Manager
Superannuation Unit
Financial System Division
The Treasury
Langton Crescent
Parkes ACT 2600

11 February 2014

Re: Submission in relation to 28 November 2013 Discussion Paper

We are very pleased to participate in providing input into the Superannuation Review titled 'Better regulation and governance, enhanced transparency and improved competition in Superannuation'. This submission is based on input from our National Superannuation Practice which provides assurance, advisory and taxation services to a wide range of public sector, industry, retail and corporate superannuation funds, as well as fund managers, administrators, custodians and investments advisors. We are also heavily involved in key industry associations. We also advise high net wealth individuals relation to SMSFs which are a key component of their wealth management and estate planning strategies.

Our submission has identified some areas of opportunity to simplify the level of regulatory reporting and member disclosure. Consistent with our submission to the Cooper Review we have also suggested that all public offer funds have one third independent directors, the purpose of which is to bring specific skills and a higher degree of objectivity onto trustee boards.

We would welcome the opportunity to elaborate further on aspects of our submission and in this regard please do not hesitate to contact me on (03) 8603 3841.

Yours sincerely

David Coogan
Partner, National Superannuation Leader

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PwC submission paper: Better regulation and governance, enhanced transparency and improved competition in superannuation

Question 1: The Government has committed to identifying measures that offset the cost impost to business of any new regulation. What suggestions do you have for how the regulatory compliance burden can be reduced?

Our view is that the complexity of regulation in the superannuation industry is driving up costs unnecessarily and that these resources would be better used in improving the level of member engagement within superannuation funds. This view is supported by the ASFA / PwC November 2013 CEO Report 'What is on the minds of CEO's in Superannuation' (copy attached).

One of the most complex issues faced by financial regulators is how to balance the need to address market failures and provide an appropriate level of protection to investors with the need to avoid inefficient regulation. The Wallis Report recognised that regulatory efficiency is a crucial factor in the overall performance of an economy.

Some suggested areas to consider in order to simplify regulation include:

- Whilst we recognise that it may be difficult to rationalise the number of regulators involved in the superannuation industry, we believe that there is an opportunity for regulators and funds to work together in a more efficient way to reduce duplication and confusion and therefore cost to both regulators and the funds themselves. We recommend that if we continue with more than one regulator, then they should work together to reduce duplication of information requests and when performing reviews of funds (eg unit pricing errors) work together to ensure a consistent and comprehensive approach. We also believe it would be helpful if regulation staff had more experience and understanding of the industry and how superannuation funds operate.
- We believe there is an opportunity to simplify the process and the volumes of data provided to regulators by superannuation funds. In this day and age, consistent with public company listing requirements, we believe that consideration should be given to providing annual accounts, quarterly management accounts and only very limited, additional information for comparative purposes on a regular basis. All other information is already openly available from superannuation fund websites.
- Pooled superannuation trusts (PST's) are more akin to investment funds than superannuation funds. We believe that the application of the new regulatory and legislative regime (i.e. APRA levies, prudential standards and reporting requirements) to PST's is excessive regulation as the same regulatory approach and costs apply to such investment funds when much of the regulatory oversight is already covered by the superannuation funds that invest through PST's. It is arguably anticompetitive for superannuation funds that invest through wholesale PST's to be over regulated and charged twice the APRA and other associated regulatory costs when compared to those funds that invest through other collective investment vehicles regulated by ASIC.

Question 2: What is the most appropriate definition of independence for directors in the context of superannuation boards?

Per the ASX corporate governance principles and recommendations, we note that the definition of independence for directors is as follows:

"An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with - or could reasonably be perceived to materially interfere with - the independent exercise of their judgement."

We believe that this is an appropriate definition for an independent director of a superannuation fund.

In our experience within the superannuation industry, almost all public offer superannuation funds directors meet this definition, with the main exception within the industry being with regards to some retail super funds who still have key management personnel on their Trustee Boards. We also note that in the last 5 years many public offer funds (both retail and industry funds) have appointed "skill based" independent directors. These independents typically bring specific skills onto the trustee boards e.g. legal, investment, operational, financial and regulatory. It is important that the role of the independent director is to bring skills, a higher degree of objectivity and a questioning mindset to the board. Independent-in-mind is an important trait to have and this cannot be legislated for.

