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ON THE COVER

REGULARS

Making a good **superannuation system better**

Dr Martin Fahy

ASFA Chief Executive

It was wonderful to see so many of our industry at this year's Conference in Adelaide, after what has been an undeniably challenging year. As always, the Conference provided us with an opportunity to reflect on the broader issues of the day. I hope you found the presentations and discussions inspiring and that the knowledge you have acquired will help you to better meet the challenges that may lie ahead. One of those is of course the Royal Commission, which recently commenced its seventh round of hearings.

The Royal Commission has unfolded like a television drama, seven fairly harrowing instalments so far, and the series finale in 2019. The drama has derived from case studies which have been used very effectively to demonstrate poor behaviour and in some cases clear misconduct in the financial services industry. While case studies are a powerful tool, because they stir emotion and everyone can relate to them, we should be cautious in using them as the sole basis for the wholesale reform of the superannuation system.

The Royal Commission will release its recommendations early next year and we will consider them carefully at that time. But in looking ahead I am also prompted to consider the future of the superannuation system more generally. What does good look like in super? What are the fundamental challenges that need to be addressed to make what is undoubtedly a good system the best? In my view there are five areas that could do with a lot more clarity and certainty.

THE ROLE OF THE REGULATORS

In my view the regulators have done a good job and have contributed to the fundamental success and stability of the system but there can always be improvement. I would agree with the Productivity Commission and the Royal Commission that one of the weakest elements of the current system is the grey area between the jurisdiction of ASIC and APRA. There will always be a degree of overlap when there is more than one regulator. In a world run by people and not machines, the reach and effectiveness of a regulator will partly depend on the character of its leadership as much as its official remit. The role of regulators also tends to evolve over time, and sometimes that evolution speeds up when facing a crisis. While accepting that there will always be a degree of inherent uncertainty in this area, we would all benefit from a clearer delineation of responsibilities and purpose between the regulators than currently exists.

CONFLICTS OF INTEREST

There will always be potential conflicts of interest in all parts of the superannuation industry. There is no means of abolishing them altogether and we must not pretend otherwise. What we need are robust and practical measures to manage these inevitable conflicts of interest so that everyone involved—members, funds, regulators, and government—can have confidence that they are being sensibly, openly and appropriately dealt with.

APPROPRIATE PENALTIES

The current penalty regime for directors and officers of superannuation funds is haphazard. It's a mixture of civil and common law penalties some of which can be arbitrary and unpredictable. The regime needs a thorough review to ensure penalties are targeted and appropriate, to give directors and officers greater certainty and confidence about how their actions will be treated.

WHOLE OF SYSTEM RISK APPETITE

The constituent parts of the system—MySuper, choice, SMSFs and retirement—receive very different treatment on the part of government and regulators when it comes to investment risk. This leads to inconsistent policy responses and regulatory handling. While this remains the case, it is almost impossible to judge investment performance across the industry sensibly.

For example, if a number of SMSFs perform badly the blame for that failure is attributed solely to the SMSF trustees and no regulatory action is taken, whereas a MySuper fund which performs equally badly is much more likely to be held to account. A regulated choice fund which you might expect to sit in the middle of MySuper and SMSFs is in fact often treated very much like a MySuper fund, even though it is more likely that members in that fund have some, if not substantial, responsibility for adopting a particular investment approach.

It would be better if the Government determined and made public its whole-of-system risk appetite. I acknowledge this will be a complicated exercise but it would be of enormous value and the Intergenerational Report would be a good place to start.

Having reviewed the long-term needs of the retirement system as a whole, and the return objectives required to meet them, the Government would be better placed to assess the success of the various parts of the system in achieving those objectives. A risk appetite statement would create much greater policy consistency across all types of superannuation structures and products and provide a system yardstick against which the performance of all superannuation products could be tested.

At the same time, and at the other end of the spectrum, we would benefit from greater clarity regarding the position of individual responsibility within superannuation. We've largely abandoned the concepts of sophisticated/unsophisticated investors and the idea that disclosure disinfects everything. We're left with caveat emptor, or at the other extreme, paternalistic mollycoddling: But what does this mean for superannuation funds? It would be helpful—not only for setting current expectations but also for future policy making—if the degree to which individuals are to be held responsible for their superannuation benefit is more clearly defined.

COMPETITION, EFFICIENCY AND STABILITY

Acknowledging that the balancing act between promoting competition, efficiency and innovation on the one hand while maintaining stability will always be difficult, it would be good to have a clearer idea of the Government's and the regulators' expectations. What is their tolerance for project failure and willingness to accept creative destruction which is the result of genuine competition? What is the relative importance of competition in comparison with stability? Is there a consistent view or does each party attach different weightings to these concepts?

A GOOD SUPERANNUATION SYSTEM

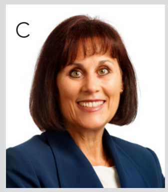
The Royal Commission has drawn attention to poor behaviour and certain weaknesses within the superannuation system and in doing so has triggered a discussion about how the system might be reformed. It is up to us to move beyond the Royal Commission's terms of reference and look at the system and the potential for its improvement broadly and thoroughly. We need to clear the air, to see things for what they are, to set sensible expectations. Working together and devoting some hard thinking to the questions and topics identified above would help us to define what good looks like for the Australian superannuation system. And a good superannuation system is good for everyone. **SF**

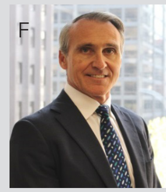
HEADLINES

ASFA announces new and re-elected board members

Following its Annual General Meeting at the ASFA Conference, ASFA is pleased to announce the appointments of two new board members: Deanne Stewart, incoming chief executive officer, First State Super as a public sector representative and John McMurtrie, managing director, Link Group as a service provider representative. They will fill the vacancies left by Michael Dwyer AM and Suzanne Holden.

Four directors have been re-elected to the ASFA board – corporate fund representatives, Michael Clancy and Chris Davies and industry fund representatives David Elia and Leeanne Turner.





Independent Chair
Dr Michael Easson AM, Chairman, Founding Director of EG Funds Management (A)

Industry funds
David Elia (Fellow of ASFA), Chief Executive Officer, HOSTPLUS (B)
Leeanne Turner, Chief Executive Officer, MTAA Superannuation Fund (C)

Public sector funds
Peter Carrigy-Ryan, Chief Executive Officer, Commonwealth Superannuation Corporation (D)
Deanne Stewart, Chief Executive Officer, First State Super (E)

Service providers
Andrew Boal (Fellow of ASFA), Head of Australasia, Willis Towers Watson (F)
John McMurtrie, Managing Director, Link Group (G)

Retail funds
Linda Elkins, Executive General Manager, Colonial First State (H)
Melinda Howes (Fellow of ASFA), General Manager of Superannuation, BT Financial Group (I)

Corporate funds
Michael Clancy, Chief Executive Officer, Qantas Superannuation (J)
Chris Davies, Chief Executive Officer, TelstraSuper (K)

ASFA has a new address in Melbourne

Melbourne office has recently moved. The new address is:
Level 20, Tower 5, Collins Square, 727 Collins Street, Melbourne, VIC, 3008.

The industry mourns loss of Paul Costello

Paul Costello passed away last month aged 61 after a long and brave fight with cancer.

Paul enjoyed a distinguished career in superannuation, beginning at the NAB as a superannuation specialist, then at the Superannuation Trust of Australia (which would become AustralianSuper) , then as founding CEO of NZ Super, and founding CEO of the Future Fund.

Qantas Super issued an announcement regarding the death of its board member who was first appointed to the trustee board in 2014 and was chair of the investment committee and a member of the remuneration and insurance committees.

Independent Reserve rolls out KPMG Crypto Tax Estimator

KPMG Australia and Independent Reserve, the largest Australian cryptocurrency exchange, has announced the launch of a new tool, The Crypto Tax Estimator, to help the traders of cryptocurrencies better understand their tax liabilities with just the click of a button.

ASFA SUBMISSIONS

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

- 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
- Submission to Australian Prudential Regulation Authority (APRA) ASFA response to *Discussion Paper – Post-implementation review of APRA's superannuation prudential framework*

Thai cave diver Richard Harris named 2019 SA Australian of the Year

Congratulations to Adelaide anaesthetist Dr Richard "Harry" Harris who has been named 2019 SA Australian of the Year, in recognition for his contribution to the July international rescue operation of a group of 12 boys and their soccer coach from a flooded cave in Chiang Rai, Thailand. The epitome of strong leadership, determination and resilience, he shared his incredible story at the ASFA Conference in Adelaide.

TAL SpotChecker launches nationally for the second year

Despite the fact that two in three Australians are expected to be diagnosed with some form of skin cancer during their lifetime, only 36 per cent of people have had a skin check within the past 12 months with 29 per cent never having had a skin check at all.

To help early detection by encouraging more Australians to get regular skin checks, TAL is launching a series of national pop-up clinics called TAL SpotChecker for the second year in a row. These provide free skin checks to TAL customers and the public from specialist skin cancer doctors. TAL has also partnered with Firstcheck this year—a digital service that enables people to get a skin check through their smartphone—to deliver more skin checks across Australia.

Contact TAL to find out how you might be able to offer TAL SpotChecker to your members.

INDUSTRY MOVEMENTS

Michael Easson joins Ramsay Centre for Western Civilisation board

ASFA congratulates our chairman Dr Michael Easson AM on his appointment to the Ramsay Centre for Western Civilisation, a centre which seeks to provide unique and exciting opportunities for the study and discussion of western civilization, as a non-executive director, effective immediately.

Dr Easson is founder and chairman of fund manager EG Funds Management and building technology company Willow Technology Corporation; as well as independent chairman of ASFA. Over the past twenty-five years he has served on boards in property, funds management, rail and water infrastructure, insurance, manufacturing, construction, energy and asset management.

He has also served as a senior vice-president of the Australian Council of Trade Unions, secretary of the Labor Council of NSW, and senior vice-president of the ALP, NSW Branch.

Chairman, the Hon John Howard OM AC, said Dr Easson was an outstanding addition to the board.

"I am delighted that Michael is joining our board," Howard said. "He is highly respected in the Australian business sector and educated in a variety of disciplines key to the Centre's success. Michael will complement the mix of skills and experience on the Board and we very much looking forward to working with him."

AMP announces additions to wealth solutions leadership team

AMP has appointed John Keating and Shaune Egan to key leadership roles in its wealth solutions and customer team.

Keating, who was previously AMP's head of platform products, has commenced as head of wealth distribution, southern region, reporting to Nicole Mahan, AMP's director of wealth distribution.

