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ON THE COVER

REGULARS

This magazine is printed on Programme for the Endorsement of Forest Certification (PEFC) – certified paper from sustainably managed forests.

Protecting **members**

Dr Martin Fahy

ASFA Chief Executive

The Government's Protecting Your Super (PYS) package which was finalised in April this year will do much to improve the superannuation system, especially for those members with low balances. It will lead to a significant reduction in the number of duplicate accounts, a cause ASFA has long supported, reduce unnecessary account erosion, and prevent excessive fees applying to low balance accounts.

But as funds work to implement these measures, it is becoming clear that these benefits come at a cost and in some cases work against the best interest of members. The most serious example of this will be those who need or value their insurance but lose it because they fail to make an election to maintain it by the 1 July deadline. Reasons for this could be either because they don't understand the import of the changes or they never hear about them, possibly because their fund doesn't have their current contact details, or they simply put aside the letter or email for a rainy day.

PYS PUBLIC EDUCATION CAMPAIGN

To mitigate this risk, ASFA and the FSC are working together—along with certain funds, insurers and reinsurers—to create and deliver a fund member information campaign to alert members to the PYS package changes and encourage them to open their letters or other fund communications. Or, if they haven't been receiving any and they think they're affected, to check their super at myGov.

The campaign will rely largely on social media, as well as some broadcast media and PR, and is designed to complement individual fund's more targeted communication campaigns. Agnostic about whether insurance should be maintained or not, the campaign simply aims to get members to check their super and insurance and make a deliberate and educated choice based on their circumstances.

PYS IMPLEMENTATION AND POLICY ISSUES

The PYS package has several unintended consequences in other areas that do not always appear to be in the best interest of members. For example, the new low balance fee cap may apply to sub-components of what is otherwise a high balance account and there also appears to be potential for inadvertent or deliberate 'gaming' of the fee cap for high balance members. These fee cap refunds for such members must be funded somehow and it is likely that they would be drawn from fund members generally. The inequity of raising fees generally to protect members with high balances is clearly not what was intended and should be avoided.

Another example is the potential for low balance components of a high balance account to be transferred to the ATO under the inactive low balance account measure and if the account is active returned to it. Again, this is clearly not in members' best interests.

In consultation with the industry we have compiled a list of implementation, technical and policy issues relating to PYS and will continue to raise these with the re-elected Government, Treasury and the regulators to explore avenues for getting these issues addressed or ameliorated.

The tight deadlines have also added pressure on funds as they and their service providers work hard to meet the implementation milestones. Given these challenges it is important that the regulators take a measured and considerate approach to their supervision as they monitor compliance with the PYS obligations. In the months following 1 July 2019 scenarios such as missing a communication deadline or failing to switch off insurance and then having to refund premiums should be viewed with discernment. The same scenarios in a year or two's time might warrant closer scrutiny.

Trustees are required to act in members' best interest, but I think it is often not adequately understood that to do so they need the help of Government and the regulators. I am confident we can all work together to iron out the practical challenges which PYS implementation has unearthed so that its basic purpose of safeguarding member benefits—especially for those who may be low income, in casual work, or have a long break from work for reasons like rearing a family—can be delivered in full measure.

Whether we like it or not we are moving to a world that demands flawless execution, where there will be little if any tolerance for errors. I have absolute confidence that we can rise to that challenge, but the Government and regulators should recognise their role in this endeavour and that we are in part dependent on them to deliver this result. It is only in this way that members' best interests—by which in practice we mean a decent standard of living in retirement—can be furthered and protected. SF

HEADLINES

ASFA welcomes new Treasury team

ASFA congratulates Josh Frydenberg on his re-appointment as Treasurer and looks forward to working with the newly appointed Michael Sukkar as Assistant Treasurer and Jane Hume as Assistant Minister for Superannuation, Financial Services and Financial Technology.

We also recognise the contribution of former Assistant Treasurer Stuart Robert and congratulate him on his elevation to the Cabinet as Minister for National Disability Insurance Scheme, Minister for Government Services.

Government to review the retirement income system

The newly re-appointed Treasurer, Josh Frydenberg MP, has indicated in a media interview that he will commission a review of the retirement income system, and will revisit a number of other reform proposals that the Government had not implemented prior to the recent election. These include independent directors, opt-in life insurance within superannuation, and 'stapling' of default accounts to new workplace entrants.

Protecting Your Super public education campaign

As a result of the Protecting Your Super (PYS) package that passed through Parliament in February this year, from 1 July 2019 funds can no longer provide insurance on accounts which have not had a contribution in the preceding 16 months, unless a fund member actively opts to retain their cover.

To drive Australians to check whether their insurance through superannuation will be impacted as a result of the PYS changes, ASFA and the FSC have been working together—along with some funds, insurers and reinsurers—to create an engaging and educational communications campaign. The campaign urges members to check their super and insurance and make a deliberate and educated choice based on their circumstances.

Look out for the campaign across social media, as well as some TV and radio.

AIA Australia launches digital health management program for cancer patients

AIA Australia has launched a digital health management program enabling cancer patients to receive care as soon as their claim is lodged.

The CancerAid Health Coach Program is provided to AIA Australia customers while they are receiving cancer treatment and is run in conjunction with CancerAid's app. Additionally, customers have access to healthcare professionals who provide personalised health coaching over the telephone to support them through their cancer treatment.

Damien Mu, chief executive of AIA Australia and New Zealand, said: "The CancerAid Health Coaching program is now being rolled out to all of our customers with cancer. It enables those who have been affected by cancer to achieve better health outcomes."

Maritime Super appoints MLC Life Insurance as group insurer

Following an extensive tender process, MLC Life Insurance has been appointed as Maritime Super's new group insurer,

Effective from 1 July 2019, MLC Life Insurance will provide Maritime Super's members with cover for death, total and permanent disablement as well as income protection.

Maritime Super has more than 27,000 members, mainly from the Seafaring and Stevedoring industries, and has almost $6bn in funds under management.

Peter Robertson, chief executive officer, Maritime Super, said, "We are excited to partner with MLC Life Insurance to provide insurance cover to our members. Their ability to provide tailored service propositions that meet the specific needs of our members, combined with their commitment to innovation and technology, was a key reason for making this decision."

Could super funds in Australia control more than half the ASX?

According to Rainmaker Information, superannuation funds in Australia collectively hold $700 billion in ASX-listed Australian equities with predictions indicating that super funds could control more than half of the ASX within 15 years.

"Super funds becoming dominant shareholders means the impacted companies will have to get used to having larger, more interested investors" said Alex Dunnin, executive director of research at Rainmaker.

Super funds have $3 billion of new money to invest every week and about one third of that is likely to go towards investing in Australian companies.

"The next frontier is how do we get super funds to invest in smaller companies? That is, how do we create channels to enable super funds to invest into start-ups as well as small businesses and how do we create channels for them to invest into businesses that may not be listed on the ASX, such as those in the agriculture sector," said Dunnin.

ASFA SUBMISSIONS

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

- Submission to The Treasury
  APRA Capability Review
- Submission to The Treasury
  ASFA review of Retirement Income Disclosure consultation paper
- Submission to Australian Securities and Investments Commission (ASIC)
  Consultation Paper 308 – Review of RG 97 Disclosing fees and costs in PDSs and periodic statements
- Submission to The Treasury
  Insurance Claims Handling – consultation on recommendation 4.8 of the Banking, Superannuation & Financial Services Royal Commission
- Submission to The Treasury
  Minor superannuation tax reform technical amendments
- Submission to The Treasury
  Protecting your Super package regulations and explanatory materials consultation paper
- Submission to The Treasury
  ASFA response to Consultation Paper: Review of the early release of superannuation benefits
- Submission to the Senate Economics Committee
  Inquiry into Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018
- Submission to the Australian Law Reform Commission
  - Review of the Family Law System – Discussion Paper 86 – issues with respect to superannuation
- Submission to the Productivity Commission:
  - ASFA response to the Supplementary Paper – Investment performance: Supplementary analysis

INDUSTRY MOVEMENTS

GROW Super's appoints new super expert

GROW Super has announced the appointment of Adam Gee to the role of head of strategy.

Gee was recently the lead partner of KPMG's Superannuation Advisory practice and prior to that, the CEO of research and ratings house SuperRatings.

In his new role Gee will lead the development of GROW's strategy both domestically and internationally and support the implementation of the TINA platform, GROW's blockchain-enabled technology solution for superannuation funds and wealth platforms.

GROW's CEO Joshua Wilson said "We are thrilled to have attracted someone of Adam's calibre and in-depth industry knowledge to GROW." Gee commenced with GROW in May.

Aberdeen Standard Investments strengthens ESG capabilities with new appointment

Aberdeen Standard Investments (ASI) has appointed Bill Hartnett as an ESG investment director. Hartnett will report to Euan Stirling, global head of stewardship and ESG investment and will be based in London with a specific remit to support investment colleagues in emerging markets and Asia Pacific. Hartnett will analyse specific long-term factors involving investee companies' environmental and social management and performance, as well as the effectiveness of governance structures.

Hartnett has over 20 years' experience of responsible investment and active ownership across roles in asset management, research and asset ownership. Prior to joining ASI he was head of responsible investment at Local Government Super (LGS).

Stirling said: "We are delighted Bill has joined our ESG Investment team, which is growing in importance, as we continue to move ESG considerations further up the investment agenda."

Energy Super appoints its first CIO

Energy Super has announced the appointment of Kevin Wan Lum to the inaugural role of chief investment officer. With more than 20 years' investment management experience in Australia and overseas, his most recent roles include head of real assets and alternatives /senior portfolio manager and acting CIO for Vic Super, portfolio manager equities and property with Ibbotson, and portfolio manager, implemented solutions at QIC.

CEO Robyn Petrou said: "This month we welcomed Kevin to the new role of chief investment officer. We look forward to his strong experience, outstanding investment skills and clear leadership in our next chapter of growth."

Wan Lum said the new role provided an opportunity to continue to evolve his skills while contributing to Energy Super's success.

"The level of engagement of members and the passion of the Energy Super team are great platforms to really make a difference to members of Energy Super and maximise their retirement outcomes," he said.

The Energy executive team that has also recently added Katie Simpson as general counsel and fund secretary and Sean Marteene as general manager, customer insight and product.

Spaceship announces changes to management team

Spaceship has announced its CEO Paul Bennetts will take on the newly created role of chief product officer, as part of a strategic strengthening of its management team. Spaceship chair Andrew Moore (pictured) will assume the role of interim CEO until a permanent CEO is appointed.

Moore said that Spaceship was ready to ramp up its growth after two years as a start-up, and that it was critical for staff, customers and investors that the organisation had the right management structure to realise its ambitions.

"To best prepare Spaceship for the next stage of growth the company needs to broaden the capabilities of the senior management team," he said.

"We want to harness Paul's flair for product development, ensuring he can focus his energy on giving the market what it wants. That will allow us to attract an experienced CEO to join the business, who can lead the Spaceship team and concentrate on accelerating our rapid growth."

Spaceship has grown from a team of six employees in 2017 to more than 40 in 2019, spanning engineering, operations, compliance, risk, marketing and investment.

AMP announces board changes

AMP has announced the appointment of Debra Hazelton as a non-executive director to the AMP board, effective 15 June 2019.

AMP also announced that on completion of the sale of AMP Life to Resolution Life, Trevor Matthews will remain on the AMP Life board as an AMP nominee and retire from the AMP Limited Board. Matthews joined the board of AMP in March 2014 and was appointed chairman of AMP Life in May 2016.

Hazelton brings significant experience from more than 30 years in global financial services, including as the local chief executive of Mizuho Bank in Australia and Commonwealth Bank (CBA) in Japan. She is a non-executive director on the boards of Treasury Corporation of Victoria, Persol Australia Holdings and the Australia-Japan Foundation, and previously served on the board of Australian Financial Markets Association. She is also a non-executive director of AMP Capital Holdings Limited and will continue in this position when she joins the AMP board.

TelstraSuper announces chief risk officer

TelstraSuper has announced the appointment of Sabine Taylor as chief risk officer.

Initially appointed as interim CRO in February 2019, Taylor will transition to permanent chief risk officer immediately.

Prior to her appointment at TelstraSuper, Taylor was head of wrap operations at Colonial First State. She brings over 25 years industry experience in the areas of risk, compliance, operations, governance, fraud and security, including roles at UniSuper, AMP and the Commonwealth Bank. She was also a member of the Bank's Women's Advisory Council.

