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4 February 2016

Secretariat
The Fraser Review
Industry Super Australia
Email: submissions@thefraserreview.com

Dear Secretariat

Good governance and not-for-profit superannuation funds

National Seniors commends the efforts of Industry Super Australia and the Australian Institute of Superannuation Trustees in proactively seeking ways to improve governance, including potential for a Governance Code for the not-for-profit funds.

Security of retirement income is an overriding concern amongst older Australians. There is an increasing expectation for high standards of governance to demonstrate continued success in investment performance as well as fund resilience in managing member savings and mitigating risks during market volatility.

Hallmarks of good governance

National Seniors agrees with the underlying premise of the Review that there is a difference between for profit retail funds and not-for-profit funds. Delivering value for shareholders of a parent company introduces potential conflicts for retail funds whereas the not-for-profit sector has an 'all profit for members' culture. The vertical integration of retail funds and impacts this has on competition and fees needs to be closely examined. It is widely acknowledged that not-for-profit industry funds have performed consistently well for members and have not been tarnished by the financial advice failings of retail funds.

However, we also highlight that all super funds ultimately have the same goal of maximising investment returns for their members and managing conflicts of interest is a challenge irrespective of the fund type.

We believe that there is potential to improve governance arrangements across the superannuation industry, recognising the exponential growth of funds under management and the increasing complexity of investment strategies. Governance should give members confidence that their retirement savings are being appropriately managed.

National Seniors considers the following to be hallmarks of good governance:

- cost-effective arrangements that minimise fees for members;
- flexibility of board structure and composition to leverage capabilities of the Chair and directors in a manner that aligns with the investment culture of the fund;

- transparent practices for decision-making that manage real or perceived conflicts of interest and ensure investment is in the best interests of members;
- member participation through direct representation on the board or by allowing member appointment of board directors;
- regular and meaningful communication with members that builds trust; and
- embedded systems for continuous improvement, in line with global best practices and changing community expectations for superannuation fund management.

We believe there are positive aspects to existing governance arrangements in the not-for-profit sector that should be leveraged and suggest any adjustments be implemented progressively.

Appropriate number of independent directors

National Seniors reiterates in-principle support for increasing independence in a board's composition, provided this is not prescriptive and reflects the unique characteristics of the fund. Not-for-profit industry funds have performed consistently well for members and many of these funds are already moving to independent directors on their own accord.

We recognise that increasing independence in the board composition is in line with global best practice and can help improve accountability of fund management to members. Greater diversity in the board structure can also have a positive influence on performance. It introduces impartial judgement on investment strategy and asset allocation, which minimises conflicts of interest.

In our view, the one-third independent approach is a sensible way forward because it provides a sufficient proportion of independent directors to meaningfully influence board decisions whilst also complementing the existing equal representative structure. This type of governance arrangement (e.g. a third independent, a third employer and a third employee) provides for the balance of employer and employee trustees, enhanced by the addition of independent directors and the improved accountability to members that their presence can provide.

However, National Seniors maintains that greater independence should not be an overriding objective and does not have a preference for any particular governance model. Instead, the impetus must be on ensuring board members are fit and proper and that boards have an appropriate mix of skills and experience.

Independent chair

National Seniors believes that the board of trustees is best placed to decide who has the appropriate skills and capacity to fulfill the role of the Chair. Effective chairmanship goes to the heart of a board fully and properly fulfilling its role. The Chair needs to be the best person for the job as decided by the board – independent or otherwise. It needs to be the best person for that role.

Governance Code for not-for-profit funds

National Seniors considers the potential establishment of a Governance Code for not-for-profit funds will add value to existing governance arrangements so members have renewed

confidence that their retirement savings are being appropriately managed without imposing the high administrative costs of prescriptive regulations.

We suggest the Governance Code not be limited to procedures for appointing independents but rather, establish standards of competency for the board and provide behavioural guidance for fund integrity. The Governance Code should also set out the processes for appointing the Chair and directors, develop strategies for managing conflicts of interests, include periodic review of the skills mix of the board, and be publically available for members.

National Seniors recognises that the degree of compliance with the Governance Code depends on the extent of commitment from each fund within the not-for-profit sector. We see this as a limitation that will dissipate over time, with the broader financial services reforms increasing financial literacy and member engagement that in turn, will compel commitment to the Code and ensure governance arrangements remain sharply in focus.

If you have any questions regarding this feedback, please contact Ms Sarah Saunders, Deputy Chief Executive & General Manager Public Affairs on 07 3233 9105 or s.saunders@nationalseniors.com.au

Yours faithfully

Michael O'Neill
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