Egan will commence at AMP as head of platform development on 19 November 2018, reporting to Rod Finch, AMP's director, superannuation, retirement and investments. He joins AMP from MLC, where he led the wrap platform and managed account business.

Nicola Roxon announced as new HESTA independent chair

HESTA has announced that the Hon Nicola Roxon will become its new independent chair when Angela Emslie steps down from the position at the end of her term on 31 December 2018.

The HESTA board welcomed Roxon, acknowledging the unique insights, skills and experience she would bring to the fund and a deep understanding of the health and community services sector.

Hostplus appoints deputy CIO

Hostplus has announced the internal appointment of Greg Clerk as deputy chief investment officer. This follows two years as Hostplus' head of investment strategy and 14 years prior advising the industry fund through its asset consultant, JANA.

Hostplus CIO Sam Sicilia said the fund was delighted to promote Clerk who will deepen his involvement in developing Hostplus' $37 billion investment strategy, portfolio construction, asset allocation and other key investment-related decisions.

VicSuper announces new appointments

VicSuper has announced the appointments of Martin Vassallo as chief risk officer, and Jo McKennariey as executive manager, people experience.

In his newly created role, Vassallo leads the risk and compliance teams and oversees the development and deployment of risk and compliance frameworks, reporting and governance to support VicSuper's strategic objectives. Vassallo has over 30 years' experience in financial services, risk management, compliance and information security, having previously served as general manager, operational risk & compliance for NAB business banking. More recently, Vassallo held positions as chief risk officer at Tandem Corporation and Asia Pacific chief risk officer for FIS Global.

Jo McKennariey joined VicSuper as executive manager, people experience in late October. She has held a range of executive roles, most recently with Blue Sky Alternate Investments as interim chief people officer and corporate affairs director.

"Martin and Jo's depth of skills and experience significantly strengthens our existing executive team and enhances our capacity to deliver great outcomes for our members," CEO Michael Dundon said.

Catholic Super announces new executive structure

Catholic Super has announced the departure of CEO Frank Pegan following changes to their leadership team.

Catholic Super board chair Danny Casey said that Pegan had overseen a period of extraordinary growth at the fund, delivering strong and consistent investment performance for Catholic Super members.

Under the new leadership structure, David O'Sullivan, chief risk officer, will be acting CEO and will lead the executive team.

"It's a time of change on many levels for Catholic Super. We are grateful for all that Mr Pegan has achieved, for the many members he has helped and for the extraordinary legacy he leaves at Catholic Super," Casey said.

Tasplan recruits former CBUS CIO to board

Tasplan has announced the appointment of Trish Donohue as a non-executive director of Tasplan, effective 1 January 2019. Donohue is a skills based appointment, achieved via a nomination of the Local Government Association of Tasmania and her appointment reflects Tasplan's focus on ensuring there continues to be an appropriate skills mix on the board.

Donoghue has spent 18 years at CBUS and was awarded joint Conexus Chief Investment Officer of the Year in 2017. Currently she is a director of the Infrastructure Victoria Audit and Risk Committee, she has extensive not-for-profit and government related board and committee experience. She holds a Bachelor of Science (Mathematics Major) from Melbourne University and is a Graduate of the Australian Institute of Company Directors, a Fellow of the Financial Services Institute of Australasia and an Associate Actuary of the Institute of Actuaries of Australia. Naomi Edwards, chair of the Tasplan board said they were very excited to welcome Donoghue to the Tasplan team.

Kathleen Kennedy Townsend


Alexander Downer


Martha Rogers

ASFA Conference

14-16 November 2018


Michael Casey


Chris Tamwoy

Tom Lydon, Cathryn Carver and Belinda Kischkel

Super Expo


Felicia Trewin, Brian Benger and Michele Glover


Leah Lovrek and Liz Nguyen


Gill Hicks AM, Dr Richard Harris OAM, Russell Mason


Andy Dexterity


Adam Alter


Marcia Hines and dancers


Tim Campbell

Glen Hipwood, Angus Woods, Ruth Stringer and Duncan McPherson


Natalie Truong and Anthony Schiavo


Nicolette Rubinsztein

Coming to grips with adequacy

Ross Clare
Fellow of ASFA

ASFA Director of Research

An early Christmas present from the Grattan Institute was their latest report on superannuation and retirement incomes. However, for the superannuation sector, it was as welcome and as useful as someone with a beard receiving aftershave from an uncle or aunt on Christmas Day. Even worse, it is not something that can be regifted.

The report makes use of what they call the Grattan Retirement Income Projector (GRIP) model. However, it perhaps could be better called the Grattan Retirement Income Poor Expectations (GRIPE) model.

ASFA issued a strong response to the Grattan report when it was released. Paul Keating also provided a powerful defence of compulsory superannuation.

ASFA pointed out that in a world where there are broken work patterns, and where women's balances are 40 per cent less than men, adoption of the Grattan recommendations would leave large parts of our society exposed to poverty in retirement.

Despite assertions by Grattan, ASFA has never said that every Australian should achieve the ASFA comfortable standard. However, for the bulk of the Australian population it sets a very relevant benchmark. This is confirmed by independent surveys of the population which indicate that most people aspire to achieve expenditure in retirement at ASFA comfortable or more. For those who do not aspire to it (or more), very often it is because they are limited by the financial resources available rather than the target being over the top in terms of consumption.

Spending around $43,000 a year for a single person and $60,600 a year for a couple, does not make you rich.

To be able to run and maintain a home, to eat adequate meals, to clothe yourself, to afford haircuts and grooming supplies, to run a motor vehicle, to purchase private health insurance and cover out-of-pocket medical expenses, to have a range of leisure and hobby activities, including domestic vacations and the very occasional overseas holiday, is not an unreasonable aspiration.

While the Grattan analysis contains a number of errors, one of the main factors in coming to their conclusions is the use of movements in the Consumer Price Index (CPI) as the deflator for their projections of retirement income rather than the movement in community living standards, with growth in average wages the proxy for that.

Discussions about the right deflator to use are normally confined to those comfortable at nerdfests, or who have an unhealthy interest in Star Trek episodes. However, a translation is that if you use CPI as a deflator you assume that acceptable living standards do not change, the same bundle of goods and services are purchased as at the start of the projection period, only prices for them change.

On that basis a retiree now should only expect to live the life of a typical person in the 1950s. This would mean no internet and like services, lucky to have a television (which really should be black and white screen) no car, no health insurance, not many whitegoods, holidays limited to a relatively nearby motel or camping ground, and a diet of lamb chops and potatoes.

Going forward we do not know what community living standards will involve in 30 years' time let alone 60 years' time in terms of the bundle of goods and services purchased, but one thing that is sure is that retirees will not be happy with the lifestyle of decades earlier.

Another outworking of the Grattan analysis is that it has a projection of the Age Pension at a level that is very high. For instance, the report asserts that a person retiring in 2052 will have access to the Age Pension which has a maximum rate of around $38,000 a year in today's dollars. This drives their misleading assertions about the supposed no need to move to 12 per cent SG.

ASFA will continue to defend the compulsory super system as appropriate and rebut any misleading analysis that is published. SF

DECEMBER 2018

04 TUE **NSW I VIC** SMSF Discussion Group	05 WED **Perth** Christmas Luncheon **Brisbane** Christmas Twilight Briefing **Sydney** RG 146 Superannuation three-day workshop **VIC** Innovation Discussion Group	06 THU **VIC** Fund Taxation Discussion Group
10 MON **Sydney** Christmas Luncheon	11 TUE **VIC** Member Insured Benefits Discussion Group **NSW** Legislation Discussion Group	12 WED **Adelaide** Christmas Breakfast **Brisbane** Emerging Leaders Networking Event
13 THU **Melbourne** Christmas Twilight Briefing **Sydney** Emerging Leaders Networking Event		

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

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

A busy year for super – 2018 finishes as it started…

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

When December *Superfunds* went to print, the industry was still watching for developments on some of the major regulatory priorities for the year. The financial services Royal Commission had just commenced its final hearings, and several important government bills remained before Parliament – including the 'protecting your super' and 'member outcomes' packages, and reforms to superannuation guarantee compliance and penalties.

With these key regulatory pieces still to be resolved, and a federal election looming, the Government and the regulators have not slowed the pace of reform. This edition of *rules and regs* highlights some additional developments that should be on the regulatory watchlist for trustees as we move into 2019.

RETIREMENT INCOME FRAMEWORK

The Government has announced some changes to its proposed retirement income framework, which includes the introduction of comprehensive income products for retirement (CIPRs).

In its May 2018 Budget, the Government announced it would introduce a retirement income covenant into the superannuation legislation, requiring trustees to consider their members' retirement income needs by developing a retirement income strategy. The Government subsequently indicated that it would legislate the covenant by 1 July 2019 but delay its commencement until 1 July 2020. This followed consultation on a framework for the offering of CIPRs in December 2016 and May 2018.

The Government has now indicated it will increase the threshold superannuation balance for offering a CIPR from $50,000 to $100,000 and extend the timeframe for implementation. As a result, trustees must have a retirement income strategy in place from 1 July 2020 but will not be required to offer CIPRs until 1 July 2022.

SUPER PENSIONS AND ROLLOVERS OF DEATH BENEFITS: PROPOSED TECHNICAL AMENDMENTS

The Government has announced a range of technical changes to address issues in the tax treatment of superannuation pensions and rollovers of superannuation death benefits. Amendments will be made to relevant legislation and regulations to:

- refine the way that market-linked pensions, defined benefit pensions and innovative income stream products are treated under the transfer balance cap
- ensure death benefit lump sums containing life insurance proceeds are not taxed when rolled over to a new superannuation fund, and remain tax-free for dependants
- refine the definition of the 'life-expectancy period' for innovative income streams.

WOMEN'S ECONOMIC SECURITY STATEMENT

The Government recently released its Women's Economic Security Statement 2018 . Among other things, the statement announces measures to support women's economic independence, including two key changes relating to superannuation:

- **Early access to super on domestic violence grounds** – while superannuation should ideally be preserved until retirement, the Government considers family and domestic violence to be an immediate and extreme circumstance where the benefits today outweigh the benefits of maintaining those savings until retirement. Accordingly, the Government will extend the ability to access early release of superannuation to victims of family and domestic violence.
- **Better visibility over superannuation assets in family law proceedings** – where parties to family law proceedings are not forthcoming about their assets, costly and time-

consuming information gathering exercises are required in order to establish the identification of superannuation accounts. To address this, an electronic information sharing mechanism will be developed between the Australian Taxation Office and the Family Law Courts to allow the superannuation assets held by the parties to family law proceedings to be identified swiftly and more accurately.

