustees improve the lines of communication with customers to ensure policies are explained and understood. Insurers work in close partnership with trustees and are making greater efforts to support them to improve the relevance of the product to the consumer.

Steps are also being taken to simplify insurance products and definitions, so they are not laden with jargon and legalese.

There is increasing awareness of the growing need to design products that cater for the changing nature of employment in the 21st century. Historically, products have been designed for a more permanent workforce, but the shift towards more casual and contract labour, as well as the gig economy, means that traditional products need to evolve to stay relevant and cater to the current working environment.

CUSTOMER CENTRICITY

Increasingly, insurers are talking about greater customer engagement or "customer centricity" as a foundation of business, brand and marketing strategies. By developing a genuine understanding of customer needs and concerns, customer centricity can harness the power of data, digitalisation and segmentation to connect and engage with customers.

Further empowerment of customers can be achieved through the greater use of digital channels which open other avenues to engage and interact.

Digital transformation and heightened awareness around health issues are driving increased interest in personal fitness and wellbeing. By connecting with customers via wearables

and other sensor devices, insurers can build deeper and more significant levels of engagement. Hyper connectivity and smart technologies are revolutionising the industry, allowing companies to tailor risk. This not only improves efficiencies but allows insurers to focus on customers on an individual basis, which will be particularly beneficial to those requiring special attention.

By undergoing a thorough digital makeover, insurers can safeguard themselves over the long term to further transform and enhance the customer experience. A comprehensive digital strategy will provide flexibility, efficiency and agility to respond to industry changes and increased consumer demands.

Digital transformation and heightened awareness around health issues are driving increased interest in personal health and wellbeing.

Giving customers the knowledge, tools and motivation to improve their health is a great way to transform customer engagement in the insurance industry. AIA's Vitality programme, for example, encourages customers to keep track of their health and fitness activity by incentivising healthier choices; offering rewards and discounts for adopting a healthy lifestyle. Relying on data science, capturing physical activity data via seven different methods, integrating with over 100 different wearables and free apps, Vitality helps members learn more about their health to improve their wellbeing.

Once members sync their wearable device with the programme, valuable synced data drives the AIA Vitality 'active benefit' where members receive $5 every week for hitting their active targets. When members hit their weekly target, they can choose to receive a voucher or gift it to a charity.

These types of benefits incentivise and motivate members to be healthy and get rewarded for their efforts. They also allow data scientists to generate insights such as reporting a 32 per cent increase in members' exercise intensity following the introduction of Vitality.

In turn, the adoption of a healthy lifestyle will typically lead to fewer claims and better return-to-work and wellness outcomes.

FURTHER EVOLUTION

Leveraging the latest technology is a critical part of the industry's strategy to deliver exceptional customer experiences and maximise the efficiency and productivity of operations.

There is significant upside from deepening relationships with existing customers and by attracting new ones. However, to capture this opportunity there is a need to pursue a customer-centric vision where insurers can gain a better understanding and continue to meet customer requirements.

A key enabler of this will be data capabilities which provide deep insights about customers that can be used to engage them, as well as to build and strengthen existing relationships.

To deliver on this strategy, insurers need to continue to evolve and invest in product innovation in order to maintain the status as a trusted partner and leader, so as to future-proof the business over the long term. SF

Stephanie Phillips is chief group insurance officer at AIA Australia

Under the microscope

A recurring theme amongst the raft of proposed changes—in the 2018-19 Federal Budget to the Royal Commission—has been insurance in super. Although there is strong emphasis to drive greater superannuation trustee accountability and appropriate retirement outcomes for the average Australian, one cannot help but question whether the continual amendments are building on, or detracting from, one another. By LOLA OYETUNJI.

The past year or so has been a significant one for the superannuation industry. From the May 2018 Federal Budget to the more recent Royal Commission into Banking, Superannuation and Financial Services – the industry has not escaped the attention of the Government, regulators, those with vested interests and even those who couldn't have cared less a year ago.

IN THE SPOTLIGHT

With the spotlight already on insurance, the Insurance in Superannuation Voluntary Code (the Code) was a reaction to growing calls for change. Released in December 2017, the Code proposed a cap of 1 per cent of salary on premiums for default cover and cessation of default cover after 13 months of no SG contributions, particularly for members with low balances.

To add to it, the most substantial superannuation changes announced within the May 2018 Federal Budget included those relating to insurance in super, under the Protecting Your Super measures. The key changes included the removal of default cover for members under age 25, members with balances less than $6,000 and members with inactive accounts (that is, no contribution received for 13 or 24 months depending on APRA or ATO rules). After much scrutiny from the industry regarding the unintended consequences of such changes that are likely to result in poorer outcomes for members, the Bill was recently amended and passed in February, to provide clarity on the definition of an inactive member (no contribution received for 16 months) and the removal of insurance for these inactive members.

However, the provisions removing default cover for members under age 25 and balances under $6,000 were cut from the Bill before it was passed, and reintroduced as a separate package, 'Putting Members' Interests First', in a separate Bill.