TelstraSuper CEO Chris Davies said the fund was delighted with the permanent appointment.

Mercer appoints head of investment strategy

Mercer has appointed experienced investment strategist Gwion Moore to the role of head of investment strategy.

Moore joins Mercer from Suncorp where he has held the role of executive manager, investment strategy and portfolio management since 2015. Prior to this, he was based in London where he led investment strategy at Russell Investments and Mn Services. He has also held portfolio management roles at Lehman Brothers and JP Morgan. Mercer Pacific CIO Kylie Willment said Gwion's appointment strengthens the capabilities of the portfolio management team.

JUNE 2019

04 TUE

QLD State Conference

Brisbane Emerging Leaders Networking

VIC | WA Risk and Compliance Discussion Group

Sydney Insurance Code and implementing better insurance design

06 THU

Melbourne Emerging Leaders Networking

VIC Fund Taxation Discussion Group

11 TUE

VIC Investment Discussion Group

Melbourne Insurance Code and implementing better insurance design

17 MON

VIC Legislation Discussion Group

18 TUE

VIC Member Insured Benefits Discussion Group

NSW Legislation Discussion Group

Brisbane Insurance Code and implementing better insurance design

19 WED

Adelaide Briefing

25 TUE

NSW | SA | VIC SMSF Discussion Group

26 WED

VIC | WA Member Services Discussion Group

28 FRI

Melbourne Spotlight on Leadership in Super

JULY 2019

02 TUE
VIC | WA Risk and Compliance Discussion Group

04 THU
VIC Fund Taxation Discussion Group
Sydney AFCA: External dispute resolution

05 FRI
Brisbane RG 146 Superannuation Refresher

09 TUE
NSW Legislation Discussion Group
Melbourne RG 146 Superannuation Refresher

16 TUE
Sydney RG 146 Superannuation Refresher

18 THU
Brisbane AFCA: External dispute resolution

22 MON
Sydney Spotlight on Investment in Super
VIC Legislation Discussion Group

23 TUE
NSW | VIC SMSF Discussion Group

25 THU
QLD General Discussion Group

31 WED
VIC | WA Member Services Discussion Group

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

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

Boasting rights:
how your superannuation compares to your neighbours

Ross Clare
Fellow of ASFA

ASFA Director of Research

I like a big spreadsheet, and one with over 277,000 rows is particularly special, albeit tricky to navigate.

Over the last few weeks there has been a veritable cornucopia of data released by the Australian Taxation Office (ATO), including a range of summary tables about the varied characteristics of taxpayers, such as taxable incomes, how much tax they pay and the distribution of superannuation balances.

The ATO also released individual data for two per cent of overall personal income tax returns, appropriately made anonymous by tweaking some data items such as address to a very broad geographic area and averaging some items across groups of taxpayers, especially where a big income or big superannuation balance is involved. There also has been the release of comprehensive data about SMSFs.

It is a very useful resource for better understanding the characteristics of the Australian population and for modelling the impact of various possible policy changes. Fortunately, we seem to have a moratorium on any further detrimental changes to the taxation treatment of superannuation.

I always like to see how my personal characteristics compare to the averages and medians for taxpayers as a whole. Comparisons of various things by postcode also are useful for those who want boasting rights relative to their neighbours. I quite like it that Pymble has a higher average taxable income than residents of nearby Turramurra, but unfortunately both missed out being included in the national top ten postcodes for average income.

However, some care is needed in making use of averages. Properly used they can be a useful diagnostic tool, facilitating the identification of areas of relative success (or failure). This then invites the development of approaches to bolster success and reduce failures.

Simplistic use of averages is another matter. Moving from Turramurra to Pymble will not necessarily lead to an increase in your income (but of course you would have the opportunity to meet some very nice people already living there).

So, it goes with some sectoral comparisons with regard to superannuation returns.

SMSFS AT THE CLUBHOUSE

Bragging rights can be very important for some people, with the success of your SMSF part of the chat at many golf clubhouses, Rotary Club meetings and suburban barbecues.

After the release of the latest SMSF statistics at least one organisation made the claim that SMSFs had performed very well, given a 10.2 per cent average return in 2016-17 compared to a 9.1 per cent average return for APRA regulated funds.

A deeper dive into the data tells a more complicated tale, and the comparison becomes less stark. Much of the claimed outperformance of the SMSF funds was actually driven by the average returns achieved by SMSFs with more than $2 million, with many of those funds in the tax-free pension stage. For funds with assets between $1 million and $2 million, the average return was 8.4 per cent, dropping to an average return of 7.0 per cent for SMSFs with assets between $500,000 and $1 million. The conclusion to be drawn is that having more than $2 million in your super is a very helpful thing.

The clear message from all of this is that the right question to ask is whether you are in the right fund and investment options given your circumstances, rather than one type of fund being inherently better or worse than another. There is no sort of contagion at work where the large balance and good returns achieved by somebody else will necessarily flow to you.

It also is interesting to note that limited recourse borrowing has grown substantially in recent years, with around 12 per cent of SMSFs in accumulation mode in 2016-17 making use of such arrangements. Often assets supported by such borrowings make up a large proportion of the assets of the SMSFs concerned. Subdued growth in property prices might be a drag on the future performance of a substantial number of SMSFs.

The ATO data reinforce what many researchers have understood for a long time. Averages can be interesting but what is important are the factors driving those averages. Good analysis is needed along with well thought through policies to produce the good superannuation outcomes that Australians need and deserve. SF

Diana Vilic, Bronwyn Carter and Sam Giannikos

Kylie Seymour-Clarke, Lisa Cumberland and Karen Waldon-White

Pat Alifraco and Robert Halley-Frame

Spotlight on Risk and Compliance in Super

Melbourne

2 May

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Complaints, member outcomes and Protecting Your Super

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

As we process the outcome of the election and move out of caretaker government, the regulators have continued to progress reforms that will have a significant impact on the industry. This edition of rules and regs looks at major reform proposals for complaints handling, refinement of the member outcome assessment, and implementation of the Protecting Your Super Package.

COMPLAINTS HANDLING REFORMS

In mid-May, ASIC released a consultation package proposing major reforms to its existing standards about how financial firms handle consumer complaints. The proposed standards are intended to improve the way that consumer complaints are dealt with across the financial system and make firms' complaints handling performance transparent. The reforms follow on from the Ramsay Review of the financial services dispute resolution framework and the commencement of the Australian Financial Complaints Authority as the external dispute resolution body for financial services, including APRA-regulated superannuation funds.

The proposals will have a significant impact on internal dispute resolution (IDR) practices for all financial firms, including trustees of APRA-regulated superannuation funds.

The consultation package includes Consultation Paper *CP 311 Internal dispute resolution: update to RG 165*, as well as a draft updated version of Regulatory Guide RG 165, now re-titled *Internal dispute resolution*. Some key elements of the new standards that ASIC is seeking feedback on as part of the current consultation include:

- maximum time frames for responding to a complaint — including a reduction in the IDR timeframe for superannuation complaints from the current 90 days to 45 days
- what constitutes a 'complaint' – with important extensions to the concept utilised in the current version of RG 165 to cover complaints "to or about" a financial firm and a specific expectation that IDR processes should capture complaints made by identifiable consumers on a firm's social media platforms
- standards about what should be in written reasons for decisions
- a strengthened requirement that firms take a systemic focus to complaints handling
- the details of the new framework for reporting of complaints data to ASIC.

Submissions are due to ASIC by 9 August. There will be a separate consultation, in early 2020, on the publication of the IDR data reported to ASIC.

MEMBER OUTCOMES: REVISED PRUDENTIAL STANDARD

APRA has launched a consultation on proposed updates to its prudential standard on strategic planning and member outcomes, which will come into effect on 1 January 2020.

APRA released Prudential Standard *SPS 515 Strategic Planning and Member Outcomes* in December as part of a package of measures designed to strengthen strategic and business planning and assessment of performance by registrable superannuation entity (RSE) licensees. The standard had a particular focus on enhancing member outcomes.

The standard released in December introduced a number of requirements, including an outcomes assessment requiring licensees to annually evaluate their performance in delivering sound, value-for-money outcomes to all members, covering both MySuper and choice products.

APRA commenced its development of SPS 515 independent of proposed legislative measures to require RSE licensees to conduct outcomes assessments but had indicated it would review its prudential requirements in the event the legislated outcomes assessment was ultimately passed by Parliament. The *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No.1) Act 2019*, which was passed by Parliament in April, requires RSE licensees to undertake annual outcomes assessments for each MySuper and choice product they offer.

APRA has now revised SPS 515 to clarify how the legislated outcomes assessment in the Bill interacts with APRA's prudential requirements.

Under the revised standard, RSE licensees will be required to undertake an annual Business Performance review, which maintains the overall substance of the requirements outlined last December. In undertaking their Business Performance Review, RSE licensees must take account of the legislated outcomes assessment and meet other requirements designed to ensure APRA's original policy objectives are met. These include:

- reviewing the performance of their business operations through robust business plan monitoring
- analysing the outcomes delivered to different membership cohorts
- considering whether they will continue to deliver quality member outcomes into the future
- acting to address any identified areas of required improvement.

PROTECTING YOUR SUPER

As the industry works to implement the Protecting Your Super (PYS) reforms, each of the regulators has released material providing guidance and outlining their expectations of fund trustees.

Under the PYS reforms, which come into effect on 1 July:

- insurance will be opt-in for members whose accounts have been inactive for 16 months
- fund members with balances under $6,000 whose accounts have been inactive for 16 months will have their balances paid to the ATO, which will take proactive steps to consolidate them with the members' active super fund
- caps will be imposed on certain fees for account balances under $6,000
- exit fees will not be charged for moving money from a superannuation account.

ASIC has called on trustees to ensure that any information provided to members in implementing the reforms is balanced and factual, not misleading. ASIC expects trustees to implement the changes in a timely manner and to communicate responsibly, in a way that helps their members. In particular, ASIC has noted that:

- it is not appropriate for trustees to encourage all members to maintain insurance, as many members with inactive accounts will be better off allowing the insurance to lapse
- trustees should not be urging all members with low-balance accounts to keep their account within the fund as this may not be in the best interests of members.

ASIC has indicated it may take action in relation to trustees' communications regarding the PYS reforms where trustees break the law through misleading communications.

ASIC has updated its MoneySmart website to include some consumer-focused information regarding the reforms. ASIC has encouraged trustees to refer to this content where appropriate, but also reminded them that a reference to MoneySmart in itself is not sufficient to ensure the communications are balanced.

APRA has written to all registrable superannuation entity (RSE) licensees to highlight a number of issues in relation to implementation of PYS. The letter states that APRA:

- considers the reforms to be an important step in improving member outcomes across the entire superannuation industry, particularly for those members with low account balances
- expects that RSE licensees will implement the reforms in ways that promote the outcomes the reforms are seeking to achieve and reflect the obligation to act in members' best interests.

The letter also indicates that APRA expects all RSE licensees:

- to review their policies governing the transfer of accounts to eligible rollover funds and determine whether they remain in the best interest of members
- to ensure that any account transfers, including successor fund transfers, do not avert or delay account consolidation under the PYS reforms, contrary to the best interest of members.

APRA has also published some Frequently Asked Questions to provide general guidance on the PYS reforms and encouraged RSE licensees to raise any issues with their APRA Supervisor.

The ATO also wrote recently to trustees to provide an update on the PYS measure requiring inactive low balance accounts to be transferred to the ATO for consolidation. As well as making available its responses to questions raised on the measure, the ATO has published a draft member authorisation form that may be used where a member authorises a trustee to declare to the ATO, on their behalf, that their balance is not to be treated as an inactive low-balance account. The ATO has also settled an interim reporting solution for the low balance inactive accounts measure that will apply until changes can be introduced in a new version of the SuperStream rollover message. SF

Lifting the bar

ASIC is urging trustees to prioritise member interests when handling insurance claims and complaints. JANE ECCLESTON explains why change is necessary and how small improvements can make a big difference for members.

Many Australians hold life insurance cover through their superannuation. When making a claim on their insurance cover, consumers are often in the middle of difficult personal circumstances. So, any complaints about claims can raise complex and sensitive matters.

Against this backdrop, it is essential that consumers who are dissatisfied with the treatment of their claim have access to a transparent, fair and timely complaints process.