SECTION 29QC 'CONSISTENCY OF DISCLOSURE' REQUIREMENTS

ASIC has indicated it will defer the commencement date for the 'consistency of disclosure' requirements in section 29QC of the Corporations Act 2001, which were due to take effect on 1 January 2019.

To promote systemic transparency, subsection 29QC(1) requires a registrable superannuation entity licensee to ensure that, where it is required to give information to APRA under a reporting standard that requires the information to be calculated in a particular way, and where the same or equivalent information is given to other persons, the information given to the other person is calculated in the same way as the information given to APRA.

While subsection 29QC(1) was originally intended to commence on 1 July 2013, ASIC subsequently issued several extensions to ensure that the requirements appropriately aligned with APRA's reporting standards, the proposed choice product dashboard rules and the expanded fee and cost disclosure rules. The most recent extension deferred commencement until 1 January 2019.

ASIC has now advised ASFA that it intends to further defer the commencement of section 29QC for the maximum period permitted under sunsetting legislation, to allow time for the policy position to be settled.

APRA UPDATE

There have been several important developments in areas within APRA's regulatory jurisdiction since the last *Superfunds*. These include:

- **'Strengthening member outcomes' package deferred** - APRA has advised that it will defer the commencement date of changes to its prudential standards proposed in its December 2017 Strengthening member outcomes consultation package. The package was originally intended to commence on 1 January 2019.
- **Cloud computing** - APRA has released an updated information paper on the use of shared computing services. Outsourcing involving cloud computing services is a response to APRA's observation of the growing use of cloud computing services by regulated entities, an increasing appetite for higher inherent risk activities, and areas of weakness identified as part of supervisory activities.
- **Information security** - APRA has finalised new Prudential Standard CPS 234 Information Security, which will apply to all APRA-regulated entities from 1 July 2019. APRA will shortly update Prudential Practice Guide CPG 234 Management of Information and Information Technology to reflect the requirements of CPS 234.
- **Enforcement strategy, chair and funding** – APRA has announced it will review its current enforcement strategy and infrastructure and how it interacts with APRA's core supervisory approach, with final recommendations due by 31 March. The Government has reappointed Wayne Byres as APRA chair for a further five years and announced a funding increase of $58.7 million over four years to allow APRA to reinforce the resilience and soundness of Australia's financial system at a time of significant reform.

STRONGER PENALTIES FOR FINANCIAL SECTOR MISCONDUCT

The Government has introduced the Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Bill 2018 into Parliament. The Bill seeks to significantly strengthen penalties for corporate and financial sector misconduct.

PROSECUTION OF CRIMINAL MISCONDUCT BY FINANCIAL INSTITUTIONS

The Government has announced it will provide additional funding to the Commonwealth Director of Public Prosecutions (CDPP) and the Federal Court of Australia to enable further prosecutions of criminal misconduct by banks and other financial institutions and to ensure civil claims are dealt with effectively and expeditiously. The Government will also review whether the Federal Court's criminal jurisdiction should be expanded to include corporate crime and establish regular cross-agency meetings to discuss enforcement matters in the financial sector.

The announcement recognises the likelihood that increased enforcement activity flowing from a recent increase to ASIC's funding will lead to more prosecutions by the CDPP and more civil corporate misconduct cases before the Federal Court –¬ including cases highlighted by the financial services Royal Commission.

FAMILY LAW SUPER SPLITTING: EXTENSION TO DE FACTO COUPLES IN WESTERN AUSTRALIA

The Government has announced it will amend the Family Law Act 1975 to allow separated de facto couples in Western Australia (WA) to split their superannuation interests as part of their property settlements. Separated de facto couples in all other states and territories are already able to access the family law superannuation splitting regime. The Government intends to progress the necessary legislative amendments during 2019, to allow superannuation splitting to commence from the beginning of 2020. SF

'Rules and regs' provides a snapshot of key regulatory developments. ASFA members also have access, via the ASFA website, to the ASFA-Thomson Geer Regulatory Update. Delivered in partnership with Thomson Geer, this comprehensive quarterly Update seeks to keep members informed on the changing superannuation environment across new legislation, developing policy and pertinent case law developments.

The Great Acceleration

Australian asset owners must think more broadly to be successful investors of the future, writes **SUE BRAKE.**

We live in an uncertain world. We're dealing with an unprecedented breadth and speed of change in technology, demography, globalisation, environment, and, not least of all, social norms. These shifts have seen increasing failure rates for corporations. So, what is the impact on asset owners?

Let's start by defining what we mean by an asset owner. We believe there are five qualifying characteristics. An asset owner:

1. works directly for a defined group of beneficiaries/savers/investors as the manager of their assets in a fiduciary capacity (upholding loyalty and prudence) under delegated responsibility
2. works with a sponsoring entity, usually a government, part of government, a company or a not-for-profit.
3. works within explicit law and possesses an implicit societal license to operate because of its societal trust and legitimacy
4. delivers mission-specific outcomes to beneficiaries and stakeholders in the form of various payments or benefits into the future
5. employs a business model that combines a governance budget (essentially resources and processes) and a risk budget (reflecting the mix of financial assets that delivers on the mission).

So far, asset owners have been protected from existential risks. Many are not-for-profit organisations and they have enjoyed secure sponsorship which has, to date, guaranteed their existence; safety nets have prevented them from going out of business.

However, we believe that asset owners are becoming increasingly exposed to the Great Acceleration. This is a term that was first used in a working group at a 2005 Dahlem Conference on the history of the human-environment relationship and subsequently popularised in Robert Colvile's book 'The Great Acceleration'. Colvile characterises this as "the ceaseless advance of technology and our own fundamental appetite for novelty and convenience" speeding up every aspect of daily life.

There are major implications for asset owners. Covenants are becoming weaker year by year, as economic realities bite and pension liabilities mature and everlasting sponsorship is no longer a sure thing. The 'fittest' organisations in this race for survival will be those that have both understood the implications of the Great Acceleration and have the skillset and mindset to act.

Pursuing best practice in not only the investment model—but also in an organisation's people and business models—has become a matter of survival in the Australian market, given these global forces for change and the calls for consolidation in our industry. The current low return environment, where edge is vital to investment performance, just confirms how crucial and immediate the need for such a focus is. There is an overarching need for asset owners to better understand the world in which they operate, if they are to manage risk, exploit opportunities and thrive through the Great Acceleration.

In this context, Willis Towers Watson's Thinking Ahead Institute has recently released two pieces of research. Our inaugural Asset Owner 100 survey, sets a clear definition of the term asset owner – institutions that manage collective savings of over US$50tn under discretionary and fiduciary responsibility. The top 100 includes nine Australian funds, the second highest number of funds after the US. Their size and their influence make these asset owners too important to fail in their mission. The second research paper, 'The asset owner of tomorrow', addresses the key challenges faced by asset owners and how these trends might ultimately shape their journey in the next five to ten years. We see four big shifts in response to the Great Acceleration in coming years.

SHIFTING COMMON APPROACHES TO PROFESSIONALISM

Asset owners must shift from a focus on performance towards professional accomplishments, acknowledging their wider public duties as well as taking a longer-term view of their capital allocation and ownership responsibilities.

For professionalism to be institutionalised, professional standards must be maintained in all parts of the organisation, starting with boards and progressing through executive leadership to all levels. Asset owners often have two natural advantages in advancing a stronger-principled and more professional industry: many work to a profit-for-members business model; and most are close to being a principal rather than an agent in status and alignment. These attributes enable a longer-term orientation to capital allocation and to ownership rights and responsibilities.

Asset owners should be aligned to societal interests. Economic growth and societal well-being are positive by-products of healthy investment organisations. This thinking aligns with the mantra that a focus on the interests of stakeholders is likely to be a marker of sustainable organisations.

INCREASED ADOPTION OF SYSTEMS AND AUTOMATION TO ENHANCE DECISION-MAKING

Successful asset owners will become more efficient in handling big data and marshalling computer-based technology alongside human technology in order to create opportunities for networked thinking.

Current decision-making in investing has limitations. All asset owners take their decisions through a combination of human input (we refer to this as 'social technology') and systems/support (we refer to this as 'physical technology'). Achieving balance and efficiency in this combination is hard.

Research has revealed biases that are present in all investment decision-making settings. These are more numerous and deeply-embedded than are readily recognised, and lead to behavioural anomalies including over-confidence, sub-conscious bias, framing and agency pressures.

A likely trend is a movement from ad-hoc human-judgment processes to increased reliance on rules-driven processes that are less prone to human bias and more governance-friendly. This has the added benefits of creating transparency to explain how a strategy has "skill" (is expected to add value), and greater ease of implementation.

Artificial intelligence and machine learning will enhance the trend to automation as investors get more efficient in handling and parsing big data sources and integrating technology more fully in the investment process. Successful asset owners will marshal technology alongside human talent. In short, the roles of humans are enhanced by technology.

USING CULTURE AND DIVERSITY TO FURTHER EVOLVE THE PEOPLE MODEL

Asset owners have typically not enjoyed a significant history of strong leadership, which has reduced their ability to cultivate an effective decision-making culture as a competitive advantage. In particular there is a need for greater diversity which includes 'identity diversity', but goes beyond that into 'cognitive diversity' as well.

The case for greater diversity in investment organisations is strong both in terms of business case context and better culture.

Diverse groups of people bring more and different ways of approaching difficult problems and better ways of solving them. With the complex problems faced in investing, limited diversity—where everyone thinks alike—produces roadblocks. With greater diversity, roadblocks can be circumvented.

Diversity is not completed without inclusion. The combination is critical and organisations that focus only on creating balance in workforce composition by numbers miss the real business case where inclusiveness delivers the benefits of increased opportunity and cognitive diversity.

The investment industry has had difficulties with the pipeline of women due to hiring preferences for STEM (science, technology, engineering and maths) graduates where women do not have full representation in the aggregate population. Gender diversity in the investment industry varies by country with some of the Asian countries exhibiting the best balance, often because they have better balance in STEM graduates.

RETHINKING THE INVESTMENT MODEL

The investment landscape mapped into the future is more complex than any model can describe – hence the need to develop beliefs, to employ a variety of risk-return drivers among asset classes, factors, themes and skill, and to target specific outcomes. Investment is increasingly a collective effort, so how we work in groups to build beliefs is critical. The shift towards a collective belief system and an integrated portfolio takes time, empathy and strong process.

The critical mix between public and private markets will continue to evolve. The natural supply of public markets from corporations accessing capital to grow their business has fallen away. It becomes natural for more expansion capital to be based on private markets in future. The asset owner of tomorrow is more geared up to get closer to target companies and can use their relationships productively. Private investing as a category will expand – this includes investment in peer-to-peer and crowdfunding models.