Similar to public companies we believe, on balance, that it is in the member's best interest for Trustee Directors to be members of their fund whether actively contributing, transitioning to retirement or in pension phase. Having a financial interest in the outcome of the fund can only help further encourage Directors to act in the member's best interest. Also, as a matter of practicality, directors will receive director's fees with associated superannuation contributions which will need to be paid to a fund and it seems perverse to not allow that to be the fund of which they are director.

Question 3: What is an appropriate proportion of independent directors for superannuation boards?

In our role as external auditors, internal auditors and risk management advisers to a large number of retail, industry, corporate and public sector funds we have experienced first hand the governance, risk management and operations of all the different types of superannuation funds in the market. We are also aware that many global pension plans (eg CALPERS, Ontario Teachers Fund and the Netherlands Pension Plan) all operate using the Trustee system with representation from members and employers. These global funds are funds with in excess of $200B in funds under management.

We also note that in the last 5 years many retail funds have appointed 'independent directors' to their Trustee Boards and that many industry funds have a number of independent directors on their Boards (eg HOSTPLUS, AustralianSuper, Cbus, UniSuper, Prime Super, MTAA Super, Local Government Superannuation Scheme, LUCRF, to name a few).

In our experience these 'independent' directors have brought additional skills to such Boards that compliment the skills of other Board members.

In principle we do not believe that one size fits all and that the current 'self regulation' around independent directors has worked very well. We also note that it would not be practical in our view for non public offer funds eg corporate funds to have mandated requirements for independent directors.

On balance, we believe consideration should be given to a 3/3/3 system whereby each public offer trustee Board has a third of its directors being independent directors, thus helping to ensure that Trustees that are owned by financial corporations and industry associations / unions act independently of the shareholder in ensuring members interests are protected. If funds want to have more or less than this requirement approval should be obtained from APRA.

Question 4: Should superannuation trustee boards have independent chairs?

On the basis that the definition of independent director is consistent with the Corporate Governance principles, then yes, we believe that superannuation trustee boards should have independent chairs as this too is consistent with ASX Corporate Governance principles.

However, if the definition of independent directors was more limited, for example excluded members of the fund, then we would not agree with unnecessarily limiting the pool of directors from which the chair could be taken, given the critical skill set required by a chair for good corporate governance.

Question 5: Given the way that directors are currently appointed varies across funds, does it matter how independent directors are appointed?

We do not believe it matters how independent directors are appointed. What is important is the skills and objectivity of independent directors. We also note that the recently updated regulatory requirements in relation to Trustees meeting the 'Fit and Proper' requirements are of a very high standard.

Question 6: Should the process for appointing independent directors be aligned for all board appointments?

We believe that all funds should disclose to fund members the Board appointment process and how this process ensures that the majority of members are suitably represented.

Question 7: Are there any other measures that would strengthen the conflict of interest regime?

We believe that the new requirements introduced from 1 July 2013 have gone a long way towards ensuring the adequate consideration and disclosure of relevant duties and interests of trustees.

Within the industry, we note that post the Cooper Review the matter of multiple directorships appears to have become self-regulating.

Further to this, we do not believe that there are any conflicts arising from directors having multiple directorships in cases where funds are not in direct competition e.g. a director could feasibly be on the board of a public sector fund and a retail or industry fund.

Question 8: In relation to board renewal, should there be a maximum appointment term for directors and, if so, what length of term is appropriate?