While it is unclear whether this new Bill will be passed given the forthcoming election, the removal of cover for certain categories of members may have an unfavourable impact on members who maintain their insurance cover in super. Due to the pooled nature of group insurance, the removal of any members from the pool is likely to result in higher premiums for the remaining members. KPMG's analysis suggests that the overall increase in insurance premiums could be as high as 26 per cent across the industry on average, depending on a fund's member demographics. Now, this impact seems counterintuitive, particularly given the release of APRA's Prudential Standard and Guidance on the assessment of member outcomes (SPS 515 and SPG 516), within which funds must substantiate the outcomes delivered to members, including the impact of insurance premiums on account erosion.

> "Due to the pooled nature of group insurance, the removal of any members from the pool is likely to result in higher premiums for the remaining members."

A COMMON GOAL

Although the consequences of the changes may be less than favourable for fund members, they have positively contributed to the degree of collaboration amongst industry stakeholders to strive towards a common goal – better outcomes for members. In light of the considerable effort required for implementation, there has been much activity in improving the working relationship between funds and insurers. As the industry awaits the passing of the 'Putting Members Interests First' legislation and many seek to comply with the Code, fund trustees have been working with their insurers to review their arrangements to provide more tailored insurance across member cohorts. Funds are expecting more from their providers to meet the requirements of the Code and to develop appropriate insurance designs for their membership. More advanced insurers have demonstrated to their clients the direct implication of product design changes on members by using artificial intelligence and digital interfaces to showcase global perspectives and provide insight into the local market for forecasting purposes.

There is no doubt the industry is undergoing a re-shaping as funds view the imminent changes as an opportunity to redefine the services they require from insurers and administrators. This has paved a progression towards a partnership approach where there is a greater reliance on both parties to collectively share strategic initiatives, challenge existing processes to build in efficiencies, coupled with an increasing focus on locking in technology roadmaps to deliver greater value to members. To achieve efficiencies in insurance administration, funds are removing the friction between the member, administrator and insurer by minimising the instances of double handling and creating consistency between various touch points to ensure the member is at the heart of the process. This has been further enabled by enhanced automation of processes, integration between portals and real-time reporting to improve the member experience.

EFFECTIVE ENFORCEABILITY

Further support is given to the provisions of the Code by both the recommendations made as a result of the Productivity Commission's inquiry into the efficiency and competitiveness of the Australian superannuation system and the recommendations following the Royal Commission. In its final report, the Productivity Commission shares the position that all funds should adopt the Code, recommending that the adoption of the Code should become a condition for fund trustees to maintain a RSE licence. Furthermore, the view is that the provisions of the Code should be strengthened, reinforcing that insurance for members under the age of 25 be provided on an opt-in basis, a provision that featured in the initial draft of the Code and was subsequently removed following industry consultation.

Insurance-related recommendations from the Royal Commission echo that of the Productivity Commission, including addressing related party concerns within APRA Prudential Standard SPS 250 and the matter of enforceability. The Commission recommends that legislation is amended to provide for enforceable industry code provisions, particularly the provisions that govern the terms of the contract made between the insurer and the policyholder. The proposal has received overall support from the industry, addressing the negative sentiment around the lack of enforceability that initially arose at the time the Code was released. However, the enforceability could potentially be redundant in terms of the removal of default cover provisions, given that the Protecting Your Super legislation extends beyond the Code and applies to all inactive accounts, regardless of balance.

COMMODITISATION OF INSURANCE?

Another issue that has caused some stir amongst the industry is the Productivity Commission's recommendation that key definitions and provisions for default MySuper offerings are to be standardised across funds to enable greater comparability. This is further reiterated in the Royal Commission Final Report. Whilst there is some merit in this recommendation (such as standardising a war exclusion definition) from a comparability perspective, there are additional ramifications to the recommendation that have yet to be thought through from not only a risk pooling and claims history perspective, but also what this will mean for funds that differentiate based on their insurance offering.

In its 'Royal Commission super insights' report, KPMG recognises the value of tailored insurance offerings for certain member categories and highlights the need for further consideration to be given to the impact on pricing, ability to tailor insurance designs, suitability for all default members and implementation factors.

This begs one to question the underlying motivation of the commoditisation of insurance by the Government. Perhaps it's a strategic move to trigger the progression towards a single default fund? SF

Lola Oyetunji is a manager at KPMG and a member of the ASFA Emerging Leaders, NSW Committee

State of **Super**

In part two of Superfunds' State of Super feature, set against the backdrop of the Royal Commission, Productivity Commission, regulatory changes and Protecting Your Super Bill, two key leaders share their perspectives on the current state of superannuation, some lessons learned and the outlook ahead.