Last year, ASIC released *Report 591 Insurance in Superannuation*. Our review of data from 46 trustees highlighted specific areas for improvement in relation to complaints about insurance claims. We found that:

- 29 per cent of the trustees took more than 90 days on average to resolve insurance complaints;
- the average time taken by trustees was over 67 days with half taking more than 55 days;
- a number of trustees were failing to provide adequate written reasons for their decisions.

These issues highlight some deficiencies in the Internal Dispute Resolution (IDR) processes of superannuation trustees.

IDR IS KEY TO CONSUMER PROTECTION

IDR is the first step in financial dispute resolution and plays a vital role in consumer protection. ASIC considers that super trustees' approach to IDR provides a meaningful measure of the way trustees treat their members and whether they act in their members' best interests.

With this in mind, ASIC visited a number of super trustees to better understand what they have done in relation to key drivers of insurance complaints and to address the issue of lengthy resolution times. We focused our work on total and permanent disability (TPD) claims.

TRUSTEES CAN DO BETTER

ASIC identified several common failures among trustees, which if addressed, could lead to significant improvements for members. These are:

1. Limited identification of complaint drivers

Trustees often undertook inadequate analysis of the drivers of complaints and appeared to rely on speculation rather than fact. There seemed to be an underlying assumption that the member had complained because their claim had been denied and that this was to be expected in a number of cases. However, a deeper analysis would have presented opportunities for improvements in both member experience and efficiency.

A common driver seemed to be a failure to have processes in place to ensure all relevant medical information was gathered at the outset of a claim.

2. Limited attempts to change the way complaints are managed

Among some trustees, there seemed to be an assumption that complaints relating to insurance claims would take longer to resolve because they were more complex, and trustees have limited ability to influence this. However, ASIC found that other trustees were able to manage complex complaints in a timely manner.

3. Over-reliance on insurers' processes for claims and complaints

Many trustees seemed to rely too heavily on their insurer when managing claims-related complaints. For instance, some trustees had limited involvement in reviewing the initial decision or managing timeframes for responses to a complaint. To fulfil their duty to members, trustees should provide oversight and input into insurance complaints management.

4. Lack of member-centric view for the claims and complaints process

Trustees' approach to complaints handling tended to be process-centred, focusing on the actions of trustees and their service providers. This approach was not balanced with a member-centric view, which would have highlighted the members' experience.

Most trustees had not undertaken member-testing of insurance claim-related materials such as application forms, due process letters and insurance guides. They could not judge whether their membership understood what was required of them. To be confident that they are acting in the best interests of members, trustees must ask themselves: are we dealing with complaints promptly? Are we being responsive to members? Are we giving them information about the complaints process and how long it is likely to take? Are we providing high quality written reasons for decisions?

5. Quality of data

The quality of record keeping for claims and complaints varied across trustees, and this had an impact on a trustee's ability to monitor complaints, including the duration, contact with affected parties and status of the complaint. Good data is key to effective complaints management and is a strong focus of ASIC's consultation proposals about the new mandatory IDR data reporting requirements.

TRUSTEES RECOGNISE THAT THEIR PROCESSES NEED TO CHANGE

ASIC observed that those trustees seeking to improve outcomes for their members were introducing new initiatives to enhance their insurance claims and complaints management. Some of the initiatives are:

1. Separation of responsibilities and better oversight
A number of trustees have introduced a claims management officer or group to oversee all complaints raised by their members, including complaints managed by their insurers.

2. Trustee interest and commitment to reviewing declined claims
Some trustees have established a panel that meets regularly to review declined claims before a final decision is presented to the trustee board. Appropriate oversight at this stage could lead to a reduction in claims-related complaints.

An effective relationship between the trustee and the insurer is important. Trustees need to work with their insurers to ensure that their members are provided a fair outcome.

Claims that are initially denied by the insurer may be overturned during the claims or complaints processes because a trustee has taken steps to query the insurer's decision.

3. Appropriate record keeping and analysis
Some trustees have taken steps to record all the complaints they receive, including those that are 'immediately resolved'. This additional information may assist them with a thorough analysis of the drivers of complaints and in transitioning to the new data reporting regime.

These trustees also track members who request claim forms and have useful information on the proportion of members who ultimately proceed with a claim. This information may assist trustees in a more thorough analysis of members' needs and barriers to action.

4. Recognition of the need to be member champion
Trustees are starting to recognise the importance of improving their member experience. Some trustees are improving engagement with the claims and complaints process by implementing a single point of contact. Others are reviewing agreements with service providers in order to improve service-level timeframes and deliverables.
Additional initiatives to improve member experience include: tele-claims, where a member lodges the initial information over the phone; case management, where the member has a dedicated case manager; and clear explanation to a member about the claims process and the documentation required. Some trustees, in formalising their internal policies on claims and complaints handling identified areas for improvement.

5. Triaging claims can reduce complaints
Trustees with a lower ratio of TPD complaints to claims often undertook more detailed analysis of the claim when it was first lodged. Some trustees also triaged the claim – before lodging the claim with the insurer, they contacted members if any information was missing. This reduced the possibility of the claim being declined due to lack of supporting information and a subsequent complaint from the member.

Early intervention is important to members' claim experience, and trustees recognise the benefits of a triage process during the assessment stage. Obtaining relevant information early in the claims process can help avoid delays later.

One trustee provided an example of a claim where a member's general practitioner (GP) recommended an examination by a specialist, which was not completed prior to lodging the claim. It was only after the claim was denied that the GP recommendation was noticed, and the examination carried out. A triage process could have picked up on the recommendation earlier and prevented unnecessary delay or even denial of the initial claim.

MEMBERS WON'T HAVE A BETTER EXPERIENCE IF TRUSTEES DON'T CHANGE THEIR APPROACH

It is unreasonable for trustees to expect members to be able to navigate the unfamiliar and potentially confusing process of lodging a claim without assistance. A process tailored to member needs will reduce the likelihood of a valid claim being withdrawn or declined because members didn't fully understand the requirements. This should also help reduce the number of member complaints.

Complaints handling is an ongoing area of focus for ASIC, and we look forward to feedback from industry on our proposals in CP 311. Last year, we undertook research into the obstacles consumers face when navigating the complaints processes of financial services providers. Our report (REP 603) also offers a roadmap for how providers can improve the way they handle complaints.

ASIC will also continue to meet with super trustees to gain further insights into the implementation of the Insurance in Superannuation Code of Practice, which aims to improve member experience and reduce timeframes for trustees' resolution of complaints. At the time of writing this article, 62 trustees had adopted the code.

Super trustees can make worthwhile improvements that not only deliver better member outcomes but also help meet the obligation of providing services in the best interests of their members and build trust in their brands. SF

Jane Eccleston is senior executive leader – superannuation, ASIC

Free cash flow is king

After volatility spiked at the end of 2018, investors were reminded that portfolios need ballast during challenging market environments – this is especially the case for portfolios seeking post-retirement income.

In the book, *Free Cash Flow and Shareholder Yield: New Priorities for the Global Investor*, authors William Priest and Lindsay McClelland outline a compelling case to consider the true drivers of business—and therefore shareholders—returns. They say the key to understanding a company and the return on investment it will provide requires a focus on the cash generation drivers of the business – rather than a focus on traditional accounting terms like earnings or book value.

Indeed, an analysis undertaken by Priest and Epoch Investment Partners of the S&P 500 Index over the 90 years between 1927 to 2017 found that the average annualised return was 10 per cent. Over rolling 10-year periods, price-to-earnings (PE) ratios made up 0.9 per cent of that return, while earnings and dividends made up 5.2 per cent and 3.9 per cent respectively.

This means that, despite the focus of many in the industry on PE ratios and other accounting metrics, the bulk of investment returns come from dividends and earnings, and dividends and earnings come from one place: cash flow.

The question of how the business generates its free cash flow—along with how its management allocates that cash for the betterment of the shareholders—is an important one to understand in the search for investment opportunities providing income.

After all, it is the ability to generate free cash flow that makes a business worth anything to begin with. And it is the ability of management to allocate that cash flow properly that ultimately determines whether the value of the business rises or falls.

KEY CONSIDERATIONS

Epoch Investment Partners says there are essentially only five ways that business management can allocate a company's free cash flow. They are:

1. pay a cash dividend
2. buy back stock
3. pay down debt
4. make an acquisition, or
5. invest in internal projects.

From here, the analysis is simple. If a company can invest, either internally or in an acquisition, and generate a marginal return on invested capital that is greater than its marginal cost of capital, then making that investment will increase the value of the business.

But if the return is going to be less than the cost of capital, making the investment will reduce the value of the business. In this case, a better strategy would be for management to return the capital to the shareholders instead (through one of the methods listed above).

THE SHORTCOMINGS OF TRADITIONAL INVESTMENT METRICS

Accrual-based accounting measures such as earnings, and valuation metrics based on earnings, simply do not provide the relevant information as to whether a company is successfully generating free cash flow and whether management is skilled at allocating that cash flow properly. An additional consideration for those investors seeking income is that various accounting metrics to measure earnings can be distorted by accruals, and can be easily manipulated. Earnings are an opinion, cash is a fact, and if this holds true, a company's real value should be measured on the free cash flow that it generates.

Most income seeking investors would consider the holy grail of portfolio asset allocation to be that which generates a sustainable and growing yield from their investments, without a high degree of volatility, enabling the portfolio to both support their investment objectives and increase in value over time.

There is no doubt that, as interest rates have fallen, income-seeking investors have bid up the value of stocks with high dividend yields. Their focus, however, is all too often on a high absolute level of yield, and blindly chasing dividends is a poor strategy. Not all dividend-paying companies are worthy investments.

A better approach is to focus on a sustainable and growing yield. And while some high-yielding stocks look expensive, there are still many reasonably priced companies globally, where growing free cash flows and maintaining conservative payout ratios are standard practice.

There are of course Australian companies producing substantial shareholder yield in the form of dividends, share repurchase and debt reduction, and some of them representing good value. However, it would be difficult to construct a properly diversified portfolio from Australian companies alone – to do so risks sacrificing the expectation for shareholder yield and accepting a higher level of portfolio volatility.

A global mandate, in contrast, provides investors with the most robust set of stocks from which to choose. The focus needs to be on companies which return a proportion of their market capitalisation to shareholders on a regular basis, while still reinvesting enough in the business to grow operating cash flow. Invest in these companies, globally, and you'll find good returns. SF

Damien McIntyre is CEO GSFM

Taking stock

Gillian Larkins, ASX CFO talks transformation, change and new challenges.

For many, change is something we go through reluctantly, but for Gillian Larkins, change is a craft she has honed since birth.

Larkins' early experiences gave her, not only a taste for economics, but a taste for the exhilaration and potential of change. Now, this passion has taken her to the Australian Securities Exchange (ASX) as chief financial officer. Like much of her journey, she has come along at a time of significant disruption, with technology and innovation through blockchain about to revolutionise the ASX.

"It's really a very stimulating time to join," she said. "If it's not transformational, it's certainly dealing with change."

For over 25 years, the ASX has been underpinned by CHESS technology. Now, looking towards a more secure, data-driven future, they are planning to move onto a blockchain platform.

But, before Larkins became entangled in blockchain, she forged a formidable career.

A TASTE FOR CHANGE

As a child of the 70s in New Zealand, Larkins was born into a time of economic upheaval and transformation. Prime Minister Robert Muldoon was driving his 'think big' strategy of borrowing to pay for large-scale infrastructure projects. Economics was at the forefront of the national agenda.

"It made me quite interested in how the economy worked," Larkins said, adding she naturally wanted to study economics at university.

The problem, as she was told back then, was there were very few economists in New Zealand. If she wanted a job, she would have to study accounting.

"I did rail against that because I thought accounting would be dull. But I did it because I was a fairly diligent child," she said.

Larkins now believes it was good advice. She has managed to combine the two, forging a career as an accountant in the finance industry. "I've really had the best of both worlds," she said.

When Larkins left university at 21 years of age, she joined Ernst & Young in Wellington. The day after she received her Chartered Accountant qualification, she "fled" to London and secured her first job in finance at Morgan Stanley.

While in London, she wanted to work out what she really enjoyed doing, so when she returned home in her late 20s or early 30s she could "hit the gas and run with it".

When her husband was offered a job as an energy lawyer at Herbert Smith Freehills, Larkins came to Sydney, where she continued to thrive through massive change.