All situations for asset owners are different and the art to their future success will be understanding and evolving best practice principles and applying them to unique circumstances. As a result, there is an overarching need for them to understand the world in which they operate through a model that connects all the dots. SF

Sue Brake is senior investment consultant and head of strategic advisory at Willis Towers Watson.

The global picture

The Asset Owner of Tomorrow research builds on the peer group study released in 2017, 'Smart Leadership, Sound Followership', which compared the practices of a group of 15 influential asset owners. That study came up with five key findings:

1. By developing strong internal teams, these asset owners have become very good at what they do. However, while they have one foot in the future, they have a number of issues where they have not reached their potential.
2. Their decision-making has weaknesses. There are numerous and deeply-embedded biases that are present in all investment decision-making and these asset owners are not immune from these. They have opportunities to use diversity more effectively, and to develop better processes and use of technology to reduce the impact of such biases.
3. Their long-horizon investing and sustainability practices lack commitment. Opportunities are being missed in the overlapping areas of sustainability, ESG, stewardship and long-horizon investing, with mindset more of an issue than available skillsets.
4. Their boards struggle with acting strategically. The boards are strong in interpreting their funds' mandates and in ensuring executive accountability, but weaker in strategic dialogue with their executive teams. Asset owners would be much better placed to meet the challenges of the future with more strategically-minded boards.
5. They are evolving their resourcing model between insourcing and outsourcing. This is still a work in progress and they need to improve their grasp of how to optimise these components in the value chain of outside providers and internal professionals. For some, it is about continuing to strengthen internal capabilities, but for most of these organisations the issue is more about aligning their teams with technology playing a larger part.

AUSTRALIAN ASSET OWNERS IN THE ASSET OWNER 100 (IN US$ MILLION)

Rank	Fund	Total Assets	Primary category
45	Future Fund	$108,216	Sovereign Wealth Fund
53	AustralianSuper	$103,180	Pension Fund
76	Nulis Nominees (Australia) Limited (NAB/MLC)	$75,408	OCIO & Master Trust
86	First State Super	$67,610	Pension Fund
87	BT Funds Management Limited	$67,348	OCIO & Master Trust
92	TCorp	$64,367	Pension Fund
96	Colonial First State Investments Limited	$60,635	OCIO & Master Trust
97	QSuper	$60,629	Pension Fund
100	AMP Superannuation Limited	$58,078	OCIO & Master Trust

TOP 10 ASSET OWNERS (IN US$ MILLION)

Rank	Organisation	Country	Total Assets	Primary Category
1	Government Pension Investment	Japan	$1,443,554	Pension Fund
2	Government Pension Investment	Norway	$1,063,456	Pension Fund
3	China Investment Corporation	China	$900,000	Sovereign Wealth Fund
4	Abu Dhabi Investment Authority	UAE	$828,000	Sovereign Wealth Fund
5	National Pension	South Korea	$582,000	Pension Fund
6	APG	Netherlands	$564,000	Pension Fund
7	Federal Retirement Thrift	U.S.	$531,489	Pension Fund
8	Kuwait Investment Authority	Kuwait	$524,000	Sovereign Wealth Fund
9	SAMA Foreign Holdings	Saudi Arabia	$514,000	Sovereign Wealth Fund
10	Hong Kong Monetary Authority Investment Portfolio	Hong Kong	$456,600	Sovereign Wealth Fund

NAVIGATING A SAFE LANDING

When it comes to protecting retirement savings, CEO Michael Clancy ensures Qantas Super, like its parent airline, takes a safety-first approach for its members.

By **BEN POWER**

Qantas Super CEO Michael Clancy was curious: just how confident are Australians in their superannuation system? To find out, his fund surveyed over 1,000 Australian adults between March 26 and April 9 this year.

The Qantas Super CSBA Retirement Confidence Index revealed a significant lack of confidence in the Australian super system, with member confidence on average running at just 5.1 out of 10.

The result was surprising because Australia's super system is widely regarded as one of the world's best. The recent Melbourne Mercer Global Pension Index 2018, for example, found that Australia had the fourth-best retirement income system globally (though it had slipped from third place compared with the prior year).

"There is a disconnect between how confident individual Australians feel about affording a comfortable retirement and the fact that we have one of the best retirement systems in the world," Clancy says.

Clancy is now on a mission to build that confidence, not only for his members at Qantas Super, but nationwide. He wants the super system to provide members with simple-to-understand information and educational material, to improve financial advice options, to nudge them in the direction of good financial behaviour, and most importantly, to connect with members earlier.

"If we can build their confidence in their financial future, we can make a meaningful difference in the retirement lifestyle they'll be able to afford," he says.

At school, Clancy had no strong view about a likely career. He grew up in Parramatta in a stable environment: so stable in fact that he was born and grew up in the one house. His father forged a successful career in the NSW Department of Education, instilling in him values of integrity, honesty, and an element of public service.

Because Clancy was good at maths, he decided to study accounting and finance, and worked as an accountant for the first three years after high school. "But after a few audits I realised it wasn't for me," he says.

About that time a friend suggested he apply for a role at an asset consulting firm, Frank Russell Company, later Russell Investments, the world's largest global asset consulting firm.

Even though he didn't really know what asset consulting was, he figured he would regret not exploring the option, so he applied and was successful. He worked with consulting clients as an analyst, and then moved into an investment manager research role, travelling Australia, Asia, and other developed markets, researching and evaluating investment managers as part of a global research team.

"It opened up the financial services landscape and the world of global pension asset consulting and investment management to me," he says. "I had the privilege to meet some of the smartest characters in the global investment industry. It was a wonderful opportunity to learn from the best in the industry."

Frank Russell Company's largest client in Australia was MLC which was then building up its own internal investment capability. They hired Clancy as Senior Research Analyst, Manager Research. He developed his investment knowledge and skills, and after an 18-month stint in the UK, MLC gave him the opportunity to lead its investment team as the General Manager of its Asset Management Division.

The new role required a difficult switch from a highly "analytical and rational" investment role to leading a team of talented investment professionals.

"My career has always operated in around 4 to 5-year chunks," he says. "Not that I get itchy feet, but I do like to be 30

> If we can build their confidence in their financial future, we can make a meaningful difference in the retirement lifestyle they'll be able to afford

to 40 per cent outside my comfort zone most days. I do like to be learning new things, being challenged in different ways, and growing and developing."

Clancy gained valuable exposure to the business side of superannuation and investment.

In July 2009, he was elevated to Executive General Manager, Investment Platforms, NAB Wealth, where he combined his investment and general business management backgrounds.

NAB Wealth, with $10 billion a year of sales, included MasterKey, Plum, JANA, and National Online Trading. In the role, Clancy refreshed the portfolio of investment platforms, built and launched retirement oriented capital guaranteed investment solutions, and sponsored the project that developed nabtrade, the NAB's modern online share trading platform.

He left NAB as part of a management restructure in 2013 and consulted for a while before jointing Qantas Super as CEO in November 2015. Clancy says he was immediately attracted to Qantas Airways' iconic status.

Qantas Super oversees $8 billion of super for 32,000 past and present employees of the airline. As the number of corporate super funds has fallen dramatically in recent decades, the fund has been one of the survivors.

Clancy says it made sense for smaller corporate funds to merge with others or close, but he believes that Qantas Super has the scale to compete with other funds.

When he arrived at the fund, Clancy says Qantas Super was in good shape. "My role wasn't to turn around something that wasn't working well," he says.

But he says that while the fund was member-focused—it is a not-for-profit super fund only open to Qantas employees—"there were opportunities for us to really put ourselves into the shoes of our members and improve how we can help them."

Clancy says over the past three years he and his leadership team have instilled a new purpose at Qantas Super: to help members be confident about their financial future so they can enjoy retirement.

Many people avoid thinking about super because it is seen as too hard and something that can be dealt with later, he says, but if retirement planning is delayed too long, by the time people get around to it, it's too late to make any difference.

To build member confidence at Qantas Super, Clancy and his team have taken a number of important steps.

They firstly listened to members and their concerns through formal focus groups and greater engagement. That allowed them to build member personas and lifetime journeys. They also began to tailor written and verbal messages to members, and established style guidelines for language and tone.

As part of the confidence-building purpose, Clancy is also driving the fund's unconflicted intra-fund financial advice. He says an important competitive advantage for a corporate super fund is the ability to speak with members in the workplace.

"A large proportion of our members are based in 15 or so workplaces around Australia, and running educational seminars and arranging financial advice sessions is a powerful way of building member confidence," he says.

But the fund isn't only focused on how members feel, but also on improving members' retirement income adequacy (the proportion of members who will enjoy a lifestyle in retirement equivalent to that before they retired). Many members are approaching, or are in, the retirement age zone, and Qantas Super doesn't want them to face an 'expectation gap' between lifestyle expectations and reality.

Investment performance is a key plank in driving retirement income adequacy. Clancy says Qantas Super, like its parent airline, takes a safety-first approach. "We don't invest like other funds," he says. "We think our first job is to protect the retirement savings of our members, so we are focused on constructing thoughtfully diversified portfolios that should perform well when markets get tough."

The fund also seeks to be competitive after fees and taxes, and after adjusting for risk. Clancy says as of June 2018, Qantas Super's investment options are generally exceeding their return and risk objectives set out in the fund's Product

Disclosure Statement. Also, risk-adjusted returns after fees and taxes are ahead of the median super fund over the time horizons that matter.

Clancy says that corporate super funds can have a bright future if they have scale, but also a genuine member focus, and a clear value proposition.

Qantas is unique, he says, because of its 'safety-first' investment approach, but also its insurance offering. Many of Qantas Super's members couldn't get Total & Permanent Disability, nor Income Protection, insurance individually because of their risky occupations, so Qantas Super makes sure it provides these at competitive rates.

Clancy says one of the terrific things about Qantas Airways is its approach to diversity and workplace flexibility. "It makes managing my work life balance relatively easy," he says, adding to be more proactive. He says that at 55 to 60 years of age Australians tend to become more interested in super, but the challenge is to get 40 to 45-year-olds more engaged.

"If funds can engage members when they are younger, they can help them improve their general financial capability, and encourage them to think through their retirement goals," he says. "They can then work to close any retirement lifestyle expectation gaps by setting more realistic expectations or encouraging members to save more or work longer."

Driving early engagement requires trying new and different things.

A major challenge is human behaviour. People treat their 'future selves' like strangers. Qantas Super created a virtual reality game show called Retire Right to put people in the shoes of their 'future selves'.