State of Super

Anne Ward – Professional Company Director – Chairman of Colonial First State and Qantas Superannuation

Q: How would you sum up the current 'state of super' in Australia?
A: The word I can't get out of my mind is chaotic. It's a really, really crowded change agenda and some of the proposals are inconsistent with each other. Policy makers are grappling with a raft of recommendations from the Hayne Royal Commission and the Productivity Commission, the role and extent of insurance in super is being questioned, the drag of inactive and duplicate accounts is being tackled and a range of bodies such as the ACTU are seeking to exert greater influence over individual funds. Any one of these issues in normal times would be massive and there would be consultation, public discussion and debate, but we have got all those things happening at once. It is an extremely challenging time for trustees to figure out what they should be doing and how they should be shaping their fund going forward.

Q: What do you see as some of the challenges ahead?
A: As well as the volume of regulatory change, it is the politicisation of super. We know that large pools of money are tempting for any Government. I think we're at a point in time where the major parties have very different views of our superannuation system and that's leading to quite different policy responses and hastily prepared legislation. All of that contributes to ongoing erosion of public confidence in super which I think is a really big concern. It is also regrettable that no Federal Government in 25 years has been able to clearly articulate the purpose of compulsory super. This contributes to the policy confusion facing the industry.

Regulators have also been comprehensively criticised by Hayne, so ASIC and APRA, particularly, are under pressure and very keen to show they are a tough and effective regulator. That's likely to lead to a whole lot of litigation which may or may not help things. But there's also now a real lack of clarity around who is accountable – ASIC or APRA – for certain things. That pressure on regulators will also make for some really tough times. It's a really difficult environment which I don't see getting easier any time soon.

Q: How has corporate culture been impacted?
A: Culture is a hot topic in boardrooms at the moment. The APRA review of culture at CBA which came out last May was an absolute watershed. Every board I'm on – and, I know many, many other boards – took that review and did their own self-assessment.

One of the big lessons from that review was around complacency and arrogance and how a strength – in the CBA's case it was stellar financial performance over many years – could blind the organisation to a whole lot of other risks that were emerging, particularly non-financial risk.

A key issue regarding culture is how, as a non-executive director, do you understand and influence culture deep inside your organisation. Boards all over Australia are having this conversation now.

Q: How can trust be rebuilt?
A: The answer is not quickly. Earning trust firstly is about credibility, so you have to communicate simply and clearly. This is something super does badly; it's getting better but funds need to communicate with members in language they can understand. Secondly, it's about reliability –tell them what you're going to do, then do it. Consistently do what you say you will do. Thirdly, it's about intimacy. Talking directly to members as individuals and not in mass mailouts that treat them all the same. Fourthly, to paraphrase Hayne, you've got to put the interests of those you're representing first – so the whole concept of best interest versus self-interest. They sound deceptively easy but those four things need to happen.

Q: If I asked you question 1 in five years' time, how do you think the superannuation landscape will look?
A: That's a really, really tough question given all of the potential changes we're facing. I think Australia will still have compulsory contributions; that won't change. We will have a radically different retail or for-profit sector. It won't go away but it will be different. We will have increased consolidation in the industry fund sector so there will be fewer, larger funds. And self-managed super will still be around but some of the policy changes coming through, means it is going to become increasingly challenged.

Going back to the question of the purpose of super, from a fund perspective it is obvious: serve your members well and grow their retirement savings. It is all about the quality of life that members will have in retirement. I think the primary focus of funds needs to be to give members confidence in their financial future, not just chasing the highest returns. It's about giving members some sense of comfort, control and choice, to the extent they want it, around investments or increasing contributions. That's the job of a superannuation fund. I hope that purpose has become clearer in 5 years and that community trust in our superannuation system has been restored.

State of Super

Ben Walsh – Managing Director and CEO of Mercer Australia, and Zone Leader for Mercer Pacific

Q: How would you sum up the current 'state of super' in Australia?
A: The state of the industry currently is very busy, and everyone is thinking proactively about what the future might look like. But if you get on the balcony and away from that day-to-day business, I see a great opportunity before us. We have a very good retirement savings system in Australia and it would be great if some of the recommendations from the Productivity and Royal Commissions are implemented, particularly around multiple accounts and underperforming funds.

Q: What do you see as some of the challenges ahead?
A: For some in the financial services sector the main challenge is clearly about rebuilding trust with members. For most, however, transitioning to the new environment, whatever that form ultimately proves to be, will require a period of adjustment. Hayne's final report from the Royal Commission has been quite nuanced in that regard.

Q: How has corporate culture been impacted?
A: Culture is a funny thing. You can feel its effects within an organisation but it's hard to get your arms around it. The APRA report into risk culture at the Commonwealth Bank really prompted many boards across all industries in Australia to put a magnifying glass to the culture of their organisations. It quite rightly has put pressure on organisations and their boards to ensure their houses are in order. Many organisations are emphasising a strong culture of speaking up, and are rolling out training and internal awareness campaigns to reinforce this, along with general expectations of behaviour and what is celebrated within an organisation.