Larkins' first job in Australia was at Woolworths, when it was run by then CEO Roger Corbett. Corbett was driving 'Project Refresh', a strategy copied from Walmart, that saw the retailer slash margins to boost volumes, with half the cash then distributed to shareholders and half invested into long-term investments like distribution centres.

Corbett's strategy was successful with the share price rallying from around $3 to $10.

"It was very thrilling, and I learnt a lot. It was a defining career moment when I learnt to do strategic planning," said Larkins.

FAMILY MATTERS

After some time at Woolworths, Larkin rejoined the finance industry, taking a position as CFO of the Investment Bank for Australia and NZ at Citi.

She had her first child during her time at Citi and, while on maternity leave, she was promoted to the Group CFO, covering both the local retail bank offering and the wealth management arm.

"I didn't give up when I had children (now 12 and 15). Fortunately, I had the support of a very forward-thinking executive at Citi and I was promoted when I was away. That is a very good way to keep women. On a personal front, I found Citi very good on the diversity side."

Larkins told us that her parents instilled in her a belief in the importance of women having their own careers and money so they can be independent.

"As a result, I've always had a conscience that I should be working. So, I've never quite been able to give up work," she said.

Being a Group CFO and having children "was a pretty challenging time. But I had a supportive boss who helped me." Larkin said that Citi's CFO in New York was also a working mother who became a role model.

Larkins said she managed to juggle mothering with a high-powered career by changing her attitude.

"I had the realisation with my first child that my life had changed. I realised I couldn't be perfect anymore. Many times, I questioned what I was doing, but somehow you get through and it does get easier. I learnt not to sweat the small stuff."

Larkins said exercising – running, tennis and Pilates – has also helped her manage stress and maintain work-life balance.

BIG CHANGE, BIG RESPONSIBILITY

In March 2008, Larkins joined Westpac as CFO of its Institutional Bank, a month after Gail Kelly began her reign as CEO and executed the merger with St George.
Then the GFC hit.

"I found myself either in the throes of the GFC or fixing up the remnants. I learnt so much. But once again I was working with a management team that was strong and is still revered," she said.

Her last role ahead of the ASX was at fund manager, Perpetual. Again, the company was being transformed and refocused. She was at the heart of that effort, working as Group Executive of Transformation, before becoming CFO, and having responsibility for the technology, risk and legal teams.

She also sat on Perpetual's superannuation board which brought her closer to the superannuation industry. Larkins said that board experience highlighted the responsibility of integrity around superannuation.

"You've got to look after someone else's money. It's a real responsibility. So you've really got to make sure you do the right thing, make sure you dot the i's and cross the t's."

"You've got to look after someone else's money. It's a real responsibility. So you've really got to make sure you do the right thing, make sure you dot the i's and cross the t's."

Larkins was ready for a new challenge, and five months ago she joined the ASX as CFO.

Automation, live data and smart contracts – the future of the ASX

The conventional narrative around the changes to the ASX is that it faces a raft of threats.

But Larkins said the ASX has always been competitive.

"Competition is what we are used to. We compete in many aspects, whether it's for listings or against other trading venues. There is always a sense other people can come in and I think it keeps people on their toes."

"ASX has demonstrated that it is a strong competitor," she added. "We strive to put the customer first and we're a deep, liquid, well-regulated marketplace that's attractive to issuers and investors."

The truth of the ASX narrative is relentless innovation. The company has always had a history of being at the forefront of changes whether it's being among the first to embrace

> "I think it's very important that over time entities like ours work more closely with super funds to make sure we're looking after Australian investors."

electronic trading, to demutualise and self-list, or to merge equities and derivatives. "And now, we're leading the exchange world in developing distributed ledger technology."

Larkins said ASX's first focus around innovation is to "make sure we put in place a resilient structure".

"The systems that underlie the financial markets ecosystem need to have integrity, need to be trusted and need to be resilient – it can't fall over," she said.

The ASX is currently replacing its CHESS clearing and settlement system with blockchain or distributed ledger technology (DLT). "That's the main game right now," she said.

The new system goes live in March/April 2021, and the ASX recently opened the Customer Development Environment (CDE), which allows customers to interact and experiment with the new system.

CHESS put Australia at the forefront of clearing and settlement technology globally when it was implemented in 1994 and it is still performing well. But Larkins said, "it is not a platform for the 2020s and beyond" and so the ASX needed to plan for the future.

The new DLT will deliver several benefits for superannuation funds. A super fund via a DLT connection can have direct, real-time line of sight of its HIN held investments.

Funds can also interact directly with custodians, the ASX, listed companies and other intermediaries via a multi-party workflow capability – where workflows are automated to help reduce processing time and errors in areas such as asset servicing and corporate action processing.

The ASX will also make the DLT infrastructure capability available to funds as a service which allows them, or their service providers, to develop their own smart contract-based solutions to run across this infrastructure.

Apart from replacing CHESS, Larkins said the ASX has another focus: designing new products and services to meet client needs. The CHESS replacement program began as simply a system replacement, but it is opening up new opportunities which are "potentially business model reshaping".

"It's very important from a regulatory point of view that we're doing everything from a licence to operate perspective," Larkins said.

"But we're starting to get a growth dimension to this. We need to figure out from a business model perspective how that's set up."

The ASX also has other projects that support new products, including a data analytics platform.

"We sit on a great deal of data here and some of that is quite valuable to clients, both participants and issuers. There is a market for a data analytics platform. So, we're building that out," she said.

The data analytics platform will deliver a number of benefits, including access to ASX data assets for analytics and data science; availability of new analytics solutions assisting valuations, best execution, liquidity, and insights concerning assets and service providers, and access to a data science platform.

At the end of the day, super funds need a successful and innovative ASX to keep delivering better outcomes for members.

"It's so integral to the super industry that we're working in a very reliable trustworthy way," she said.

"I think it's very important that over time entities like ours work more closely with super funds to make sure we're looking after Australian investors."

At the heart of that relationship is ASX's technology and relentless innovation.

"Technology needs to be refreshed and changed especially in this day and age," she said.

"It's a vital part of what the ASX does."

"Ultimately, we're here to serve the interests of end investors. We see our role as providing a range of products and services to offer investors diversity and the opportunity to build long-term value."

Given her history of change and transformation, Larkins is well placed to help drive the ASX into the future.

"As you can see from my history, I love transformation, I love change, and I love challenges," she said.

"This [new role] had the ingredients of where I can sit at the table as the CFO but I'm learning about the technology and the change they're instigating as well. So, it's win-win." SF

HANDS-ON APPROACH REAPS RESULTS

While passive investing—such as index funds and ETFs—may be regarded as a low-cost way to access ESG-driven portfolios, **INGRID DYOTT** says there are inherent limitations. She says active investing is a more effective strategy in terms of sustainable value, performance and impact.

The importance of the environmental, social and governance (ESG) impacts in a portfolio is increasing. More and more, investors expect that any robust investment process will also include ESG characteristics – not at the expense of investment returns, but rather as a driver of long-term investment performance.

Corresponding with this thematic, inflows into ESG strategies—both by investors and institutions—have risen in recent years, as shown in figure 1. Indeed, in 2018, $1 out of every $4 of US assets under management was invested in sustainable strategies.

At the same time as this increasing focus on ESG, passive investments—including index funds and ETFs—have grown dramatically. For investors, they provide a low-cost exposure to market beta, at a time when their performance has been strong.

Unsurprisingly, there has also been a spike in the number of passive ESG options. In the last two years alone, the number of ESG ETFs has more than doubled, from 25 in 2016 to 69 in 2018, according to the US SIF 2018 Trends report.

WEIGHING UP THE BENEFITS

For investors, then, the question of how to define, measure and enhance the ESG component of their investments must also include an analysis of the benefit of an active or a passive approach to ESG integration.

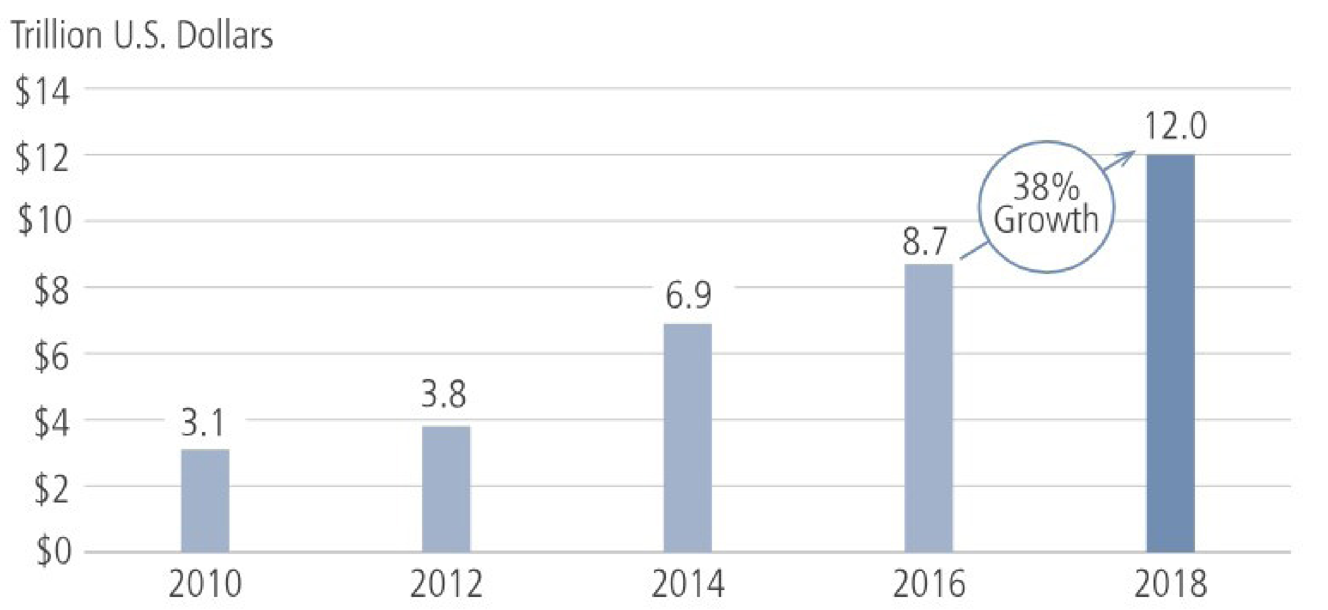
Passive ESG strategies—particularly those that use third party data or ratings to implement an ESG overlay—can be a cost-effective way of undertaking ESG. It can provide efficient fund selection and potential cost savings.

However, in passive ESG investing, there are also limitations to the analysis that can be undertaken, as well as the performance outcomes.

From a risk and opportunity perspective, active ESG integration is a more robust option, for some of the following reasons:

A holistic approach – ESG issues tend to be strongly linked with business and financial issues. As a result, a single source of ESG data (such as that used by passive strategies) is usually not enough to allow a comprehensive decision to be made on the investment risks and merits of these issues.

Figure 1: Demand for ESG-Related Investments Continues to Grow in the U.S.



Source: U.S. SIF, The Forum for Sustainable and Responsible Investments 2018 Trends Report.

Active ESG strategies, on the other hand, can take advantage of multiple sources of research and data to qualitatively and quantitatively evaluate material and relevant ESG considerations as part of the holistic investment process.

Flexibility and focus – Utilising data can be valuable as a starting point but limited in its absolute use. Passive strategies tend to use third-party ESG data that rely heavily on voluntary company disclosure. In addition, this can be backward-looking and limited in scope. Because of the limitations in the quality, disclosure and other biases inherent with ESG data today, investors relying solely on this information to make investment decisions may miss a comprehensive risk-reward analysis.

However, using multiple sources of data allows for a broader analysis and the ability to focus on the issues most relevant and material to the investment thesis.

Engagement – Active managers believe that engagement beyond the formal data is more meaningful than the data itself. No one data provider has a monopoly on the most pertinent data. Information comes from a variety of sources, meaning that judgment and prioritisation in the context of each investment decision is required.

Active investment benefits – Due to their deep knowledge of companies, their business practices and industries, active managers can play an important role in engaging with companies on material ESG issues, and positively influence corporate behaviors as well as drive sustainable long-term value for investors.

This view is supported by the numbers. Over rolling one- and three-year periods since 1999, active ESG strategies beat their passive counterparts after fees more than 60 per cent of the time across capitalisations and geographies. The success of active management was particularly pronounced in global and non-US equity portfolios, as active outperformed passive at least 70 per cent of the time.