> "If funds can engage members when they are younger, they can help them improve their general financial capability, and encourage them to think through their retirement goals"

that he has four children (and one grandchild) with his "wonderful wife", to whom he has been married for 27 years. "Family, and spending time with them, is really important to me."

Clancy heads up a major corporate fund at a period of significant change for the industry, including the Financial Services Royal Commission and Productivity Commission. He says they will improve member outcomes.

"One of the strengths of Australia's super industry over the last three decades has been the willingness of Government, regulators and super funds themselves to review how the industry is serving its members, look for ways of doing this better, and implementing change."

But Clancy says he is focused on a bigger picture: building member confidence in superannuation.

And as reflected in his development of the Qantas Super CSBA Retirement Confidence Index, Clancy has a broader desire to boost confidence, not just at Qantas Super, but across the entire industry.

But how does the industry boost confidence?

Clancy says they key is for the industry to encourage members to think about super earlier in their lives and

Retire Right uses a virtual game show format to illustrate how topping up your super now can directly result in a better lifestyle later.

While driving broader industry change is important, Clancy's primary focus is on Qantas Super.

2019 will be a milestone year for the fund. "Next year is our 80th anniversary, which is nearly 50 years longer than the modern super system," Clancy says. "There are not many super funds in Australia that have been around 80 years."

Clancy's work to build member confidence and play to the fund's strengths is helping build the foundations for another 80 years of serving members.

Ultimately, Clancy says Qantas Super wants to enable its members to do in retirement the things they have always wanted to do.

"Many Qantas employees love travelling and look forward to experiencing the richness and diversity of what the world has to offer," he says. "In a direct way, they help Qantas Airways' customers see the world every day. Our members look forward to being able to enjoy similar experiences when they have the opportunity to do so in retirement." SF

TELLING THE STORY

The 'Protecting Your Super' changes will raise the stakes for funds to effectively explain the value of insurance in super to members. **IAN TAYLOR** looks at how funds can better "tell the story".

The role of insurance in super continues to be hotly debated. But without it, most working Australians and their families would have no form of lifestyle protection.

According to a 2017 report by independent consultants Rice Warner, the super industry is the leading provider of death and TPD insurance in Australia, accounting for 71 per cent of all life cover and 88 per cent of all TPD cover. Many workers who do not normally take out insurance cover or would not otherwise qualify have it automatically provided to them when they join a super fund. For many, it is the only insurance cover they can obtain.

It's through this lens that we should be trying to help working Australians understand the insurance cover in their super and its value.

Yet, the role of insurance in super continues to be questioned. Look at the changes proposed in the Government's *Protecting Your Superannuation Bill 2018* and you can see that many don't appreciate the value of insurance in super, at least for some member groups. With a start date of 1 July 2019, this Bill will make the provision of insurance cover within super accounts opt-in only for members who are young, inactive or have low balances.

THE SUPER SAFETY NET

The 'Protecting Your Super' changes, as currently proposed, will remove what is a super safety net for many members. This is particularly the case for industries where there are increased risks, such as mining, construction, emergency services and healthcare. Those who leave the workforce for an extended period (for example, to start a family, care for elderly parents or establish a business) will also be left at risk.

The onus will be on these people to look out for themselves but few understand the value of insurance in super and most find it confusing. What can the industry do to better "tell the story" of the value of insurance in super and get members to act and respond?

ENGAGING MEMBERS

Here's six ways to help explain the benefits of insurance in super and engage members to take action:

1. COMMUNICATE EARLY

Before 1 July 2019, funds will need to provide existing members affected by the changes with the opportunity for their insurance cover to continue. 30 days will likely be the minimum notice required but ideally 2-3 months will be needed to give members sufficient time to consider their options and get the help they need. This may not be possible given funds are likely to need to renegotiate contracts with insurers and update administration systems. However, should the changes go ahead as planned from 1 July 2019, funds may need to start planning their communications now.

2. FOCUS ON WHAT'S IMPORTANT TO MEMBERS

A survey of 1,500 working Australians by MetLife in 2017 found these three key benefits had the greatest appeal to members:

- the tax advantages of premiums being paid from super
- lower costs resulting from bulk purchases of policies
- automatic acceptance of people with no health check.

The survey also found that these benefits have low levels of awareness. Some 56 per cent were not aware of the tax benefits and 61 per cent were not aware that insurance is bulk purchased. Further, 52 per cent were not aware that many super funds automatically accept people for insurance cover without requiring a health check.

Communications to members can be improved by focusing on what matters to members – not what we think they should know or care about.

3. ALLAY CONCERNS ABOUT THE LIKELIHOOD OF CLAIM PAYOUTS

According to Rice Warner's 2017 report, 59 per cent of working Australians have concerns about the payout of claims. This is despite APRA and ASIC statistics revealing that 92 percent of finalised claims were paid in 2017. These figures signify a lack of trust in insurance companies, an issue not helped by the recent findings from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The task of re-building trust won't be easy, but two initiatives that can have a positive impact are highlighting your claims paid experience (for example, in your annual report, on your website and in insurance change communications) and making the claims process as easy as possible (for example, with 'how to claim' guides).

4. CUT THE JARGON

There's a lot of 'insurance policy-speak' in super fund communications. Some of this, such as disability definitions, is unavoidable. But too often super funds rely on replicating information contained in the insurance policy as a means of protecting themselves. Insurance policies are generally very technical, compliance-heavy documents. What members need is simple, jargon-free communications that clearly explain what they're covered for and offers easy steps for members to take.

One way of providing this is through case studies based on actual member experience. Members can relate to the stories of other members. Case studies provide members the opportunity to see the impact of sickness or injury on the member and their family, the invaluable support provided by their insurance cover, and the claims outcome.

> "should the changes go ahead as planned from 1 July 2019, funds may need to start planning their communications now"

5. MAKE IT EASIER TO WORK HOW MUCH IS NEEDED

According to MetLife's survey, two-thirds of working Australians don't know how to calculate the life cover they need. Over half of these with insurance inside super suspect that they probably don't have enough cover. And 50 per cent are unaware of options to increase their cover.

The take-away is that if funds can help members work out how much cover they need and follow through with the options for increasing cover, more will take out the cover they need. Tools such as insurance calculators that help members identify their financial commitments and then lead them to action are invaluable.

The role of advice is also vital. The MetLife research identified that 29 per cent of working Australians had modified their level of insurance cover after their adviser recommended it. Communications should encourage and provide an avenue for seeking advice to ensure the right level of cover at every opportunity.

6. DELIVER THE RIGHT MESSAGES AT THE RIGHT TIME

There are key 'trigger' times when members may consider changing their insurance cover. Times such as getting married, taking out a mortgage, starting a family or changing jobs. These changes in members' circumstances are opportunities for engaging them in reviewing their insurance cover.

The difficulty for super funds is identifying these trigger times. Funds generally don't know when a member is getting married or starting a family and usually only learn of a change of job after the event. But funds hold a significant amount of data on their members and some of this can be used as indicators of a likely change in a member's circumstances. Indicators such as:

- new member account
- change of employer
- name change
- address change
- beneficiaries updated
- ceasing contributions or reducing contributions
- investment switching.

These triggers can all be used to deliver the right message at the right time and increase member engagement in insurance.

Building member awareness of insurance cover in super continues to be a significant challenge for funds. Communicating changes such as 'Protecting Your Super,' to historically disengaged members and prompting them to opt-in for cover will not be easy.

It's time for the industry to "tell the story" to members of the value of insurance in their super. SF

Ian Taylor is principal consultant at Transform

Evidence-based pension policy

lessons across the globe

All around the world we are struggling to solve similar pension challenges. And although each country has its own story, the similarities are striking. **STEFAN LUNDBERGH** looks at five common factors that require special attention in pension policy.

In international pension discussions, it is common practice to use Sweden, Chile and Australia as examples of Defined Contribution (DC). Even though they are located on three different continents, each of these countries has a distinctive culture and unique historical context when it comes to social security and pension policy.

About a year ago, I led a pilot study for the Swedish Government covering the Swedish Premium Pension which is unique as a mandatory individual DC scheme integrated in the Swedish State Pension. It is a sibling to the more well-known mandatory pay-as-you-go system with a capital buffer (Notional DC). The first pillar system covers everyone who is currently working, or has been working, in Sweden. Data on individuals' choices is available since its inception in 2000. It is a rich source of individuals' information that can be cross-referenced with background data such as age, income, marital status, postcode and so on, so there is no lack of information regarding scheme members' actual behaviour.

During this study we looked into both Chile and Australia to learn from their long experience with DC pensions. This provided us with the opportunity to observe full policy circles typically starting with an expert commission identifying problems, followed by the introduction of new pension policies aimed to deal with the identified problems. Moreover, it gave us the opportunity to learn to what extent the policies actually resolved these problems. This historical analysis provided invaluable information as it helped us to assess the potential effectiveness of different policies.

In my most recent trip outside Europe, I attended a conference where Latin American regulators assembled to discuss ways to improve their different pension systems. This was an eye-opener for me; it was amazing to see how similar their problems were even if specific details were different depending on the local context. The core challenges centre on:

- how to get individuals to save for their pension in the first place, and
- how to mitigate bad market practices.

A COMMON DENOMINATOR

Most countries face the same basic problem: consumers are not acting as policy makers expect them to. To explain this uncomfortable deviation, consumers are typically labelled as 'irrational' by policy experts. Significant effort has been spent on improving financial education and market transparency in the hope that consumers will fundamentally change their behaviour to become more like the expectations of the policy makers. There is some irrationality present in this logic, which should not be attributed to the consumer. A more sensible approach is to apply an evidence-based approach to pension policy. That means trying to understand how consumers actually behave and then building a system around that.

SWEDEN AND CHILE

A good lesson from Sweden is the national administrative infrastructure around the Premium Pension. With a national administration of pension rights, providers are 'only' competing by offering different investment services, which eliminates expensive transfer and administration costs.

However, the main problems in Sweden were the poorly designed choice architecture resulting in over 850 mutual funds with no gate-keeper. This poor design was based on a misplaced belief that the competition between mutual funds on the retail level would automatically clear the market with respect to price and quality. In fact, it did the opposite – this ideologically driven design allowed for fraud and bad marketing practices.

Chile, on the other hand, has a better designed choice architecture where each provider can only offer five different types of funds. Each type is prescribed by regulation and, to keep prices low, there is an auction for the inflow of new participants. One would expect this to be a recipe for a user-friendly low-cost system but, despite the products being almost identical and relatively easy to compare, most switches are the result of aggressive retail sales practices fuelled by high commissions paid via administrative transfer costs.