Q: How can trust be rebuilt?
A: To start rebuilding trust, there needs to be a balanced tone from the top of organisations that clearly puts members at the centre. Gaining trust requires actions – purposeful and meaningful actions focused on making the lives of members and investors better and driving better outcomes for them. They also need KPIs within the organisation that are focused on customer service. These are all things that can help.

Q: If I asked you question 1 in five years' time, how do you think the superannuation landscape will look?
A: Five years from now, after the changes have taken effect, we will see a marked reduction in unwanted multiple accounts within the industry which has already started to take place. We will see fewer funds. We will see tighter regulatory scrutiny, oversight and action, and probably more accountability for senior executives and trustees. Should they be elected, Labor's policy on refundable franking credits will change people's strategy and that may mean some SMSFs will be better off in APRA regulated funds. Retirement income products are going to be a stronger focus for funds. And, there will be more advanced technology for members to enable them to take a more self-service approach to managing their retirement wealth.

David Atkin – CEO, Cbus

The system doesn't need a fundamental overhaul. It's important therefore we don't throw the baby out with the bathwater. We do need to deal with the real problem of multiple accounts. There does need to be some sort of mechanism which enables automatic rollover. There does need to be a genuine end to conflicted remuneration.

Glen Hipwood – Executive General Manager, Strategy and Performance at QSuper

I've always been optimistic about the role the industry has played improving the retirement outcomes of our members and now that focus on the objective of the system has never been sharper. There are a few defining issues. In particular, the transformation of the industry over the next three years, as a result of the Productivity Commission and Royal Commission recommendations, as well as legislation before Parliament.

Michael Chaaya – Partner and Head of Financial Services at Corrs Chambers Westgarth

The current 'state of the super industry' could be described as evidencing significant goodwill from superannuation funds and their members. However, some parts of the industry are currently facing pressures to improve culture, increase accountability and to offer products that are in the "best interests" of their members.

Anne Ward - Professional Company Director – Chairman of Colonial First State and Qantas Superannuation

From a fund perspective it is obvious: serve your members well and grow their retirement savings. It is all about the quality of life that members will have in retirement. I think the primary focus of funds needs to be to give members confidence in their financial future, not just chasing the highest returns. It's about giving members some sense of comfort, control and choice, to the extent they want it, around investments or increasing contributions.

Ben Walsh – Managing Director and CEO of Mercer Australia, and Zone Leader for Mercer Pacific

Five years from now, after the changes have taken effect, we will see a marked reduction in unwanted multiple accounts within the industry which has already started to take place. We will see fewer funds. We will see tighter regulatory scrutiny, oversight and action, and probably more accountability for senior executives and trustees.

Key perspectives shared by industry leaders in *Superfunds*' State of Super series.

Keeping score

Can superannuation funds develop a portfolio resilience score for material sustainability-related risks? **JEFFREY CHEE** reports.

The focus of global regulatory pressure is shifting towards building resilience in the financial system against the impact of climate change and other sustainability-related issues. At a minimum, investors should be taking actions to avoid reputational risks and protect their "social licence to operate". This means showing evidence of considering sustainability-related risks in their decision making.

The pace of change in sustainability is accelerating. Smart beliefs, sophisticated measurement and thoughtful implementation are driving better investment practices. However, it would appear that most asset owners rely on asset-level or manager-level practices to manage sustainability risk. Is it possible to integrate sustainability-related risk management or, indeed, assess portfolio resilience, when making top-down or total portfolio construction decisions?

In the absence of a view as to whether the market is more likely to over or underestimate future outcomes, it is intuitively desirable to structure a portfolio so that it is resilient to as wide a range of economic environments as possible.

Similarly, a natural starting point for portfolio strategy is to look at resilience through the lens of potential sustainability scenarios that might occur. To assist this, we believe that a portfolio resilience "score" should be added to investors' definition of "portfolio quality".

So, what does that look like?