In our experience one size does not fit all when it comes to setting rules for the appointment of Fund Trustees. On balance we find the current system works fine with each fund being responsible for the election process, qualifications of new and existing Trustee directors meeting 'Fit and Proper Requirements' etc. In relation to whether there would be ways to improve the current system we would suggest the following be considered:

a) Introducing a principle of appointing some independent directors to all public offer funds to help strengthen the integrity of the current system.

b) Considering making it mandatory that Trustee terms be limited, but that each term should expire and the Trustee be eligible for re-election every 5 years. This would ensure that a formal process is followed to ensure directors are still 'adding value' to the Fund. We do not believe in artificial constraints such as maximum tenure or ages, although additional disclosures around the appropriateness of the board may provide additional transparency in this regard.

c) Increasing the level of transparency of the election process and the qualifications / experience / number of meetings attended etc. This would put the spotlight on the few instances in the industry where Trustee directors do not attend the majority of Trustee and / or committee meetings.

d) The board appoint the independent directors.

Question 9: Should directors on boards be subject to regular appraisals of their performance?

In our experience, Trustee Boards spend a significant amount of time in induction and then further improving their skills and technical knowledge through various training courses and industry conferences on an ongoing basis. This, together with their previous business background, provides an invaluable balance of skills to the Trustee Board.

Many funds have access to a broad range of industry experts who provide support to the Trustee Board along with the fund secretariat and management team which quite often includes very experienced and qualified experts in investment management, marketing, risk management, administration and member servicing, finance and so on. The other important point to note is the mix of skills on Trustee Boards. We believe it is this mix of skills and backgrounds that provides the strength to the Trustee System.

With an aging population we also believe that the Trustee System will have ongoing access to skilled Trustees who have a breadth of skills, experience and diversity of age, gender and ethnicity and who can provide an increasing focus on managing the development of 'post retirement' products and services to members in retirement.

We note that most trustee boards do undertake annual self-assessments as a minimum. In our experience, Boards who are focussed on their performance regularly undertake internal and/or external reviews as both add value at various times. We encourage this practice but consistent with public companies, we do not believe this should be mandatory, as it is likely to become a compliance driven rather than performance driven function.

Questions 10 – 12: no answers proposed

Question 13: Should a choice product dashboard present the same information, in the same format, as a MySuper product dashboard?

From our own industry perspective, given the current low levels of member engagement with regards to superannuation, if a member is making an investment choice then there would be a perceived level of engagement which would indicate that the appropriate level of research has been undertaken prior to making a decision. Therefore, we believe it is questionable whether the benefits of choice product dashboards outweigh the costs of producing such dashboards.

However, if product dashboards are introduced for choice products then we would encourage the information and format to remain consistent with that proposed for MySuper products, to ensure that there is no additional confusion for members.

Question 14: Is it appropriate to use a single benchmark (CPI plus percentage return) for all choice product return targets?

We believe it is appropriate to use a single benchmark for all pre mix options (eg balanced, consecutive etc) and life stage options. However, we believe such a benchmark may be misleading for single asset class options.

There is an argument that a single benchmark for all pre mix options should be based on AWOTE not CPI, as this would better reflect spending power in retirement, but whether CPI or AWOTE is used, we agree it is appropriate to have a single benchmark.

Question 15: Should both net investment return and net return be used to measure a product's investment return on the choice product dashboard?

Both return figures should be included within the product dashboard to ensure comparability across the industry. Including the net return allows the member to see the overall impact on their balance and for consideration when reviewing their individual member statement. However, when combined with the use of only one representative account balance of $50,000 , this may mislead many lower account balance members. The inclusion of a lower $10,000 account balance along with the $50,000 account balance would minimise this risk. This should also be made consistent within the MySuper product dashboards.

Question 16: Should the choice product dashboard include both a short-term and long-term risk measure?

Yes, superannuation is, by nature, a long-term investment by a member and as such is it important that the long-term risk measure is included within the product dashboard. The focus on short term risk may lead members taking more conservative options which then exposes them to the longer term and potentially higher risk of their savings not keeping pace with inflation.

However, unless there are consistent measures used for both short-term and long-term investment risk then there is a likelihood of added confusion for the member. The use of negative net investment returns in the short-term investment risk and then AWOTE plus a percentage in the long-term investment risk does not lend itself to consistency of understanding. Further consultation is required as to what would be an appropriate longer term risk measure. We need to be able to show simply, the potential longer term consequences and variability of adopting the investment portfolios with differing short term risk attributes.