Active strategies can therefore be seen to offer a more effective way to gain exposure to equity markets, both in terms of investment performance and impact. Active managers can achieve this by:

- using fundamental analysis based on multiple sources of research and data to incorporate ESG criteria into their investment process. The research undertaken by active managers can home in on issues and considerations, allowing them to identify emerging ESG trends within companies—both positive and negative—and assess the impact they may have on valuations
- reacting to changing ESG dynamics in a timely manner which also assists in uncovering potential opportunities and risks that might be missed by passive ESG strategies – something that is becoming increasingly relevant as companies seek to meet changing investor expectations across a range of issues
- incorporating a range of sustainability issues, including climate change, diversity and corporate governance, while passive strategies tend to focus on a single theme, such as carbon emissions
- delving deeper into the long-term impact of issues. For instance, while both active and passive managers can screen for companies with a good gender diversity on the board, only active managers can also research the company's commitment to gender diversity by looking whether its business practices are also encouraging women in their professional development to reach senior roles.

Another consideration with ESG investing is that the issues which are material to performance are constantly evolving. As a result, the approach to engaging with companies and analysing these issues must evolve as well.

Climate change is a good example. For many years, the industry focused on carbon emissions measurement and reporting. Then, engagement with company managements evolved to consider the use of renewable sources of energy and the establishment of energy efficiency initiatives. Today, the conversation has developed to considering implications on business growth from scenario analysis around science-based targets.

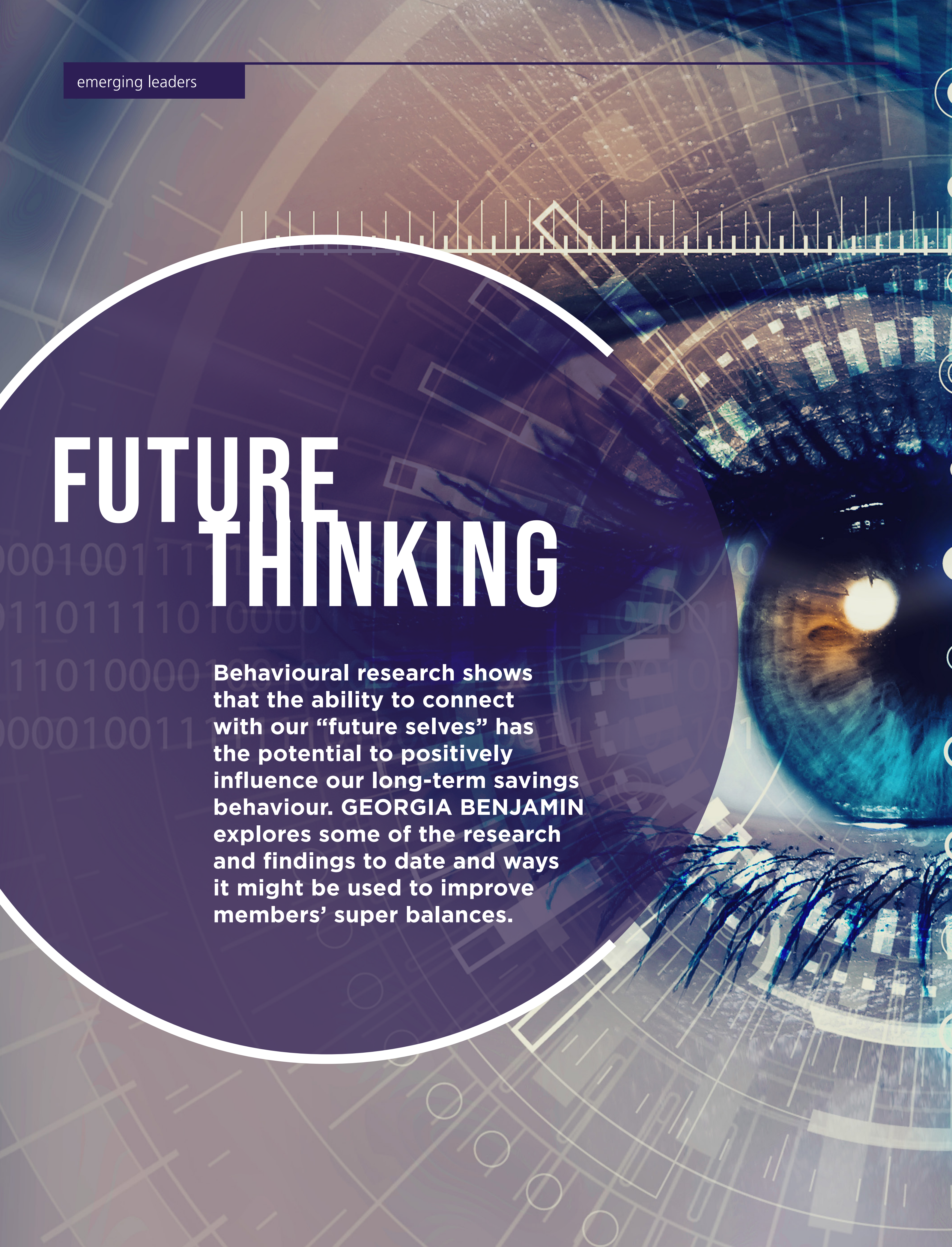
To understand the implications of these complex and continuing changing issues for investors requires a deep understanding of business fundamentals and ongoing engagement with management.

Active managers are therefore well-positioned to consider new information as soon as it is available. Passive strategies can struggle to be nimble because they may be rigid methodologically and backward-looking.

It's not surprising that some investors would consider passive strategies as a way to access ESG-driven portfolios at a low cost. However, the structural limitations—in data and research, portfolio integration and corporate engagement—make passive ESG strategies a suboptimal way to gain exposure to markets, both in terms of investment performance and impact.

Active ESG strategies have delivered compelling relative performance, even in the beta-driven bull market that followed the 2008 financial crisis, while providing investors greater control over the impact of their portfolio. The ongoing normalisation of central bank policy and its impact on financial market dynamics may further support the relative performance of active strategies, ESG-focused or otherwise. SF

Ingrid Dyott is co-portfolio manager of the of the core equity and sustainable equity strategies at Neuberger Berman



FUTURE THINKING

Behavioural research shows that the ability to connect with our "future selves" has the potential to positively influence our long-term savings behaviour. GEORGIA BENJAMIN explores some of the research and findings to date and ways it might be used to improve members' super balances.

My 68-year-old father says he can't see himself being 70 years old. Why then are we surprised when a 30-year-old can't imagine growing old?

Our ability to imagine future possible scenarios, or perform 'mental time travel', is not only fundamental to who we are, it's been shown to directly relate to our propensity to save for the future.

Specifically, it's been found that the more connected we currently feel with our idea of ourselves in the future, the more money we are prepared to forego in the present and put aside for the future.

THE FUTURE SELF AS A STRANGER

"Why would you save money for your future self when, to your brain, it feels like you're just handing away your money to a complete stranger?" said UCLA psychologist and researcher Hal Hershfield.

The degree that we "connect" with our future selves has been measured by a team of psychologists at Stanford University and UCLA Anderson School of Management using neuroimaging. The results are startling. They indicate that the person we think of in the distant future (that is, our "future self") has more in common with a stranger than it does with our current selves.

This finding, connected to the principle of "present-bias" (or the tendency to give stronger weight to payoffs that are closer to the present time), has implications for many aspects of our lives, not least, our motivation to save.

FUTURE SELF CONNECTION TRANSLATES TO LONG-TERM SAVINGS

Something as simple as imagining or writing to oneself at a date in the future has been shown to positively impact people's connection with their future selves (you can try this out at futureme.org).

To test the effect of the 'future self' connection on savings behaviour, Hershfield and his colleagues ran a series of tests from 2009 onwards.

To overcome any difficulties participants might have in imagining their future selves, Hershfield and his team created virtual simulations of participants' retirement-age "future self", projected 40 years into the future.

The results?

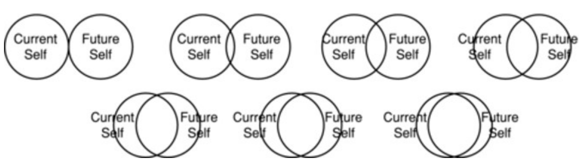
The individuals who interacted with the virtual simulations of their future selves were willing to allocate twice as much to their retirement account compared with their counterparts who did not see their simulated future faces.

An alternative study by Hershfield found that people's real-life financial positions are indicative of how connected they feel to their hypothetical future "self" in ten years' time.

The correlation was that the better your current overall financial position is, the more connected you are with your 'future self'.

These findings were obtained by asking a selection of individuals aged 20-86, to indicate their personal sense of future self-continuity, using Hershfield's purpose-built scale (below). The same individuals were asked to give a dollar value of their overall financial position.

The results revealed a direct correlation (controlled for age) between the participants' future self-continuity score with their real-life overall financial position. This is significant, as it suggests that finding ways to help individuals better visualise and feel connected to how they could be in the future, could dramatically improve their savings rates.



The Future Self-Continuity Scale: Circle the picture that best describes how similar you feel to your future self (in 10 years) © Hal E. Hershfield, 2011.

WAYS TO HARNESS THE 'FUTURE SELF'

Bank of America's Merrill Edge launched a "Face Retirement" campaign in 2012, which put these findings into action. It resulted in nearly 750,000 people increasing their savings rate for their retirement and a campaign that went viral.

To achieve these results, Merrill Edge provided a face-ageing app for customers, accompanied by the message: "if you could see yourself in retirement, if you could age your photo and come face to face with the future you, it just might change how you think about the future. And how you prepare for it." Customers used the app to view themselves virtually ageing – wrinkles and all – in 3D. While the campaign is no longer live, there are several virtual ageing tools available, such as the "AgingBooth" app or the ageing filter on Snapchat if you'd like to try it for yourself.

Another campaign by Aviva in the UK, demonstrated the emotional reactions and surprise people experience when their future lives turn out differently to how they'd anticipated. The "Reality Check – Shape My Future" campaign was launched in 2016 and is still live.

The campaign featured two individuals with contrasting levels of savings, who were placed in their simulated future lives for a week and filmed – being fitted with prosthetics to age their appearance and living on the amount they were projected to have saved in retirement. While the results of the campaign are not publicly available, the longevity of the campaign coupled with the impact the experiment had on the individuals themselves is noteworthy.

Source: Aviva UK / YouTube

Behavioural economists Richard Thaler (Nobel Laureate, 2017) and Shlomo Benartzi famously boosted average savings rates more than 350 percent with the Save More Tomorrow™ (SMarT) program they designed for Allianz – originally trialled in 1999 (and still running).

Of the 78 percent of participants who joined the program, which had members commit in advance to allocating a portion of their future salary increases toward their retirement savings, 98 per cent remained through two pay rises in the program's first three and a half years. Thaler and his work have been credited with saving Americans over $30 billion in retirement savings over the past decade.

Prudential Financial have also tapped into findings from behavioural science, partnering with Harvard Psychologist Dan Gilbert to create crowd-sourced campaign "Bring Your Challenges", launched in 2011. Prudential performed a series of activations through its "Challenge Lab", challenging and educating customers to think more realistically about their retirement.

Last year, in partnership with the Young Entrepreneur Council at South by Southwest® (SXSW), Prudential brought its latest white paper, "The 80-Year-Old Millennial", to life. They co-hosted a networking lounge and futurist panel discussion aimed at helping millennials visualise what work, technology, health and money will look like in the decades to come. The panel event included a digital aptitude test so that attendees could determine their persona (such as Futurist, Trailblazer, Technocrat) which generated a 3D-printed object representing their persona (the test is available at 80yearoldmillennial.pru).

"In order for people to impact their future, they need to envision it first," says Niharika Shah, Prudential's VP and Head of Brand Marketing and Global Insights. "Research has shown us that we all – not just millennials – have difficulty seeing more than ten years in the future. Creating an experience enabled us to spark that thought in the minds of millennials in a much more impactful way than simply handing them the results of our study. And what better place to do this than at one of the most well-known interactive media festivals?"

WHAT DOES THIS MEAN FOR SUPERANNUATION?

Behavioural Scientist Johann Ponnampalam (PhD), affirms, "the battle with the future self is one of the fundamental challenges of financial preparedness and wellbeing."
With this in mind, how can super funds help members better connect with – and act in – the best interests of their long-term future selves?