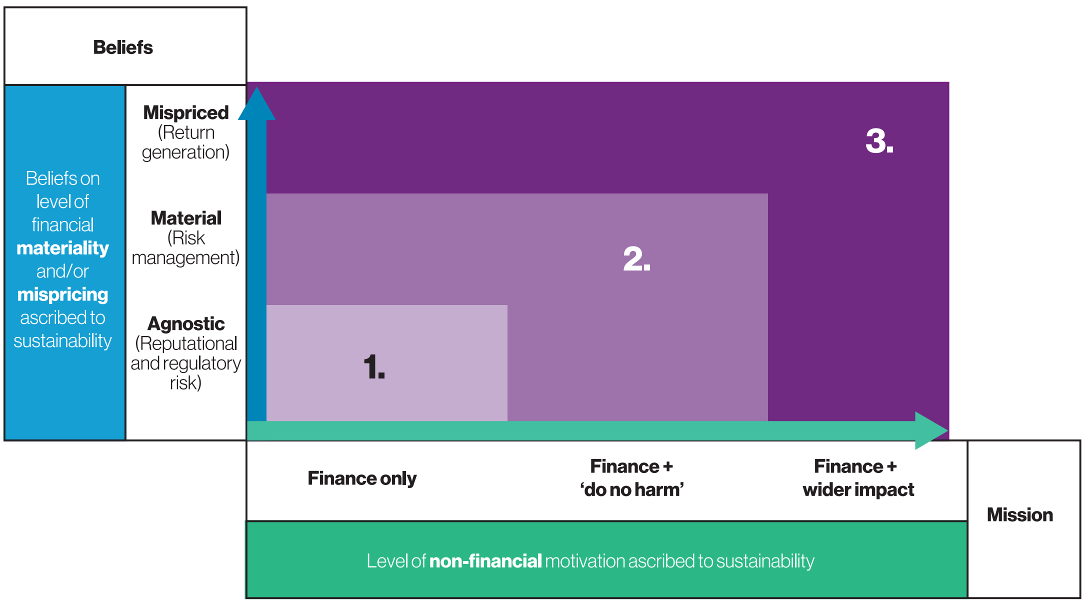
The assessment of a portfolio from a top-down perspective using only high-level asset class definitions is unlikely to provide a complete lens into the exposure of a portfolio to sustainability-related risks. Therefore, assessment of portfolio resilience will require bottom-up analysis. There are two key dimensions to portfolio resilience:

- **Materiality** – which sustainability-related risks are likely to be the most impactful?
- **Magnitude** – where there are material risks, how large are the exposures to these risks?

And in developing an approach for assessing portfolio resilience, four criteria should be applied:

- **Objective/data-driven** – the portfolio resilience score should, to the extent possible, be derived from objective data, rather than being dependent on subjective views for the evolution of individual risks
- **Systematic/repeatable through time** – the method should be largely mechanistic and able to be readily repeated over time on different portfolio configurations
- **Modular** – the method should be able to be applied at different levels of "depth" of the portfolio, to allow portfolio resilience to be assessed at different levels of granularity
- **Pragmatic** – the approach should involve a degree of effort both in terms of calculations and data collection that is commensurate with an investor's sustainability beliefs and the way in which the resilience score will be used.

To the extent that an investor has a belief that material risks are mispriced by the market, these views can be overlaid in order to identify and evaluate the size of sustainability-related return opportunities. The matrix below, depicts a



way of dimensioning investor sustainability-related beliefs to highlight whether the advantages that a particular investor perceives will be worth the effort. An investor that sits towards the bottom left of the matrix above will generally look to take a simple approach, whereas an investor that sits in the middle or to the top right of the matrix would benefit from a more sophisticated approach.

How a portfolio resilience score is used within an investor's process will depend on the extent to which non-financial motivation and/or beliefs relating to materiality and mispricing are ascribed to sustainability. It will also depend on the degree of sophistication of an investor's investment process, for example whether the investor allocates to discrete asset class or adopts a "total portfolio approach" where all investment opportunities compete against each other for scarce capital.

COMPARISON AGAINST A REFERENCE PORTFOLIO

Simplistically, the objective of portfolio construction is to maximise the utility of a portfolio to the investor, considering both its financial and non-financial characteristics. One way to think of is developing a portfolio that improves on a naïve reference portfolio through multiple lenses – any decision to allocate away from the reference portfolio should improve on the utility of the portfolio to the investor. Therefore, if an investor holds a portfolio that has greater exposure to sustainability-related risks than the reference portfolio there should be a supporting set of beliefs related to mispricing and/or a return hurdle.

An investor who holds beliefs that sustainability-related risks are material could and should implement extensions of this basic approach including:

Portfolio Quality

Portfolio quality refers to the extent to which a portfolio meets the needs of the end user, or members in a superannuation context, in both financial and non-financial terms. A balanced scorecard is the best way to assess portfolio quality and we use five lenses in our scorecards.

Efficiency	Efficiency refers to the level of compensation received for taking on investment risk (that is, return per unit of risk).
Diversity	By having as diverse an exposure to different return drivers as possible an investor is able to reduce its reliance on any one return driver as the primary "engine" of future return outcomes.
Robustness	Robustness refers to the ability of the portfolio to withstand the multi-faceted risks that may impair achieving the portfolio's mission. Robustness includes portfolio resilience.
Implementation	Funds with certain competitive advantages have the opportunity to access a greater opportunity set than the five primary macroeconomic return drivers (also known as "bulk betas"). The implementation lens also assesses whether the additional return received creates value after accounting for higher fees.
Peer risk	In order to deliver superior peer relative performance an investor needs to invest "differently" to its peer group, but this also creates exposure to the risk of peer-relative underperformance.