There are five factors that require extra consideration in pension design.

1. POLITICAL TRUISM

Political ideology is tightly linked with economics; socialists base their world view on Marxist theory; market liberals have built their world view around Milton Freidman's theories and so forth.

The challenge is that academic economic theories have been upgraded to political beliefs that, over time, have solidified into political truisms. Politicians from both the left and right are trying to reshape the world into a 'better' place, where 'better' reflects their particular ideal for how the world should work.

The biggest challenge for evidence-based pension policy is to convince politicians to look at how people are behaving, not what their particular political ideology predicts people will do.

2. LOCAL CONTEXT

Despite the similarities, each country across the world has a unique context in terms of state pension, old age poverty protection and other forms of social security for its citizens. The design of the occupational pension is conditional on the local context and how that is expected to develop over time. The latter is especially important in those cases when the current welfare solutions are not deemed to be sustainable in the long-term, for example due to an aging population.

Australia and Chile have mandatory participation of workers in their second pillar pension system. In Sweden and The Netherlands the workplace pension is quasi-mandatory and supervised by the so-called social partners (employer organisations and trade unions). But in all these cases, the growing group of self-employed workers is not covered by the second pillar pensions.

In countries with a large informal sector, pension coverage has been a problem as an average worker is only officially employed for a portion of their career. In Chile, the average worker contributes to workplace pensions in 40 per cent of their career and this is referred to, in the academic literature, as density of contributions. In a way, the Latin American countries have been dealing with the self-employed challenge for many decades, so it would be natural for us to learn from their first-hand experiences.

3. GOVERNANCE

Most individuals are not engaged with their pension savings and many would not even save unless it was mandatory. It is well-known that pension products are sold, not bought and there is a large imbalance of information between buyer and seller.

If most of us do not act as the principal for our own pensions, to whom can we trust the stewardship? Stewardship includes setting the goal or target of the system, tilting it in favour of the end-user and making sure it delivers value for money. The natural list of candidates includes: government, private sector and social partners.

Although the government seems to be the obvious candidate to assume the role of steward, in countries with a history of corruption and/or a fast-increasing populist political class, consumers' trust in the government, as well as the private sector, is low. Perhaps social innovation based on new technology could become a game-changer to fill the role that social partners had in the past?

4. CHOICE ARCHITECTURE

Each pension system has a choice architecture; offering no choice is also a choice architecture. Practical experience and insights from behavioural economics suggest that a choice architecture should contain a default option and offer a limited number of meaningful choices that make clear what impact the choices will have on an individual.

A broad and complex choice architecture will inevitably lead to choice-overload, which will result in the individual either abstaining from making a choice or asking for advice. This then will lead to the emergence of various sales practices

> "It is well-known that pension products are sold, not bought and there is a large imbalance of information between buyer and seller."

dressed up as 'free advice'.

Nudges implemented in the choice architecture will dictate individuals' decisions. Experience shows that no matter what the default choice is, the majority of members will end up in it. This requires us to design the default choice carefully to meet the goal/target of the pension system in a robust way. If there are no clear goals articulated for the pension system, it is a sign of governance failure.

5. IMPLEMENTATION

Badly implemented, a good and well-considered pension design can end up failing miserably. It is necessary to monitor and supervise the implementation carefully and if it does not work as intended, public interventions are warranted.

For the market mechanisms to work, it is crucial that governments intervene to restore a healthy balance between informed buyers and sellers of products. The DC market is unique because most buyers are largely uninterested but mandated to save for their pension. Sellers provide complex products that are very difficult to evaluate even for a pension specialist. Practical experience shows that relying on retail competition as the main clearing mechanism between quality and prices has not worked well. Mis-selling scandals and market practices that result in higher than necessary costs for members seem to occur all over the world.

A better approach, which requires strong governance, is a system anchored in a good choice architecture for the members. Different components in the choice architecture could be based on collective procurement, benefitting from institutional competition and levelling of the playing field between the consumer and the financial industry.

The art of what is politically possible

Last year, Sweden was able to make a breakthrough in policy regarding the Premium Pension. This was done on the back of fraudulent behaviour in a few of the mutual funds. This created a crisis, which forced politicians to climb out of their ideological trenches and look for a solution. I am fully aware that pension reform is the art of the possible (rather than the optimal) and that the historical path determines what is politically possible at certain points in time.

Different approaches to DC policy have been tried with various degrees of success across the globe. Sweden, Chile and Australia all have a long history of DC policy design and providing consumer choices. The data from these countries is a veritable gold mine for those who are interested in producing evidence-based pension policy.

Although it might seem futile to think outside the current political constraints we occasionally experience a crisis that opens a window of change. We should mentally prepare to move towards more of an evidence-based policy for DC; as Louis Pasteur said "Chance favours the prepared mind". SF

Stefan Lundbergh is a director at Cardano Insights

Quality Matters

The key to producing long-term returns from global equities, writes **EILEEN RILEY** is to find quality companies that can grow their intrinsic value over time.

Markets become volatile as a result of uncertainty, something demonstrated only too clearly by recent trade negotiations between China and the US, and the spectre of an uncontrolled Brexit. The good news is that volatility and challenging economic conditions don't spell disaster for equity investors. On the contrary, investment managers able to identify quality and value will stand the test of time—ignoring the slings and arrows of short-term market fluctuations —and produce long-term investment performance.

WHAT SPECIFIC ISSUES DO INVESTMENT MANAGERS FACE TODAY?

Technology, and the pace of technological change, is impacting all industries not just tech stocks.

From consumer staples to industrials, technology is changing forever the way business is done and, for many management teams, keeping up with the pace of change is challenging. Increased access to information via the internet has allowed for price transparency in a variety of businesses in a way which was not possible in the past.

We have observed pressure on distribution models happening hand-in-hand with increased price transparency driven by increased access to information. Consumers can see prices across markets easily in many cases, so the ability of a business to maintain price (and price differentials) has been eroded in many instances. As a result, it is incumbent on businesses to respond to these challenges in new ways, and only some will ultimately be successful.

In our view, there are three rules which, when applied rigorously, can help investment managers generate long-term performance in rapidly changing market conditions.

RULE #1: UNCONSTRAINED UNIVERSE WITH A DISCIPLINED PROCESS

Businesses that focus on the best ideas, and execute well, will ultimately perform better than their peers.

These businesses exist across sectors and geographies and are not limited to a single style characteristic of 'growth' or 'value'. Thus, a highly disciplined research process that isn't constrained in terms of the universe of stocks it starts with may be better placed to identify these businesses.

On the face of it, unconstrained choice with a disciplined process may appear contradictory, but in fact, it is a powerful discipline. We have employed this discipline to keep us on track as we seek to identify the best ideas. Specifically, it has enabled us to focus on the following drivers of alpha: quality, intrinsic value growth and valuation.

- **Quality** has a number of dimensions, including the sustainability of the company's business model in its given market, the strength of management and their ability to allocate capital, as well as ESG considerations.
- **Intrinsic value growth** speaks to the company's capability to grow profits and specifically free cash flow. Quality businesses are better positioned to grow their intrinsic value; it is the combination of quality and intrinsic value growth which generate a 'duration effect'– in other words, they add value to a stock over time.
- **Valuation –** Many commonly used metrics, like 12 month forward price/earnings ratios, do not capture the value derived from a quality company's ability to sustainably grow its free cash flow over time. For that reason, we are not focused on relative valuation metrics in our valuation of businesses.

RULE #2: INVEST ONLY IN THE BEST IDEAS

It is important to stress that being unconstrained doesn't mean a portfolio of hundreds of stocks. A concentrated portfolio can be a good thing, if you are concentrated in quality. As important as diversification is, in our view, a concentration of very good ideas is always better than a broader portfolio which (by default) would include less good ideas. There is nothing to be gained by allowing good investment ideas to be diversified away.

RULE #3: INVEST FOR THE LONG-TERM WHILE USING SHORT-TERM VOLATILITY TO YOUR BENEFIT

The ultimate aim of deep fundamental research on quality and value is to produce long-term returns by taking advantage of key inefficiencies – in terms of duration and mispricing. To capture the benefit of the duration effect an investor needs a longer-term view. That said, short-term market volatility is often driven by more macro-oriented events and the underlying fundamentals of a business have not changed. By continuing to focus on long-term alpha drivers in periods of market uncertainty, investors can build position sizes in favoured stocks (or trim positions that have not done well).

THE BOTTOM LINE? GOING GLOBAL MAKES SENSE FOR AUSTRALIAN INVESTORS

International equities provide welcome diversification for superannuation funds, particularly at a time when their ability to invest large, and growing fund flows in the domestic market is becoming challenging. Looking over the horizon offers the possibility of investing in an unconstrained universe of stocks, but identifying the best ideas and quality companies means sticking to a disciplined investment process in all market conditions. SF

In Australia: Provided by Natixis Investment Managers Australia

Eileen Riley, CFA, portfolio manager, Loomis Sayles Global Equity Strategy

Time is of the *essence*

After suffering an injury or illness covered under their group insurance policy, many members don't claim the benefits they are due as quickly as they can. **JENNY OLIVER** and **DARREN WICKHAM** set out to find out why and what can be done to change this.

The purpose of life insurance is to provide financial security and peace of mind to those we protect, when they need it most. However, our analysis shows that members covered under group insurance wait on average two years after falling ill or suffering an injury to notify us of their claim.

Needless to say, this delay limits our ability to provide timely assistance by supporting a member to return to work or by getting financial support into the member's hands as soon as possible. That is why we launched a study aiming to answer two key questions –

- why do these members wait so long to claim, and
- what can we do to reduce the delay?

We believe this research merits an industry-wide effort to reduce claim notification delays. We are already working on a few initiatives, from new methods of engagement to predictive data modelling. But we can't do it alone – this issue cuts across health, government, insurance and superannuation funds. Our overriding aim must be to make it as easy as possible to get the benefits of insurance in the hands of those who need it, when they need it.

TESTING INDUSTRY ASSUMPTIONS

When we set out, many people across the industry agreed on the likely cause of the delay: superannuation fund members are broadly disengaged and unaware of insurance in superannuation. We had some other ideas, too:

1. certain product names, such as "total and permanent disability," may be a deterrent,
2. other sources of income are front of mind – such as Centrelink or workers' compensation.

But it's not good enough to have a theory without testing it. And when it comes to member behaviour, it needs to be tested with a broad range of people across demographics, conditions and cover types.