The answer could be as bold as Prudential's SXSW event or extend beyond current horizons, encapsulating more of the senses with technologies such as voice ageing and more immersive forms of Virtual Reality with more realistic scenarios.

Or perhaps we look to Damon Gameau's recent impact documentary film 2040, which paints a vivid vision of how the world could be in 20 years, blending a mix of traditional documentary with dramatised sequences and imaginative visual effects to share his ideas with the world (see whatsyour2040.com).

It could involve the more subtle, everyday ways that we interact with members – whether it be through member services call teams, our websites, seminars or our online or physical forms.

After all, as Ponnampalam suggests: "Every interaction matters, therefore every interaction can be behaviourally optimised."

At the very least, it's worth remembering that for some members, their future selves are nearly as much of a stranger to them as they are to you.

While the answers may not be immediately obvious, this does not mean we should shy away from the question. Every individual working in super, whether they know it or not, can be an advocate for the future self and more broadly, an agent for behaviour change.

Let's get creative. SF

Georgia Benjamin is communications & experience specialist at Media Super and is currently completing a Graduate Diploma in Psychology at the University of Melbourne.

Hitting the sweet spot

Mergers and consolidation may well be the order of the day in the superannuation environment, but that doesn't mean all mergers are created equal. Far from it. As Ben Squires, Chief Investment Officer of NGS Super, explains, the recent NGS/QIEC merger demonstrates that the drivers of a successful merger are unique and nuanced.

Consolidation has been an enduring feature of the superannuation environment for more than a decade, with the big question for many funds not so much "if" but "when?" they would undergo a merger or acquisition. Scale, with its consequent efficiencies and ability to reduce the cost base in line with the member outcomes test, is probably the most frequently cited primary motivation for such a move.

However, in the NGS experience, scale was just one of many other considerations that led to our recent merger with QIEC. In our case, for example, the "when?" question was preceded by another, arguably more important one: "who?".

THE RIGHT ALIGNMENT

At a macro level, and always with better member outcomes in mind, our first criteria in finding a merger partner related to alignment in certain key areas. It may surprise some commentators to know that, at least at this initial stage, those key areas did not include purely investment-related considerations. Rather, the areas of alignment we sought were:

Respective values

In our experience, far from being just words or ideals, values are the guiding principles that inform a fund's most fundamental decisions. As such, they manifest tangibly in everything from investment philosophy to the way members are serviced. It is our strong view that misalignment at this basic level—no matter how good the "fit" might appear based on other criteria—leads to a disconnect between goals, actions and outcomes. Such a disconnect would, in our case, create an untenable risk to our core value of putting members first. Both NGS and QIEC recognised that we shared not only this "members first" approach but other principles as well, including a focus on working in partnership with our members and our strong commitment to financial empowerment through education. Our shared values were the starting point in all our decision making – the essential foundation for success in any merger.

Membership profiles

Both NGS's and QIEC's members are drawn primarily from the education sector and include a high proportion of women. As well as the clear advantage of having similar employment circumstances and investment styles, having this common member profile has a measurable practical effect on members. Just one example is insurance: the fact that our members have so much in common means there is a similarity in member risk profiles, with no need to make significant adjustments for higher risk professions or demographics. This ensured that our integration would not have the unintended knock-on effect of raising members' insurance premiums or reducing their cover.

In choosing membership alignment, our intention was also to avoid creating a situation that might dilute our offering or devalue the service we currently provide. In our view, this is a risk when funds with very different member bases come together for no clear reason other than scale and FUM size. For example, maintaining our hands-on, in-person model of relationship management via workplace visits to schools at times that suit members' workdays—which members see as a key benefit—was a major priority for us. Any requirement for us to adjust this model to a whole new set of member needs may well have eroded our ability to continue this level of tailoring. Once again, the central test here was member outcomes and ensuring that post-merger, members continue to come out ahead.

OUR INVESTMENT FOCUS

Next we turned our attention to investment considerations. These could be broadly divided into two strands:

- our investment philosophies and how the merger might influence our future investment opportunities, and
- on a practical level, the operational implications of integrating our investment infrastructure.

A major consideration in any merger must be the potential issues that can and do arise when seeking to integrate two different businesses, and that applies equally to investment teams. In our recent experience, the fact that QIEC had an outsourced investment team took many of these potential issues off the table, smoothing and speeding what would otherwise be a lengthy and laborious process. Rather than spending time integrating personnel, systems and tackling logistics such as geography, we were able to immediately embark on a thorough review of QIEC's underlying portfolio, conducting a systematic, like-for-like comparison between different consultants and managers. As a result, we were able to secure some extremely positive results in terms of both relationships and member outcomes. For example, we are now able to offer members access to new investment managers whose funds were otherwise closed, Solaris being a case in point.

When it comes to future investment opportunities, we are already seeing positive results from the merger. And yes, scale is a factor – but only to a point. The addition of $1.6 billion in FUM has delivered real benefits for members. Lower fees across most investment options is one of them, including a 10 bps reduction to the Diversified (MySuper) option as a direct result of increased scale across managers and lower fixed costs as a percentage of total FUM. Greater diversification is another instant benefit, in terms of both sectors and geography.

Increased scale has also increased our capability in both direct and co-investment opportunities across property, infrastructure and private equity, providing access to new opportunities, greater transparency over our investments and further future fee savings, which we currently estimate will be in the order of 10 to 15 more bps for the Diversified (MySuper) option.

Our expansion into new investment fields also has other positive implications for members. That includes offering an infrastructure option, an asset class not previously available to NGS members. Our capability for ESG initiatives has also expanded. Investments that are held in our mandates are of course, already subject to our discretions, based on risk/return assessment with exclusions such as tobacco, armaments and fossil fuels. Building on our Climate Change Statement released last year, new resources have enabled new research to analyse and design further strategies for managing ESG risk, including the planned release of a Stewardship Statement this year. Importantly, this involves addressing not only the immediate risk/return trade-off relating to climate change, but also the longer term intergenerational responsibility we have as a fiduciary for future generations. This approach is also very aligned with the concerns of our members who, as teachers, care deeply about these issues.

"When it comes to future investment opportunities, we are already seeing positive results from the merger. And yes, scale is a factor – but only to a point."

"SIMILAR BUT DIFFERENT"

In summary, the post-merger NGS could perhaps best be described as "similar but different". What's important about those similarities and differences is that we have chosen them, in a highly-considered fashion, and always with better member outcomes as our goal. So, while our values, membership profile and member service models remain the same, our fees, range of investment options and ability to participate more actively in shaping the future on behalf of members has changed – for the better.

About NGS – pre-merger

- $9.55b assets under management
- More than 97,000 members
- 70% female
- Occupations:
    - Teaching, management and support staff across the non-government education sector
    - Employees in the Age, health and Community Services sector
    - Employees of Customer-owned banking
- Primary geographic base: Predominantly in QLD

About QIEC – pre-merger

- $1.6b of assets under management
- Over 22,000 members
- 81% female
- Average age is 44
- Primary geographic base: Predominantly in NSW and SA
- Occupations:
    - Employees in the childcare industry
    - Employees in the Age, health and Community Services sector.

About NGS – post merger

- FUM: $11.16b
- Membership base: More than 119,000 members
- 71% female
- Average age is 45
- Occupations:
    - Teaching, management and support staff across the non-government schools
    - Employees in the childcare industry
    - Employees in the Age, health and Community Services sector
    - Employees of Customer-owned banking
- Primary geographic base: Predominantly in NSW, QLD and SA. SF

Ben Squires is chief investment officer of NGS Super

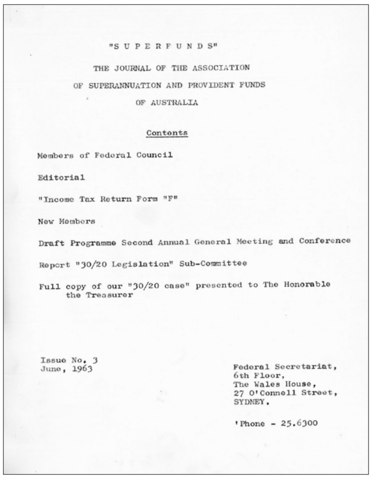
Stop Press!

A brief history of *Superfunds* magazine

In 1962, in the very first edition of *Superfunds*, Mr A. G. Armytage, then president of the Association of Superannuation and Provident Funds of Australia wrote:

"It gives me great pleasure to address members of this Association in the first issue of our Journal. I am sure that in future issues the Journal will serve all members by providing useful information, and also maintaining their interest and contact with each other and with the Association."

In 2019, 57 years and 446 issues later, *Superfunds* is just that. A way to empower you with the latest information and policy in superannuation, keep you informed of the biggest trends and hopefully enable you to connect to create a strong and united industry.



"S U P E R F U N D S"

THE JOURNAL OF THE ASSOCIATION
OF SUPERANNUATION AND PROVIDENT FUNDS
OF AUSTRALIA

Contents

Members of Federal Council

Editorial

"Income Tax Return Form "F"

New Members

Draft Programme Second Annual General Meeting and Conference

Report "30/20 Legislation" Sub-Committee

Full copy of our "30/20 case" presented to The Honorable the Treasurer

Issue No. 3
June, 1963

Federal Secretariat,
6th Floor,
The Wales House,
27 O'Connell Street,
SYDNEY.

'Phone - 25.6300

1960S AN ASSOCIATION IS BORN

The 1960s editions of *Superfunds* were a snapshot of ASFA's early history. It began as a quarterly journal, Roneo printed and delivered to ASFA's first members. It captured reports from various sub-committees, correspondence with government at the time, and research that was underway.

Highlight: Issue 3, June 1963

Correspondence between ASFA President and Federal Treasurer, and later Prime Minister, Harold Holt calling for a repeal in the legislation surrounding superannuation and life assurance offices. At the time, funds had to invest 30 per cent of increases in assets in public securities and 20 per cent in commonwealth securities (dubbed the 30/20 rule). It was this particular issue that acted as the catalyst for forming ASFA a year earlier.

1970S WHAT IS SUPER ANYWAY?

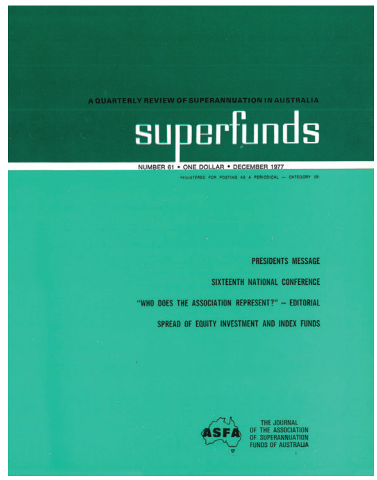
Superfunds in the 70s saw the rise of op-eds – editorial style articles from various movers and shakers in the industry and it explored ideas and sentiment around superannuation.

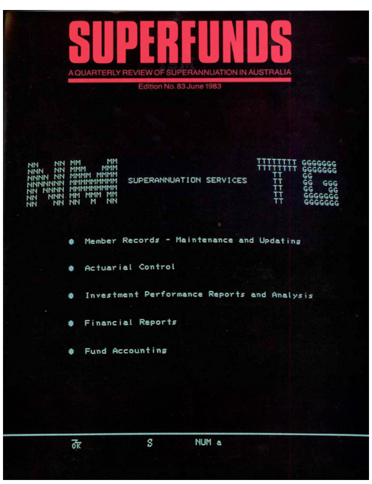
It was a tumultuous time in this fledgling industry, as superannuation tried to get a foothold as a policy norm within Australia.

In the wake of the Hancock Enquiry, business leaders and ASFA members were trying to work out what was next for the industry – was the plan to make one large public service fund with all Australians and their employers contributing to one fund? Would there be a flat rate non-contributory scheme?

Highlight: Issue 60, Sept 1977

"Keep it simple and make it popular," wrote Barry King, from Campbell, Cook & King (now Mercer) in relation to superannuation in the 1977 edition of *Superfunds*, encapsulating the decade.





1980S THE REFORMATION

The 1980s was a time of great reform in the superannuation industry, and a period of greater clarity for members – the *Superfunds* issues reflected great debates by powerful thought leaders of the time. This decade focused on solidifying an established industry and moving towards more comprehensive, award-based superannuation.