- Identification of the sustainability-related risks that a portfolio is most exposed to, and if there are any risks to which a portfolio is more exposed to than the reference portfolio. This analysis can also be run at the manager level and used to inform engagement with an investor's outsourced asset managers and help to understand these risks in more detail.
- Attribute the portfolio resilience score between different parts of the portfolios, such as at the asset class level. This would allow an investor to observe whether there are any particular parts of the portfolio that are large contributors to exposure to sustainability-related risk. This could in turn be used to highlight particular areas of the portfolio in the portfolio construction process.

A PRACTICAL FRAMEWORK FOR ASSESSING PORTFOLIO RESILIENCE

Having described the concept of portfolio resilience, what can be implemented today for most asset owners?

There are a number of issues that prevent the realisation of a full best practice vision for assessing portfolio resilience to sustainability-related risks; a number of the analytical tools are work in progress and/or some of the required data may be problematic to obtain. However, using data that should be readily available and tools that are already accessible, we believe that most asset owners can make significant progress today in assessing the resilience of their portfolios to sustainability-related risks. We suggest using these five steps:

Step	Suggested approach	Issues and Future improvements
1 – Data capture	• Capture data for each major asset class in the portfolio • Listed equities – obtain holdings level data • Diversifying strategies (alternative beta and hedge funds) – approximate underlying beta exposures • Credit – as per listed equities or diversifying strategies based on data availability • Illiquid assets – construct a proxy portfolio of listed securities from the relevant universe with the same country and sector mix	• Obtain full holdings data for non-listed equity investments – asset value, location (for real assets), sector/industry
2 – Materiality analysis	• Determine which sustainability-related issues/risks are material for individual securities, e.g. using a materiality heatmap • Determine portfolio-level exposures to key risks	• Given the lack of correlation across ESG data sources, use analysis of unstructured data to provide additional insight into materiality
3 – Define reference portfolio	• Determine a passive portfolio of equities and bonds consistent with investor risk profile • Obtain security-level data for relevant indices	• Use insurance risk models to assess exposure to physical risks in real asset portfolios; forward-looking scenario analysis is more difficult but can be an evolution of this.
4 – Calculate resilience score	• Use ESG ratings data to determine magnitude of exposure to material sustainability-related risks • Attribute to asset classes, managers and individual risks to identify largest contributors/exposures • Repeat for reference portfolio	• As above, but for corporate assets*
5 – Benchmarking	• Compare portfolio exposure score to the benchmark • Identify risks to which the portfolio is more exposed than the benchmark	• Benchmark against other asset owners • Overlay mispricing considerations (subject to beliefs)

EXAMPLE PORTFOLIO RESILIENCE ANALYSIS

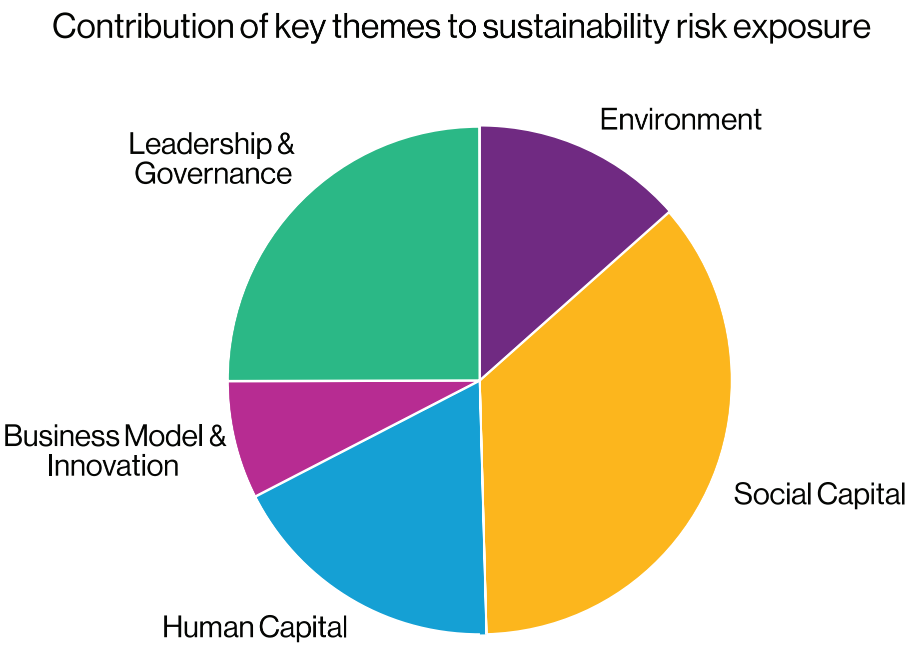
The key outputs from portfolio resilience analysis are a list of the sustainability-related risks that are material to a portfolio, and a portfolio risk exposure "score", along with comparisons to any relevant benchmark(s).

Materiality can be illustrated visually using a heatmap such as the one below, which shows the proportion of a portfolio for which various sustainability-related issues are expected to be highly material:

A portfolio risk exposure score can be attributed to individual managers or asset classes to identify whether there are any outsized contributors to sustainability-related risk exposures. The total portfolio score can also be attributed to individual sustainability-related issues to augment the materiality heatmap. The score can be expressed either in absolute or relative terms (for example, as a percentile rank compared to the broader security universe) – we prefer the latter as ESG scores are generally not uniformly distributed.