Working with our superannuation fund partners, we began reaching out to hundreds of successful claimants. While our research is on-going, we have surveyed 148 members so far and it has quickly become clear that a total lack of awareness is not a major driver.

In fact, the vast majority of people were aware they had some form of insurance from the start – only 5 per cent were totally unaware of their cover, and 4 per cent had forgotten about it. Given the industry commentary around disengaged members, we found this very surprising.

That said, there is clearly a lack of understanding when it comes to the specifics: 25 per cent were not aware they had a suitable policy. Yet a much larger portion of people – 47 per cent of respondents – were simply not in the right frame of mind (including facing up to a reality they may never work again), and 33 per cent had other priorities (like focusing on their recovery).

CLAIMANTS ARE PATIENTS FIRST

This came to form our first and most powerful insight: before claiming, each person's priority is to deal with the immediate consequences of a serious accident or illness. The fall-out reaches across their long-term health, family

> Our overriding aim must be to make it as easy as possible to get the benefits of insurance in the hands of those who need it, when they need it

relationships and working lives, and naturally leads them to similar questions:

1. How will my health and physical ability change in the coming months and years?
2. Will I be able to return to work?
3. Will I be able to return to my “normal” life?

In the meantime, 65 per cent of our survey respondents relied on sick leave or annual leave, and 61 per cent tapped into their savings to fund living expenses. While most don’t regret delaying their claim, they do acknowledge it has had an effect on their finances and health.

MEET MEMBERS WHERE THEY ARE

Clearly there is an opportunity for those of us looking after members’ financial security to play a more active role. But rather than each of us simply launching our own engagement initiatives, we can do more to leverage existing opportunities and meet members where they are.

It is particularly revealing to look at the people and organisations that members naturally look to for advice. More often than not, the most significant influencers are doctors, families and friends.

Healthcare professionals obviously play an important role – 81 per cent of claimants received advice from one prior to starting the claim process, but only 11 per cent of these interactions sparked the insurance claim.

In a similar vein, most claimants have discussions with their employers when they need support in making claims. This is typically later in the process, even though HR teams are often the first to find out about the event leading to the claim.

In partnership with superannuation funds, employers, and workers’ compensation providers, our first opportunity will be to make it easier for all key influencers to give members high-value information about insurance in super, when appropriate.

We are consulting our Medical Specialist Advisory Board on the question, and reaching out to healthcare organisations, employers and workers’ compensation providers, starting dialogues and creating initiatives to figure out what will be most effective.

FINDING THOSE IN NEED

Another fruitful avenue will be predictive modelling. Funds and other organisations, such as Centrelink, the National Disability Insurance Scheme and workers’ compensation insurers, have access to high quality data and information that could tell us whether a member is likely to make a claim. In fact the existing ATO SuperStream data standards include optional fields that would prove extremely useful if they were made compulsory.

Using this data responsibly and properly while working with superannuation funds, we may find opportunities to intervene sooner by proactively contacting the member in question, cutting the notification delay and generating a more positive outcome.

Indeed, our research revealed that members are happy to be contacted three to four times a year if the content is timely and relevant.

In the coming months, we will be working to finalise our research and test some of these initiatives. While it will undoubtedly take time for these changes to make themselves felt, we feel this is an issue best solved by bringing all parties to the table to agree on an industry-wide response and fully deliver on the promise life insurance holds.

We look forward to updating everyone as the research is concluded and our initiatives enter pilot in the coming months, and we welcome any thoughts, questions or engagement opportunities in the meantime. SF

Jenny Oliver is general manager of group insurance at TAL, and Darren Wickham is general manager – group life product & pricing, investments and retirement incomes at TAL

GAME READY

Organisations around the world are recognising that gaming and gaming elements have become ubiquitous in our daily lives. **CYNTHIA CHEONG** and **ADI STEPHAN** explore how superannuation funds can tap into this to help promote member engagement.

Whether on our phone, via the internet or through various devices, we are exposed to gaming elements. Think about your everyday journey to work. The mobile game apps you play with, the badges you earn for hitting the target with your smartwatch, or the loyalty points you receive for shopping. When we think of games, we think of fun and the feeling of exhilaration when we win or complete an adventure.

Mercer's 2020 Super Fund Executive Report (Mercer, 2017), found that 39 per cent of superannuation funds rated 'improving member engagement and service' as their top business and strategic priority. However, the industry is facing a growing distrust and disengagement from Australians, ranging from Millennials to the indigenous communities. Key to this problem is the lack of understanding about how superannuation works possibly due to a general deficiency in financial literacy. So how can the industry transform a seemingly mundane topic into something fun, sticky and engaging?

Perhaps the industry could look at designing mobile-based learning apps that will help teach financial literacy and link them to superannuation. When Millennials are asked about which mobile apps they use to learn about finance, apps like Acorns and the Commonwealth Bank are cited, because these are interactive and teach them to save.

Millennials are acknowledged to be the cohort keen to make a difference and change the world. Imagine a mobile learning app that teaches them how to ethically invest via their superannuation fund by selecting investment options that invest in sustainable initiatives.

INTERACTIVE LEARNING PRINCIPLES

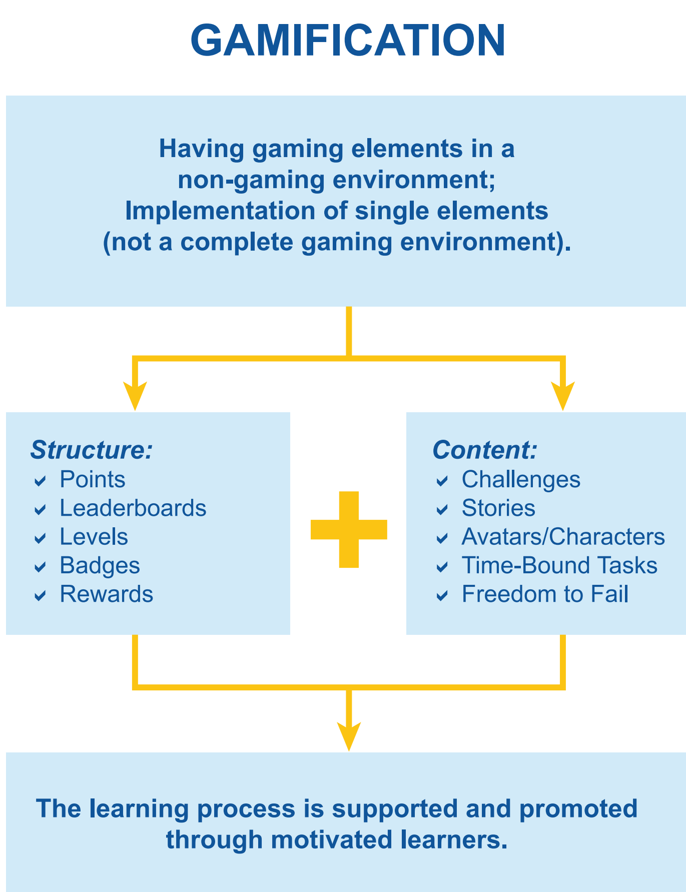
There are key principles to building an interactive learning experience by applying gamification elements, such as:

- Learning must have contextual relevance from a strategy, culture, and values perspective. It needs to be relevant to real life and games can be used to simulate this.
- Learning is most effective when learners are intentionally and repeatedly exposed to a cycle of learning, practicing, reflecting, and then repeating. This can be built into the game mechanics.
- Learning becomes engaging when users share experiences through high score badges and leader boards. The competitive streak in some will kick in to try harder and achieve more.
- Learning is an experience as opposed to a once-off event; entails a process of learning over time, by creating a game that is not time constrained.
- Learning is a social experience, and a gaming environment allows learners to exchange ideas, and gain understanding from collective or shared experiences.
- Learning should provide instant feedback.

A gamification example using these principles is IQ Business South Africa's online learning delivery used to address resilience for a major bank spread across Africa. Users click on a secure browser link which opens to a game show room complete with game show host, avatar selection and a Wheel of Fortune-like spinner that randomly selects trivia topics. Users earn points with correct answers and learn why immediately if they make an incorrect selection.

Organisations that intentionally incorporate gamification understand that gaming is age irrelevant and should embody the brand and culture of the organisation. So, the game mechanics should be customised to teach users what the brand stands for. A great example of this is when Siemens was faced with major branding and communication challenges involving a diverse set of internal and external stakeholders. Their solution was to design Plantville, an online gaming platform to give the experience of being a plant manager. Players were challenged to maintain operation of their plant while improving productivity, efficiency and facility health. The online game hit the mark with their target stakeholders and more. Stories about Plantville were featured in more than 235 outlets, reaching more than a million people.

Games unleash "people's natural desire for competition, achievement, status, self-expression, altruism, & closure." JD Dillon



Source: IQ Business South Africa

GAME DESIGN

Gamification design elements have structure and content. Structure consists of points collection, leader boards, levels of difficulty, badges and rewards. Content comprises challenges in progressive stages, stories that are captivating, avatars or characters players can adopt, time-constrained tasks and freedom to fail (including the ability to respawn to try again). Behavioural science research shows that gamification can instil behavioural change depending on what the game is teaching, engaging and motivating. Popular gamification technology includes game design tools like Unity and Unreal Engine.

> Games unleash "people's natural desire for competition, achievement, status, self-expression, altruism, & closure."
>
> JD Dillon

Gamification is also becoming a popular method to engage with customers as it encourages participation, engagement and loyalty. Think of what superannuation members could be interacting with – the website, the app, the social media page or all three. Then integrate game mechanics to draw them in regularly.

There are a handful of superannuation funds that have some degree of gamification in the form of retirement calculators where members can enter financial data, receive a ranking and see where they are likely to retire. Members can plug in different numbers to view different results. This is a start.

Consider gamification when you begin onboarding members. Can members earn loyalty points by completing a survey of the onboarding experience? Perhaps more points are earned when members visit their account to complete a task on the website. The points could then be converted to a tangible reward or even donated to a charity of their choice.

The use of gamification should always be linked to the overall fund strategy targeted at member segments that the funds would like to increase engagement and interaction with. Consider the strategic outcome, is this about increasing membership growth or a preventative strategy to stop further decline in the member segment? Also consider how this segment likes to be communicated with and leverage on technology to reach out to that segment.

The question of 'what to gamify?' should be answered by your members. Add gamification to what members care about and something they value. Otherwise incorporating game-like mechanics that do not serve an end purpose will be a complete waste of time.

THE FUTURE

The future of gaming will invade the corporate world as technology rapidly advances into the areas of Virtual Reality (VR) and Artificial Intelligence (AI). We are likely to see playing freedom across platforms allowing users to move device platforms without any gaming interruptions. Online gaming spectators will become a norm. As user experience and functionality continue to enhance, players can shape, enhance and control their game play. Social media will become more integrated into gaming and gaming will require physical involvement of the participants. Online gaming will become social.