Question 17: no answers proposed

Question 18: Should a measure of liquidity be included on the choice and/or MySuper product dashboard? If so, what would be a suitable measure?

Yes in theory, however, consultation would be required over time as to what would be an appropriate measure, as there are no easily transferrable measures from other sectors. We also note that Trustees already have a responsibility to manage liquidity risk and that current practices in the industry are working well.

Question 19: no answers proposed

Question 20: What model of portfolio holdings disclosure would best achieve an appropriate balance between improved transparency and compliance costs?

We would suggest the disclosure of all investment holdings over 5% and / or the top 20 investment holdings of each asset class and where commercially sensitive valuation information exists that no requirement exist to disclose the investment value.

Question 22: should portfolio holdings information be presented on an entity level or at a product (investment option) level?

We do not believe that portfolio holdings information should be presented at a product level, as individual investments are typically held across the entity rather than at the individual product level, hence the disclosures may not represent an accurate portrayal of the product.

Question 23: is a materiality threshold an appropriate feature of portfolio holdings disclosure?

We do believe that the proposal of funds disclosing their investments on a look-through basis is an appropriate measure. We also believe this to be the case for collective investment vehicles.

However, by making superannuation funds disclose all of their investment holdings and associated valuations there is a risk, specifically in relation to infrastructure and unlisted investments, that commercially in-confidence information will be disclosed and therefore potentially disadvantage members.

We propose that superannuation entities, therefore, keep their portfolio holdings disclosures at a high-level e.g. disclose the top 20 investments held, include the investment holdings but not the associated values, highlight any concentration risks over, say, 5%.

Questions 24 – 31: no answers proposed the voice of super

ASFA/PwC CEO Report
November 2013

What is on the minds of CEOs in superannuation?

www.pwc.com.au

Foreword

Pauline Vamos
Chief Executive Officer
The Association of
Superannuation Funds of Australia

Welcome to the second ASFA/PwC Superannuation CEO/ leaders survey. Time is scarce across the industry so I am particularly grateful to those that took the time to answer the survey questionnaire.

I am pleased to see that operational efficiency and post retirement products are within the top three priorities identified as these squarely fit into ASFA advocacy priorities. The most important strategic priority identified was member engagement. This means two things. That the super industry will continue to innovate in member communication and education tools and that the ASFA strategy of 'improving the stakeholder experience' is the right one. As the peak body for the collective industry, part of our role is to be the bridge between the industry and the community. As a compulsory system we have a greater obligation to the community and as such initiatives like www.superguru.com.au will continue to be developed.

One of the biggest pieces of work for ASFA over the coming months is preparing for the financial system enquiry. The identification in the survey of specific matters that should be covered is particularly helpful. As an industry we need to take a proactive as well as a defensive approach to the enquiry. The core of the review will be the assessment of role and movement of capital in the economy, ASFA's research to date and that in train will stand us in good stead.

The survey results also indicate that there is a lot of pride across the industry and a real understanding of the privilege we have of 'looking after other people's futures'. We need to remember this as we receive more and more scrutiny and the regulatory net tightens. It is not our system, it is the community's system and as leaders across the industry they are looking to you to deliver on the public good. One step in that process is to agree to work together on what we should, and compete openly, fairly and transparently on the rest.

Executive Summary

David Coogan
Superannuation Industry Leader
PwC

Welcome to the second annual ASFA/PwC CEO Survey. This survey captures the views of 26 CEOs from across the superannuation industry, including industry, retail, corporate and public sector funds.

This survey covers the matters on the minds of CEOs in relation to:

1. strategic priorities over the coming years
2. investments
3. operational matters including the impact of regulatory reform, data quality and member advice

Member engagement is now at the forefront of CEOs' strategies. Operational efficiency and post retirement products are also high priorities. CEOs are over all the regulatory changes and want time now to improve the level of member engagement and to use current returns to help rebuild the level of trust in their fund, the industry and the superannuation system.