Highlight: Issue 83, June 1983 – Letter to Bob Hawke

During such a powerful decade for superannuation, it was hard to choose a single highlight. An open letter to Bob Hawke, in the first edition after he was sworn in as Prime Minister, marks the beginning of a relationship between ASFA and the government that led on a range of issues from taxation to prudential supervision.

1990S LIFE IN COLOUR

The 1990s saw a series of ups and downs for the industry. The Superannuation Guarantee was introduced in the early 90s, making way for a more regulated system. And with the "recession we had to have", the magazine's focus turned from politics to returns. This decade also tracked the rise of industry funds.

It also saw some spectacular ad placements from our members in full 90s flair, as this decade saw the first full colour print edition and the move from quarterly to monthly publications.

Highlight: Super Studies issue 133, February 1991

The introduction of Super Studies, celebrating ASFA's prestigious learning alumni. It was a celebration of ASFA's Learning division and the high calibre of talent who were looking to grow professionally.

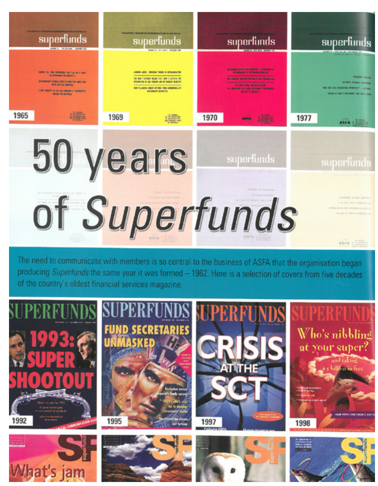
2000S IT'S ALL ABOUT CHOICE

The 2000s were defined by the choice of fund legislation that took effect in 2005. Suddenly, competition was rife between funds and ranking mechanisms became powerful tools.

Highlight: The cost squeeze issue 337, July 2009

Following the GFC, superannuation funds fell quiet as the financial services industry was hit hard. Buffered by compulsory contributions, the industry held on, but a raft of changes hit service providers.

2010S THE INDUSTRY SUPER-SIZES



The world today is fast-paced, demanding and, of course, digital. So, *Superfunds* magazine has adapted to go to where our readers are.
In 2013, we published a version online so that every issue could be accessed by our members at any time. Now, with more and more of our readers looking for articles online, our entire publication is going digital.

Highlight: Issue 365, February 2012 – ASFA's 50th anniversary

Former associate editor for the Australian Financial Review, Barrie Dunstan, writes a reflection on the superannuation industry from its early days as Life Offices to the multi-trillion dollar industry it is today.

Preparing your portfolio for the next market drawdown

With 2019 markets looking more like 2018 than 2017 in terms of volatility, **TOM FLETCHER** says investment teams should be reviewing how drawdown risk is managed. Here he suggests strategies to help navigate uncertain markets.

Have you or your investment governing body considered the possibility that benchmark risk is best quantified as risk of drawdown rather than standard deviation of returns? Long-term damage is caused by a decline in portfolio value, particularly when spending needs don't subside over that troubled period. Ultimately, it is larger corrections in a portfolio's value that destroy wealth compounding over time, even in the event that the underlying equity market ultimately recovers over several years.

We consider the Calmar ratio a more useful measure of the balance between risk and reward than more conventional measures like Sharpe ratio (which is based solely on a symmetrical measure of portfolio volatility).

Calmar ratio = Expected annualised return ÷ Max drawdown

A risk-adjusted return framework can be applied using drawdown potential as the key measure of risk. In an environment with suppressed equity return expectations, this approach can positively skew an investor's return expectations. For some investors, a modest reduction in mean-expected return may be well worth the improvement in the event of a particularly bad path that could lie ahead.

THE INCREASING IMPORTANCE OF MONITORING DRAWDOWN RISK

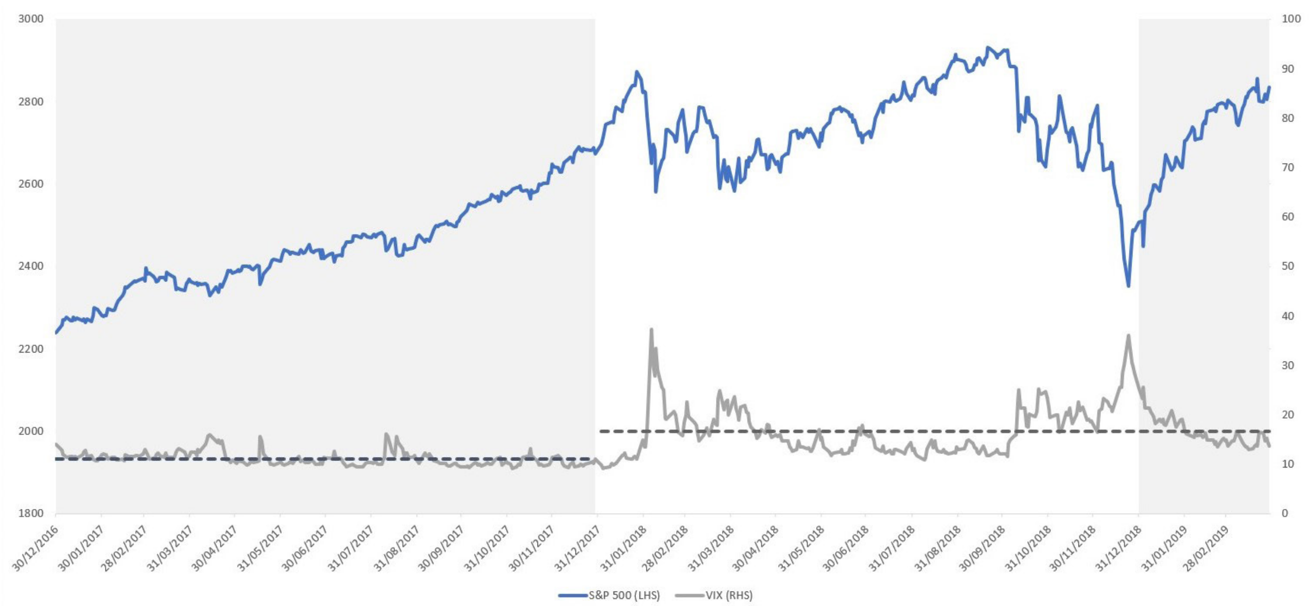
Until late January 2018, the US equity market had been behaving in a consistent pattern for a few years. As chart 1 shows, corrections were short lived and so were spikes in volatility, as measured by the CBOE Volatility Index (the VIX). While the correction in Q4 2018 was longer lived, we have ultimately come back from this drawdown at least partially based on the expectation of ongoing loose monetary policy from the Federal Reserve.

Despite the recent rebound, 2018 was different than 2017, and arguably a more normal year in terms of average market volatility. The volatility spike in early 2018, however, was anything but ordinary. It was not the peak level of the VIX that was notable. It was the near record low starting point heading into the shock. The extremity of that spike can also be seen in chart 2 which shows the CBOE VIX Volatility Index (the VVIX) — this measures the volatility of the volatility index.

While the fourth quarter of 2018 did not have the same relative increase in volatility, it involved a greater percentage drop in the underlying index and came closer to a point of capitulation before the markets rebounded. In any case, there was somewhat of a regime shift in volatility.

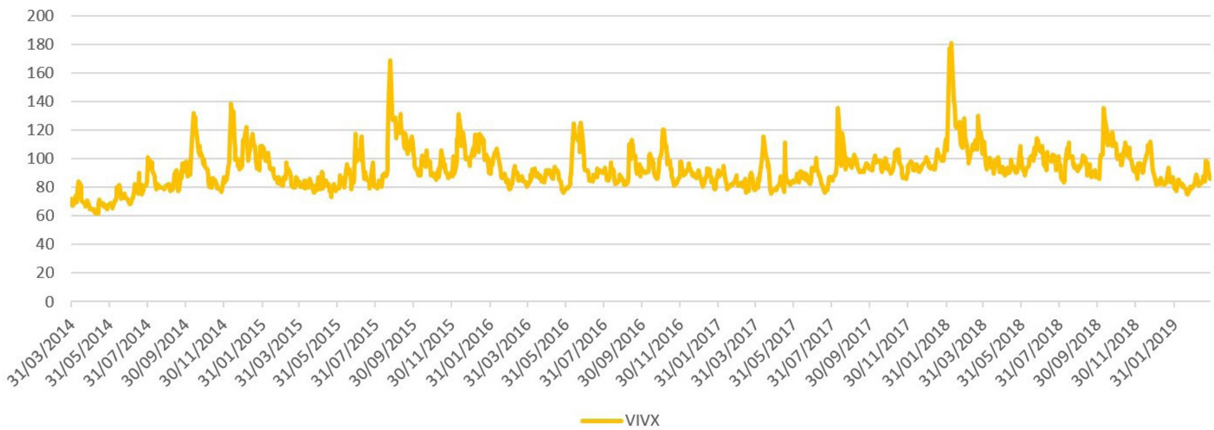
With that in mind, what should you fear going forward: a big spike in volatility or a more notable drop in prices? Clearly the latter scenario will create more lasting damage, particularly in the event buyers don't return to the market for several years after the economy goes into recession. To be clear, most institutions can absorb a more instantaneous shock, as long as it is not followed by subsequent declines of a more prolonged nature. This is an important point to consider when deciding to hedge against drawdown risk resulting from exposure to equities.

Chart 1: S&P 500 and VIX since 2017



Dates: end of 2016 to end of March 2019 Source: Russell Investments and Bloomberg

Chart 2: CBOE VIX Volatility Index (VVIX)



Dates: end of 2016 to end of March 2019 Source: Russell Investments and Bloomberg

IN WHAT CASES, MIGHT A HEDGE BE LESS APPROPRIATE?

In many cases, institutions are far enough from critical funding levels to maintain a longer investment horizon and weather a potential storm the traditional way – tolerating the bumps along the way. Other plans have a strong positive cash flow with the flexibility to increase contributions in the event of a downturn, thereby using an opportunity to "buy-low" when it presents itself. If neither of those fit your case and you decide to reduce equity drawdown risk, what might you do?

REPLACE EQUITY EXPOSURE WITH MORE DEFENSIVE VARIETIES

This involves selling options to generate income rather than adding hedges that decay more in value the longer an investor keeps them on. One of the more popular strategies mimics the CBOE PutWrite Index (ticker PUT). As chart 3 shows, this can generate an equity-like return pattern from the combination of enhanced cash holdings and monthly short put options struck at the money. It may sound counterintuitive that taking on downside risk to the market without upside potential could generate returns; however, harvesting the monthly premiums can provide a considerable offset to downside equity risk, as shown in chart 4. The strategy also benefits when some of those options ultimately expire worthless. In addition, it is a more strategic solution that works over long periods of time without need for tactical discretionary decisions.

TACTICALLY HEDGE WITH OPTIONS

While committee action is often required to hedge a portfolio with options, here are some things to consider when fitting hedges into a more deliberate decision-making structure.

Shorter-dated options and cross-asset hedges can challenge governance. A higher level of discretion and expertise is required to succeed here. Even those with existing investment discretion to hedge may want to consider a more deliberate approach with less potential for regret if hedge timing is not perfect.

Chart 3: Cumulative returns of PUT mandate vs S&P 500 over longer term

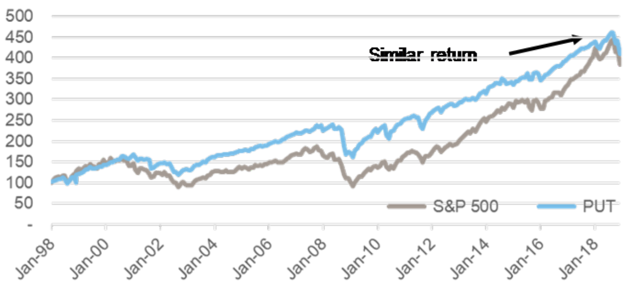
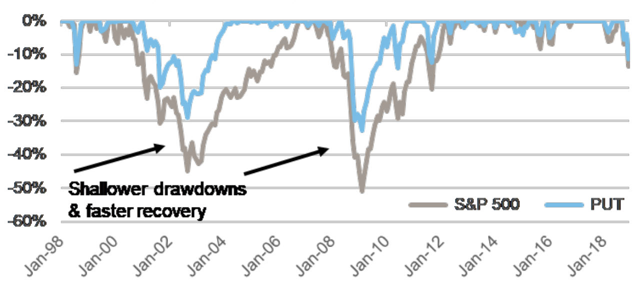


Chart 4: Historical drawdowns



Use longer-tenor option structures for a slower-twitch response. This approach can be much more forgiving on timing of entry and exit thus creating a wider window for success.