Having taken this first step and repeated the measurement of portfolio resilience over time, we would note the adage "what gets measured gets managed". Therefore, an investor with a sufficiently sophisticated investment process will naturally look for ways to improve portfolio resilience to sustainability-related risks, subject to meeting its other objectives. SF

Jeffrey Chee is global head of portfolio strategy at Willis Towers Watson.



> “most asset owners can make significant progress today in assessing the resilience of their portfolios to sustainability-related risks”

Trustee decisions to NOT pay compensation

MATT DALEY, JANE PASKIN AND VANESSA PALLONE OF CLAYTON UTZ

CASE 1

The fund permitted individual share trade investments. Due to a system error, fewer shares were able to be purchased on a particular day. Did this cause a loss?

Interestingly, it was the member's son who identified the error and advised the trustee. He was also representing his mother in the Tribunal. There is a flavour in this decision that the son was making the actual investment decisions, but the Tribunal does not comment on this nor are we advised whether the son had a power of attorney for his mother. Clearly, it was the son interacting with the trustee not his mother.

The fund permitted share trades in stocks in the S&P/ASX 300 Index, Exchange Traded Funds and term deposits (Platform). This Platform was managed by [XXX] Australia Limited for the trustee and it permitted no more than 20 per cent of a member's fund balance to be invested in any one company. On 30 October 2015, the son attempted to apply the 20per cent maximum limit in Dick Smith Holdings Limited shares but a Platform coding error exposed a fault that had existed since a system upgrade and he was unable to purchase the shares. In fact, the member was the first person, since the upgrade, to apply for shares utilising the full 20 per cent upper limit. The trustee fully accepted the error had occurred, but it disputed the quantum of the losses the son attributed to the error. The son argued that the decision to not compensate due to the trustee's own error was not fair and reasonable.

The trustee indicated to the Tribunal that its assessment of any loss was based on a review of the share price of Dick Smith Holdings Limited over the period in question. Had the error not occurred, the Platform should have allowed approximately a further $9,000 of shares to have been purchased. These shares, however, fell dramatically in value in the ensuing months and the overall effect of not purchasing the shares (albeit by virtue of an error) was that the member was better off by approximately $4,000. The trustee also reviewed other share trades that may have been impacted by the error. This involved three other companies the member was invested in where share prices went up in one and down in two. Had the member purchased more shares in all three companies up to the maximum limit, an overall gain of approximately $2,900 would have followed. However, the trustee had no evidence of the member's intention to purchase these shares. Only one additional transaction occurred after the trustee and son had discussed the fault in the Platform. In these circumstances, the trustee argued it was reasonable to expect the son would have contacted it if his mother wished to make larger trades in all three companies. This did not happen.

The Tribunal agreed with the Trustee's logic making special mention that it was reasonable to expect the son to have contacted the trustee if further maximum share trades were intended because he had knowledge of the error in the Platform coding at the relevant time. The Tribunal concluded that the son's contrary rationale was "predominately grounded in the wisdom provided by hindsight, rather than contemporaneous risk acceptance". The trustee's decision to not compromise the claim was fair and reasonable in the circumstances.

Case D18-19\104

CASE 2

As is often the case when reviewing Tribunal decisions concerning total and permanent disablement (TPD) benefits, the ill-health facts are incredibly sad and humbling. Here the member was diagnosed with 'metastatic thyroid cancer', which required surgery. She was experiencing left sided hemiplegia (total paralysis of left arm and partial paralysis of left leg), plus significant visual loss and this all resulted in her lodging a claim with her fund. It was clear, on the medical evidence, that the member was unlikely because of ill-heath, to engage in gainful employment to which she was reasonably qualified by education, training or experience. While she had finished year 12, she had no subsequent training.

At the time her illness was first diagnosed, the member was working at a local high school 24 hours a week doing clerical work. On reviewing her claim, the trustee found that the last time the member had worked full-time was some 5 years earlier and, based on the fund rules, she only had insurance for 71 days after ceasing her full-time employment due to her account balance being less than $3,000.

However, the trustee had been deducting insurance premiums for the past 5 years, and during this time, the member's statements (a total of 11) had shown she had an insured TPD benefit. As under the fund rules she should not have had insurance cover, the trustee refunded the deducted premiums to her account and closed her claim.

The product disclosure document that applied when the member joined the fund did not describe the $3,000 account balance rule as that had been introduced after she joined. Her total account balance was $2,137 and the insured amount in dispute was $64,500. Some years earlier, the member had transferred $22,000 to another fund but then she did not know about the minimum account balance rule and all information from the trustee since then showed she had cover.

There were three decisions for the Tribunal to review for fairness and reasonableness. Namely:

1. The decision of the insurer that TPD cover had lapsed under the policy terms;
2. The trustee's agreement with the insurer; and
3. The trustee's decision to not compromise the claim by paying the member $64,500.