When it comes to investment governance, CEOs are mainly focussed on the monitoring of investment managers with outsourcing anticipated to remain more popular than insourcing. It is also interesting that since the results of the 2012 survey CEOs believe that significant progress has been made in negotiating investment manager fees.

CEOs are feeling confident over compliance with Stronger Super but have some concerns over the link between cost and benefit. The expectation is that costs will not increase as much as they have in recent years, but they will not go down. This is because the costs of technology, regulatory and member engagement strategies are greater than the actual savings through SuperStream and MySuper.

Most organisations are in agreement that the bar is being raised by members in expectation of governance and product offerings.

Similarly to last year, CEOs remain proud of their delivery to members and the dedication of their teams to this end.

CEOs are over all the regulatory changes and want time now to improve the level of member engagement.

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Strategy

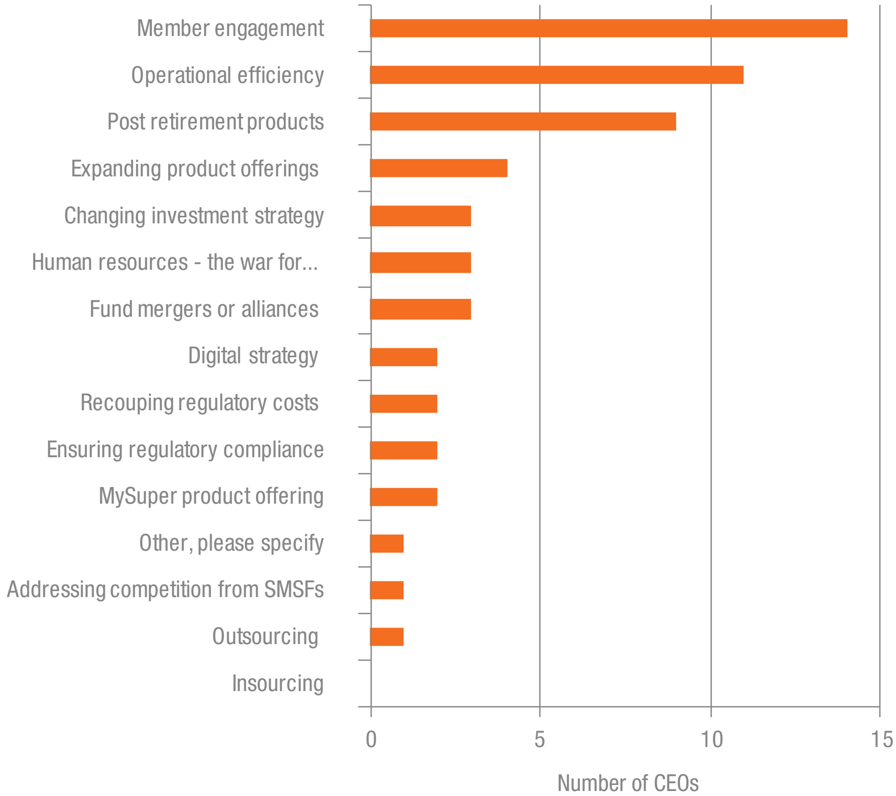
01

Strategic priorities in the next 3 years

CEOs appear to have shifted their focus away from regulatory reform and onto member-focused strategies, with the most common strategic priorities in the next 3 years being member engagement, operational efficiency and post retirement products.

Perhaps surprisingly given the level of industry discussion, addressing competition from Self Managed Super Funds was ranked comparatively low. Perhaps this objective is already implicit in CEOs' strategies around member engagement and expanding product offerings.

What are your key strategic priorities in the next 3 years?



What should be done to improve member engagement?

CEOs are adopting a variety of approaches to improving member engagement, though most identified lobbying for cessation of changes to superannuation or for simplification of super as being key. There was a call to reduce industry jargon and incomprehensible or irrelevant information. Some CEOs said that media and government could do their part in promoting a positive profile for superannuation.