One-year option structures are less responsive than quarterly structures, but we believe this is a good trade-off. Time-decay (the biggest cost of option hedging), occurs at a slower rate with longer-tenor options. While tenors longer than one year are not uncommon, the reduced responsiveness of the hedge is often counterintuitive to staff if a correction occurs early in the protection term. We would suggest these only in a case of collaring expected returns over these longer horizons—this may often be an attractive means for well-funded portfolios to generate returns without the risk of falling below key funded levels.

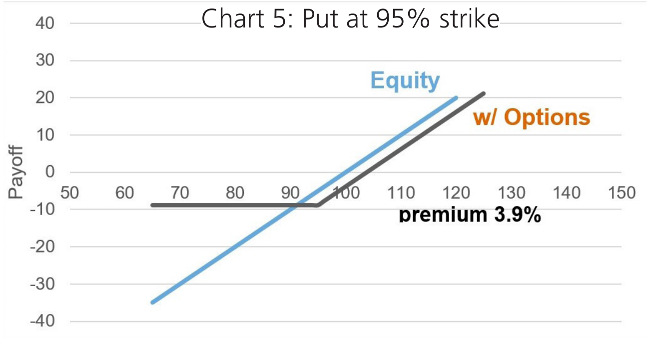
Consider staging into a series of longer-tenor options to diversify the maturities, the entry and exit points, and the timing decisions for closing or rolling the position.

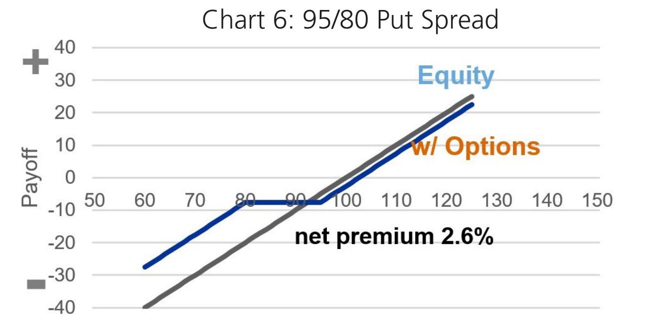
Choice of hedge type. Charts 5 and 6 illustrate the potential impact of rolling one-year put options (as well as put-spreads designed to reduce the cost). Pricing shown as of end of March specific to the S&P 500 Index.

Chart 7 shows how one-year option hedges (rolled annually) behaved relative to the underlying market during the Global Financial Crisis, looking at a hedging period starting one year before the last recession and extending two years beyond the start.

As investment staff cannot watch hedge positions continuously, this slower-response option structure gives a longer window of opportunity to successfully monetise the hedge. Remember, it is also effective in protecting against the slower, more prolonged second wave down in a correction, and that is ultimately the more critical scenario to hedge. In addition, this protection is much more reasonable in cost than higher-order tail hedges that respond to more extreme volatility shocks. SF

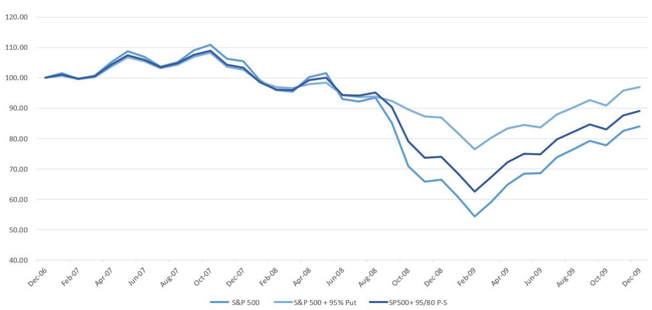
Tom Fletcher is managing director overlay services at Russell Investments





These charts are for illustrative purposes only. Source: Russell Investments. Option pricing indicative as of March 31, 2019.

Chart 7: Cumulative returns under stress
1yr before recession though 2yrs after recession starts



Source: Russell Investments, and Bloomberg.

OBSTACLES TO HEDGING DRAWDOWN RISK

Portfolio governance can often prevent or discourage decisions that may reduce expected returns or solutions that incur incremental costs, like the premium on a put option. Globally, we've seen an increasing interest in an aggregated view of risk that considers the entire portfolio. While a total portfolio approach is a longer-term direction than most institutions are heading toward, the next recession may hit before such a framework is implemented.

Investment team structure and accountability often impacts how drawdown risk is managed. Not all institutions have a person within the investment management team accountable for absolute drawdown risk. This is part of the role of an asset allocation specialist or an investment risk management function, but many in these types of roles do not have an account structure ready to holistically implement hedges.

If accountability does not flow via performance measurement, it is hard to claim that someone owns this trade—or the absence of it, as is more likely the case.

Potential conflicts with other objectives can deter inclusion of hedging programs within the equity component of the portfolio. If the team is judged on generating excess return, one way to keep their focus is to add defensive components to their overall benchmark. This can help alleviate any concerns around running modestly lower risk/return characteristics for prolonged periods—which is the purpose of drawdown risk mitigation. Targeting an improvement to the Calmar ratio on the public-equity composite could also incentivise more drawdown-aware behaviours.

super verdict

The art of taking and acting on instructions

MATT DALEY, JANE PASKIN AND VANESSA PALLONE OF CLAYTON UTZ

CASE 1

In this case the Australian Financial Complaints Authority (AFCA) finds the trustee had not acted fairly and reasonably when deciding to refuse to refund fees charged to a member who had asked to transfer to another fund (fund 2). As is often the case, the subtlety of the dispute is found in a close analysis of the facts.

For over 30 years, the complainant was a member of fund 1 but he was unhappy, and in 2017, he phoned the trustee's call centre to discuss his desire to have higher investment returns and lower fees. A consequence of this contact was his decision to become a member of fund 2 (which on the facts appears to have the same trustee as fund 1).

The member received two telephone calls from fund 2 staff. AFCA had an opportunity to listen to recordings of these conversations. In so doing, they were satisfied it was clear to the trustee's representative the entire purpose of opening an account in fund 2 *"was to have a vehicle more suitable to his needs into which his account in fund 1 could be transferred"*. In the first call, the trustee's representative explained that it was necessary to initially become a member of fund 2 and then the transfer could take place after this step had occurred. He was advised another person would call him regarding the setting up of the new account.

In the second call there was a discussion about what was needed to set up the account, but no conversation took place about the steps to facilitate the rollover from fund 1. The trustee representative was able to complete most of the application form for the new account based on the information provided by the member over the phone. Importantly, that involved pre-ticked instructions to the trustee authorising a SuperMatch search with the Australian Taxation Office but for the member to view the results and then decide whether or not to consolidate funds. The partially completed form was emailed to the member who added his tax file number details, signed and dated the form and returned it to the trustee.

The SuperMatch result found one match, namely fund 1, and the trustee emailed the member three times to attempt to obtain his instructions. AFCA was satisfied that email contact was in accordance with acceptable practice, but given the essence of the first contact with the trustee had been to rollover his fund 1 account to his fund 2 account, the trustee, acting fairly and reasonably, should have taken further steps to act on the member's verbal instructions.

The member had requested a refund of $926.63 which was an amalgamation of three figures from his fund 2 member statement. AFCA pointed out that this was not his real loss suffered for the failure to rollover fund 1's balance to fund 2. It was the fees charged in fund 1 from the date the fund 2 account was established that should not have been incurred. AFCA substituted its own decision for that of the trustee's and effectively ordered the trustee to refund all the fees charged in the fund 1 account over the 'relevant period' together with interest at the fund 1 cash rate to the date of payment. The relevant period was the date the fund 2 account was established to the date the fund 1 account was closed, a little over one year.

It is worth noting AFCA did not order compensation to be paid to the member because, for a superannuation complaint, they can only consider remedies which put the member back in the position he would have been if the trustee's unfair and unreasonable decision had not occurred. For this reason, AFCA was unable to direct the trustee to pay compensation.

Case Number: 602974

CASE **2**

This case involves the trustee's decision to not compensate the member for investment losses when he was unable to switch from high growth to cash for a short period of time. The question for AFCA was whether this decision was fair and reasonable in the circumstances.

The period of time was from 26 September to 23 October, and this was due to the trustee's decision to change administrators. The suspension of member transactions was necessary while the data was migrated from the old to the new administration system and then tested for accuracy. The trustee's ability to appoint a new administrator was, of course, permitted under the trust deed and on the evidence, it made this decision to improve member services.

In preparation for the data transfer, the trustee sent members email notice of the suspension in both August and September. The cut off dates for both paper and on-line transactions were clearly identified in these emails as was the information that the on-line accounts would be 'read only' access until 15 October. The trustee was able to provide AFCA with evidence the member had opened both emails before the cut off dates and, therefore, it could be assumed he had an opportunity to be informed about the forthcoming disruption.

The member argued he wished to transact on 25 September and should have been able to do so over the phone. The trustee pointed out that the entire point of the suspension period was to 'freeze' member data at a point in time.

AFCA was satisfied that the trustee's decision to not compensate the member for the period up to 15 October was fair and reasonable. This was the date the trustee had informed members on-line access would be available, but the on-line access didn't operate until 23 October and the members were not advised of the reason for the delay.

The member was anxious about not being able to check his account balance daily. The member called the trustee on 15 and 23 October. It was clear the member was concerned about possible investment losses in the first call and although the trustee, at this time, would have been able to process investment changes over the phone this was not discussed with the member. During the second call he was given login details over the phone and was able to check his balance. He also made a verbal complaint which was lodged by the call centre representative.

The trustee calculated that by the member's investment remaining in the high growth category for the eight day period from 15 to 23 October he was $115.02 ahead than if the trustee had actioned his investment switch to cash on 15 October. It was, therefore, clear the member had suffered no financial loss and the trustee decision to not compensate him was fair and reasonable in the circumstances. Obviously, the result may have been different if the member had suffered an investment loss in the period 15 to 23 October.

Case Number: 601632 SF

The last [printed] word

Russell Mason

Partner, Deloitte

Each of us have our particular quirks and one of mine has been keeping every printed edition of *Superfunds* since I joined my previous employer, Mercer, in 1987 (and I suspect I have some from before that date hidden somewhere in Mercer's archives). Now, with this last printed edition of the magazine, a habit of just over 32 years comes to an end and a new one will begin with the digital *Superfunds*.

As I look at the most recent edition, I note how the magazine has evolved over many years from a monthly technical journal to a magazine that reflects the breadth of our industry, both in terms of activities and views. Like ASFA itself, *Superfunds* has matured over time to reflect our industry and the massive change that has occurred.

When I joined what was then Willis Faber Johnson and Higgins, a consultancy jointly owned by two global insurance broking firms, in 1982 superannuation was the domain of employees in the public sector, large Australian listed companies and US and UK multinationals. Around 25 per cent of the workforce was eligible to be in an employer superannuation fund. Most of the funds were defined benefit, which rewarded you well if you stayed for life and returned little more than your contributions and notional interest if you left before retirement. While the more progressive companies provided superannuation to all their workforce, many limited coverage to management and white-collar employees.

We've come a long way since then. Today we have a universal system that provides savings and insurance benefits to virtually all employees. Sure, we still criticise it from time-to-time saying it could be better and politicians have made, and will continue to make, amendments to the rules. Although to be fair, many, but certainly not all, have been for the better.

During this time, *Superfunds* has endeavoured to keep us up to date with changes and innovations, largely thanks to a combination of ASFA members who wanted to contribute to the industry together with a highly dedicated and professional team within ASFA.

I've been privileged to be a member of the Superfunds Editorial Committee for over 15 years and Chair for the past 12 years. I've seen how important *Superfunds* has been to our industry debates and how much many of us depend upon it as a source of reliable and timely information.

The good news is that nothing will change except some of us are going to have to alter our reading habits, and that's a good thing. If I can change my habits, then I suspect the rest of the *Superfunds* readership will have no problems! The new digital *Superfunds* will provide access to more of ASFA's membership and reflects changes in technology and the way we access information. I'm sure readers will embrace the new *Superfunds* and it will continue to serve a vital role within ASFA for many years to come. **SF**

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