

Fraser Review of Governance

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## Fraser Review of Governance

Industry Super Australia (ISA) and Australian Institute of Superannuation Trustees (AIST) have asked Bernie Fraser to lead a Review of governance arrangements in respect of not-for-profit superannuation funds, and to propose a best practice Governance Code for such funds.

Further to my email submission of 4 February and subsequent to receipt of the terms of reference Women on Boards is now making a brief submission to the review. I hope the lapse of the closing date will not be a barrier to receiving this submission. I would be willing to elaborate if that is useful.

Yours sincerely



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## Summary

1. The terms of reference of this review are broadly ‘a review of governance arrangements in respect of not-for-profit superannuation funds, and to propose a best practice Governance Code for such funds. This is based on two claims
  - their focus on the overriding primacy of members’ interests.
  - they can point to sustained outperformance in the returns they deliver to their members compared with other groups of funds.

*Neither of these claims will stand up into the future.*

2. Matters of improved governance have been in the sights of APRA for a number of years; with the resulting increase in focus on these matters by trustees. This applies to all sectors of the super industry.

*This review focussed on the not for profit sector will likely contribute at the margin only.*

3. This review is a response to the calls for more independent trustees on super fund boards. WOB supports transparent and open approaches to selection of trustees. The number of female trustees from the WOB BDI (Boardroom Diversity Index) Index is:

<b>Sector / % female trustees</b>	<b>2015</b>	<b>2013</b>	<b>2011</b>	<b>2010</b>
<b>Top 200 Super Funds</b>	26	20.9	20.4	19.4
<b>Corporate</b>	22.5	20.7	19.4	21.2
<b>Industry</b>	22.6	18.2	21.9	18.9
<b>Public Sector</b>	30.4	22.4	23.6	22
<b>Retail</b>	33.3	25.1	18	17.1

Table 1

*More independent directors should give women a fairer chance of being appointed.*

## Submission

### 1. Terms of reference

The background from the terms of reference state:

*‘Two distinguishing features of not-for-profit funds stand out. One is their focus on the overriding primacy of members’ interests. This is reflected in their governance and operational arrangements, and under-pinned by board structures based generally on equal representation from employer and employee organizations. Secondly, they can point to sustained outperformance in the returns they deliver to their members compared with other groups of funds.*

*This outperformance lends weight to the contention that the mutuality of not-for-profit funds (with all profits to members) and their representative board structures add up to a successful business model and a culture that inspires members’ trust in their funds - a rather limited commodity in many parts of the financial system these days. The values, beliefs and diverse experiences of representative trustees have very likely contributed to these outcomes and any changes to the structure of boards would need to be considered very carefully to ensure that not-for-profit funds are in no way impeded in their efforts to continue to build on their enviable record.’*

In substance this is about the primacy of member interest in the not for profit model. Whereas this was true in the past when the advisor incentives were in place and retail super funds in particular operated as part of their institutional parent this will not be true in future.

All funds will find themselves operating in an environment of tradeoffs between member interest and the fund interest such as:

- How to balance the needs for reduction in fees to members (eg My Super ) against the ongoing viability of the fund
- How much of member funds should be spent on marketing activities in order to grow the fund and support existing members.
- How do the decisions of trustees affect / disadvantage current members versus new members

Just one current example is the article in the AFR of 8 February 2016 at page 17 titled “Statewide Super to revamp brand awareness, marketing’

**In summary the remembrance of things past view of industry fund not for profit governance being more meritorious is challenged.**

## 2. Superannuation Prudential Standards

The APRA prudential standards are now at the point where governance matters are extensively regulated. The added imposts from APRA re matters that trustees must consider; as per their prudential visits and follow up monitoring has ballooned in the past two to three years.

It would seem perverse to suggest imposing more requirements on not for profit sector.

I reference the prudential framework at

<http://apra.gov.au/Super/PrudentialFramework/Pages/superannuation-prudential-standards.aspx>

In case of any doubt about adequate prudential supervision.

- [SPS 114 Operational Risk Financial Requirement](#)
- [SPS 160 Defined Benefit Matters](#)
- [SPS 220 Risk Management](#)
- [SPS 231 Outsourcing](#)
- [SPS 232 Business Continuity Management](#)
- [SPS 250 Insurance in Superannuation](#)
- [SPS 310 Audit and Related Matters](#)
- [SPS 410 MySuper Transition](#)
- [SPS 450 Eligible Rollover Fund \(ERF\) Transition](#)
- [SPS 510 Governance](#)
- [SPS 520 Fit and Proper](#)
- [SPS 521 Conflicts of Interest](#)
- [SPS 530 Investment Governance](#)

### Extract from Prudential Standard SPS 510 Governance

‘Objectives and key requirements of this Prudential Standard

This Prudential Standard sets out minimum foundations for good governance of an RSE licensee. Its objective is to ensure that an RSE licensee’s business operations are managed soundly and prudently by a competent Board, which can make reasonable and impartial business judgements in the best interests of beneficiaries and which duly considers the impact of its decisions on beneficiaries.

The ultimate responsibility for the sound and prudent management of an RSE licensee’s business operations rests with its Board of directors.

It is essential that an RSE licensee has a sound governance framework and conducts its affairs with a high degree of integrity. A culture that promotes good governance benefits all stakeholders of an RSE licensee and helps to maintain public confidence in the entity.

The governance of an RSE licensee builds on these foundations in ways that take account of the size, business mix and complexity of the RSE licensee’s business operations.

The key requirements of this Prudential Standard are that:

- the Board must have a policy on Board renewal and procedures for assessing Board performance;
- a Board Remuneration Committee must be established and the RSE licensee must have a Remuneration Policy that aligns remuneration and risk management;
- a Board Audit Committee must be established; and
- an RSE licensee must have a dedicated internal audit function.’

### **3. More Independent trustees**

This review is a response to the calls for more independent trustees on super fund boards.

Despite agitation from many quarters the composition of trustee boards has been slow to embrace gender diversity; preferring to rely on the largely male equal representation model.

Some progress has been made as table 1 above shows but there is a long way to go; particularly in the industry funds sector.

WOB supports transparent and open approaches to selection of trustees. More independent directors should give women a fairer chance of being appointed. It will also encourage trustees to adopt contemporary processes for trustee evaluation and recruitment of new trustees

It is also worth observing that once a trustee starts to request gender specific membership information the quality of the discussion about member needs improves.

**In summary more independent will benefit female fund members**