HIQ Learning Services, a company of IQ Group Australia has teamed up with its sister company IQ Business South Africa to incorporate gamification elements into learning and customer engagement. In July 2018, in celebration of Nelson Mandela's 100th Birthday, IQ Business South Africa in collaboration with VictoryVR, developed a virtual experience that allowed users to stand in Mandela's shoes. The journey, created in virtual reality, enabled users to stand on the hills near Mandela's childhood home and his prison cell on Robben Island.

Imagine a VR experience built to teach the next generation of Australians about superannuation and retirement, like a 'choose your own adventure game'. The choices they make in different phases of their VR life can lead them to different retirement scenarios. The time to incorporate gamification is now. Our future is game ready. SF

Cynthia Cheong is practice leader for HIQ Learning Services, a company of IQ Group Australia, and Adi Stephan is head of learning & development, IQ Business South Africa

super verdict

Seeing things clearly

MATT DALEY, JANE PASKIN AND VANESSA PALLONE OF CLAYTON UTZ

CASE 1

The member had four units of default Total and Permanent Disablement (TPD) insurance and in March 2010 he applied for six additional units of underwritten cover. To obtain the cover he was required to answer a number of questions for the insurer. He answered each question 'no', including one which enquired if he had lost the sight of an eye.

By April 2015 the member was legally blind with a medical condition known as Stargardt's Disease which was confirmed by DNA testing later in the year. The condition involves progressive retinal degeneration. The member had first noticed something was 'not quite right' with his eyesight in 2009 when he went and had his eyes tested at a city optometrist whereupon it was suggested he see a specialist. He had some distortion in his eyesight but not loss of vision.

The insurer denied the claim on two grounds. First, the member was not TPD under the policy terms and, secondly, in relation to the underwritten cover, due to fraudulent misrepresentation and/or non-disclosure under the Insurance Contracts Act 1984 (ICA).

The trustee formed the view the insurer should pay and the complaint was referred to the fund's Claim's Review Committee (an external review process). That committee concluded the member did satisfy the TPD definition and they recommended the default four units of cover be paid. That part of the claim had been paid by the insurer before the Tribunal hearing which resulted in a narrower question being decided by the Tribunal, namely, whether there had been non-disclosure under the ICA entitling the insurer to not pay out on the additional six units of underwritten cover.

The insurer argued that the member's response to the loss of eyesight question was incorrect and, therefore, a misrepresentation or, alternatively, the member did not comply with his duty of disclosure by failing to inform the insurer that he had been diagnosed with a serious eye condition, or that he had already consulted a specialist in relation to that condition.

Now the question actually used the words – 'lost the sight of an eye', but the insurer argued that the question was really directed towards whether there had been a diminution of eyesight. It was not a question meant to be read narrowly as if only asking whether the applicant was legally blind.

The Tribunal referred to the dictionary definition of 'lost' and noted that the Oxford English Dictionary said something was 'lost' if it was 'perished' or 'destroyed'. In the Macquarie Concise Dictionary the word lost was defined as 'no longer possessed or retained'. Given these meanings of the word lost, the Tribunal was of the view that if the insurer meant the question around lost eyesight to have been interpreted as 'loss, not limited to complete loss of vision' it should have crafted the question in that way. There was also no catch-all question or other opportunity for the member to expand on the presence or otherwise of any significant eye condition. Further, the member had significant residual vision when he answered 'no' to the question about his eyesight and there was medical evidence that in 2010 the member had no expectation of going blind.

The Tribunal was satisfied there was no fraudulent misrepresentation when he applied for the additional six units of cover. The member had answered the question honestly.

In these circumstances, the Tribunal decided to set aside the insurer's decision and substitute its own that the insurer pay the trustee the six units of underwritten cover together with interest in accordance with the ICA. Similarly, the trustee was required to pay the amount received to the member within a reasonable time period

Case D18-19\028

CASE **2**

This case concerns the trustee's decision to not compromise (settle) the complaint of a member who was complaining about higher insurance costs (amongst other matters) as a consequence of a successor fund transfer (SFT).

In the member's submission he wrote:

"I do not believe that either [the Former Fund trustee] or [the Trustee] has acted in my best interest – a basic requirement for all insurers and super fund providers. They knowingly transferred my fund without me signing any permission for that to happen on the basis of a group decision in the interest of the bulk of members generally. In my case that was not beneficial".

The former fund trustee provided the member with advance notice of the SFT (in accordance with legal requirements) and during that period the member could have exercised his choice to transfer to another fund. The trustee's notice provided information about the increased insurance costs explaining that the costs were going up as the new fund did not use unisex premium rates.

The words *'successor fund transfer'* are defined in the *Superannuation Industry (Supervision) Regulations 1994* to mean a fund that confers on the member equivalent rights that the member had under the original fund in respect of the transferred benefits and before the transfer takes place the two trustees must be in agreement that this is so.

APRA has given guidance to trustees around conducting an SFT. In this guidance the regulator notes that in addition to satisfying the requirements of the regulation a trustee has to act in the best interests of the members *as a whole* and that it is important to identify all legally enforceable rights under the fund's governing rules, general law and legislation. Some rights may be alterable while others not.

APRA's guidance also states:

"that the assessment of 'equivalent rights' means that the members' rights in the receiving [fund] are required to be equivalent, but not equal, to their rights in the transferring [fund]. Accordingly, APRA expects a transferring [trustee] and a receiving [trustee] would undertake the assessment of equivalent rights on a 'bundle of rights' basis. In determining which rights are to be bundled and considered together, APRA expects a [trustee] would give appropriate weighting to significant rights and the materiality of any changes to individual rights. APRA considers that a 'line by line' comparison of every right is unlikely to be required".

Trustees also need to consider the difference between a 'right' and a 'feature' noting that the features across two funds can be different without impacting the SFT equivalency analysis. APRA are of the opinion that it is permissible to consider equivalent rights based on groups of members with common rights.

The Tribunal noted that it was unable to deal with complaints that relate to the management of the fund as a whole. The decision around the SFT related to the group of transferring members and was not a decision with respect to the member individually. The Tribunal went on to note that the trustee was not bound to act in the member's individual best interests when deciding whether or not to do the SFT. Rather, the trustee was obliged to ensure that the transfer met the legal requirements.

In VBN and Ors and Australian Prudential Regulation Authority and Anor [2006] AATA 710 the best interests duty was discussed and it was held:

"The fact that it is not in the best interests of one group of Members does not necessarily mean that the Trustee has not acted in the best interests of the Members as a whole or that it acted as a prudent person. Regard needs to be had to the outcome for all Members".

The Tribunal acknowledged that the change in insurance premiums did have a significant adverse impact on the member due to rates no longer being calculated on a unisex basis. Over 60 year old males were particularly affected by the change but on an overall basis the new insurance arrangement was in the best interests of the members as a whole because fund members' premiums were not being subsidised by other members.

The Tribunal decided that the decision of the trustee to not settle the member's complaint for the increase in insurance costs after the SFT had taken place was correct.

Case D18-19\013 SF

The rise of the sophisticated super admin platform

Jeff Hall

Managing Director, superannuation at IRESS

Over the past few years super administration platforms have taken important strides as they seek to service the needs of all end users – from the fund, all the way through to the member. Imagine sophisticated tools, higher levels of straight through processing, the removal of paper-based processes and intricate calculations for complex outcomes and you have the making of the modern super fund experience.

For 25 years funds have been focused on inflows, however, they now have more members moving into the decumulation stage. With this renews the focus on the delivery of a comfortable retirement and a new challenge for super funds. It is more important than ever to offer tools for retirees to transparently manage their retirement funds.

These tools include the ability to track spending, categorise expenditure to better manage budgets, monitor investment balances in real time – as well as more options to connect and build a better relationship with their super fund. Digital signatures, online transactions, personalised content and the option for digital advice offerings, now need to be factored in to a super fund's client service toolkit.

PREPARE FOR MULTIPLE PHASES OF RETIREMENT

The goal is to factor in the multiple phases of planning for retirement – from fund to guided or self-directed advice to planner. The member, the fund and third-party providers in its support network need to see the same information.

When everyone involved can access the scenarios, which have been modelled for the member, this helps understand the member's train of thought. Understanding the mindset of the member will certainly go a long way to enhancing support and enable funds to more effectively tailor their services.

Platforms also need to be focused on open integration with other specialist providers. This will help the core administration platform to integrate workflow, business intelligence and other solutions and tools as needed.

SOFTWARE AS A SERVICE IS THE FUTURE

What this means is that the super fund platform is morphing to be a highly functional yet differentiated offering. The traditional on-premise model is now also available as a software as a service (SaaS) option. The SaaS model meets the growing need for super funds to drive efficiencies, scale and cost benefits to add value for members. In a nutshell, if you are spending less time managing your administration IT, you can re-direct those resources to better servicing members.

The digital journey for super platforms and the member experience is not 'done' and the delivery of online transactions is only the beginning. Members are demanding more over time as the industry raises the bar. It's best to consider the member experience as an ever-evolving challenge.

Retirees are looking for new sets of tools – they no longer need to calculate savings, instead, they need to monitor what their super is earning and what they are spending. An online member portal that is easy to navigate, highly responsive and simple to use is crucial. Many funds may have to escalate this in their plans and apply a sense of urgency around this evolving trend.

THE SHIFTING DIGITAL BASELINE

From this perspective, the superannuation industry has not yet reached transactional maturity. It's clear there is a need for more straight through processing in fund administration to deliver more value. Many funds have embarked on a digital transformation strategy, however, the digital baseline has and will continue to shift – in many instances, members don't know they want more but they will in the near future.

Today members are both wanting and expecting their fund to have a fully transactional website with mobile enablement. This means they want the capability for online claims, the ability to search and consolidate lost super online and remove virtually every paper transaction from their customer experience. Just like banking has morphed from the ATM to the desktop to the mobile app, the digital super journey needs to continue to evolve.

Over the next three years, driving member engagement and usability with more integrated offerings will become the norm for funds. Recognising how the administration platform can better support the multiple phases of retirement is how our industry will evolve. This means funds need to review where they are spending their digital dollars.

Adding value with multi-channel experiences for members across every step of their life stage should influence the selection of vendor offerings. Look for both core administration platform with highly differentiated options for marketing and integration capability, so you can remain relevant to your members both now and in the future. SF

By Jeff Hall, managing director, superannuation at IRESS