The Tribunal concluded that the decision of the insurer that the cover had lapsed under the policy terms was a correct construction and, therefore, fair and reasonable. Similarly, the trustee agreeing with the insurer's decision was fair and reasonable, but the decision of the trustee to not compromise the claim was not fair and reasonable. The Tribunal formed this view after applying the principles in Retail Employees Superannuation Pty Ltd v Crocker [2001] FCA 1330 and Commonwealth Superannuation Scheme Board v Dexter [2004] FCA 1434.

The Tribunal gave weight to the fact that the trustee had not informed the member of the $3000 account minimum rule. The trustee argued it had not been advised by the previous employer that her employment had ceased. The evidence of the member was the previous employer had indicated its practise was to advise the fund of the cessation of employment and, on this point, the Tribunal believed the member's evidence over that of the trustee. The Tribunal was also at a loss to understand why the cessation of an employer's superannuation guarantee contributions in respect of a member, had not alerted the fund administrator to the member's cessation of employment, which should then have triggered contacting the member. The fact the annual statements included words to the effect that insurance cover was not guaranteed and subject to the policy terms was not a sufficient excuse for the trustee to not compromise the claim. In these circumstances, the trustee refusing to compromise the claim was unfair and unreasonable. The Tribunal substituted its own decision for that of the trustee, and that was for the trustee to pay the member $64,500 plus interest at the fund's cash rate from the date the member's husband was first advised of its decision to the date of actual payment.

Case D18-19\091 SF

How to be resilient

While insurance in super is there for people at the time of their greatest need, STACEY COPAS reminds us that it is possible to overcome enormous challenges.

Stacey Copas

Author of 'How To be Resilient'

As I listened to the speakers at ASFA's Spotlight on Insurance, I was struck by the myriad of ways and means the superannuation industry can help people at their most vulnerable.

Is it a perfect system? I'm not qualified to say, but I took the opportunity to share my own story at this event, in the hope that anyone working within insurance in super can understand that it is possible to come back from a life-shattering occurrence.

My life changed 28 years ago when I was 12. I had the world at my feet. I was a promising athlete; I'd waged a six-month fight to be one of the first two girls at my school to play soccer. I was in year six, excelling at my studies and I'd just taken a big step along the path of my lifelong dream of becoming a vet. I felt bullet-proof.

But that was all turned upside down one hot Sunday afternoon. I was playing in a relative's pool with my younger brother and I wanted to do a really clean dive into the water without splashing a lot. It felt like any other dive until I tried to swim up to the surface and I couldn't move.

In intensive care at Royal North Shore later that night, I was told I'd broken my neck and I'd never walk again. I literally felt like my life was over. The Spinal Unit was full of people and I looked at the older guys, who probably had families and mortgages. I felt lucky that all I had to do was heal without any financial pressures.

I'd like to say I was resilient, even then, but that's not the case. Like a lot of teenagers I sought out not so healthy ways of coping. Essentially that meant spending a lot of years drunk or stoned. I ended up in ever deeper pits of self-loathing. But as I got older, my attitude began to change and I began to look at what had happened to be as a positive.

So, how on earth can ending up a quadriplegic and needing a wheelchair for the rest of my life be positive? I'm proof that it actually can be. I reverse engineered how I turned my life from the lowest of the lows to becoming optimistic, ambitious and not only document my journey so far, but the one I'm continuing now. That became a framework I published in my book 'How To Be Resilient'.

Now, I teach resilience to large organisations that are going through significant change, helping their leaders shift the way they perceive and respond to change and adversity.

Resilience is the most valuable skill that we can learn to succeed in business and life. Thriving businesses, with happy, engaged and valued employees can actually help create strong communities and families. And I firmly believe there are amazing opportunities to be found in change, adversity and uncertainty.

I believe that I've experienced the adversity I have so I can be the pebble in the pond, to demonstrate that, as humans, we are bigger than our circumstances. I'm grateful for that experience.

From an insurance point of view, my injury is classed the same as that of Christopher Reeve, who needed a ventilator to help him breathe after his horseriding accident. I probably am a poster girl for TPD. The language, the definition of TPD plays a big part in the way we experience and respond to things. I didn't see myself that way.

If the industry could look at the way it uses language it may help a lot of people who go through adversity and struggle to develop resilience. But one of the most valuable elements of becoming resilient is support. If insurers and superannuation funds can engage with their vulnerable members with a view that they're on the same team, that would be of significant benefit.

If there's a partnership through the whole process, the elements of understanding and support, it will help people to go through the experience with a lot less stress. We all look back and worry about things we might have done differently and we can look too far ahead, which creates anxiety as well.

I think where we should all aim to get to, is to be very present, and intentional in the language we use, to create the best possible support network for people in times of great change and challenge. **SF**

Find out more about Stacey's story and work at staceycopas.com