Other ideas identified by CEOs included making superannuation more visible to members. Some suggestions included an increasing number of touch points, packaging of superannuation with other services and projecting balances on statements. Other examples included making superannuation available through online banking platforms or improved educational offerings.

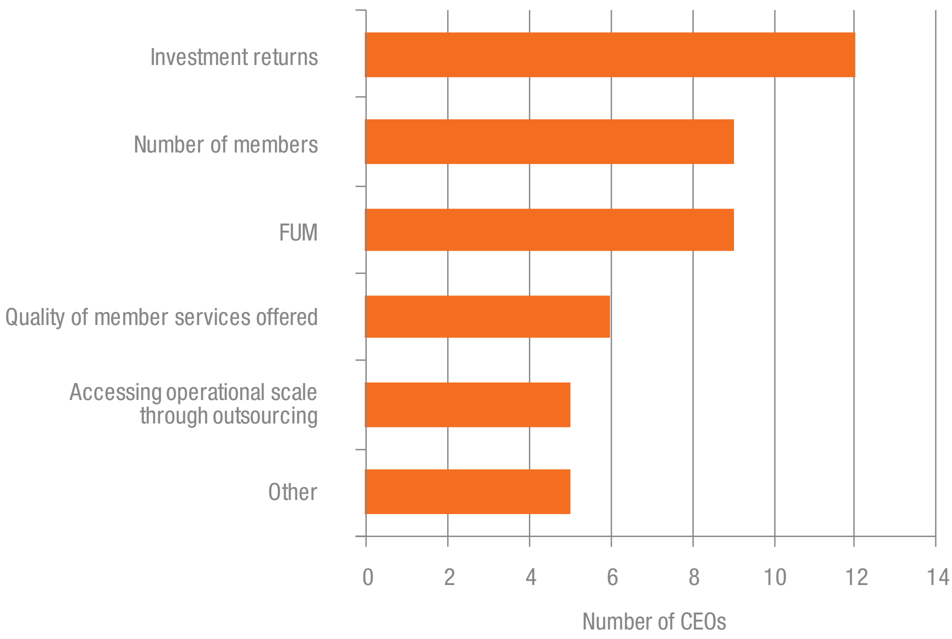
> *"Make super relevant to people early in the accumulation phase rather than just before the pension phase."*
>
> *~ Fund CEO*

APRA's annual declaration of scale.

APRA has introduced an annual declaration of scale. Most CEOs expect to consider investment returns, member numbers and funds under management when assessing scale.

15% of CEOs identified only one criterion that would be considered as part of their scale assessment. It will be interesting to see whether having just one criterion results in a higher risk of funds failing their own assessment of sufficiency of scale. However, if the criterion is strongly aligned with the fund strategy, then CEOs focus on the selected area may mitigate this risk.

What factors do you expect you will consider in assessing the adequacy of your scale?



What superannuation matters would you like the Financial Services Inquiry to cover?

CEOs would like to see a clear goal for long term retirement income policy that embeds sustainability in the system. Nonetheless, CEOs are keen to ensure that the Financial Services Inquiry is not a wholesale revisit of the Cooper or Henry reviews.

Some of the specific matters that CEOs identified to be covered by the Financial Services Inquiry include:

- **Adequacy** - For example, as members transition through accumulation to post retirement – what is the appropriate system design and appropriate risk mitigation? What should be considered in relation to contribution levels for members with broken periods of employment?
- **Regulatory matters** - How should the roles between regulators be split to minimise duplication while maintaining appropriate oversight? What is the appropriate scope of regulatory powers? How should costs of regulation to the overall community be assessed? What is an appropriate level and mechanism of disclosure of the use of levies?
- **Prudential matters** - How should the industry assess capital adequacy, particularly given the massive increase in assets being held in trust for others?
- **Economic matters** - What should superannuation's contribution be to the macro-economy? How do we export our capacity and expertise in a way that benefits members? What is our role on the global stage, particularly in the Asian region? How can competition and structural neutrality be achieved across the industry?
- **Social security** - What is the appropriate relationship between superannuation and social security?
- **Tax** - What are the appropriate tax policy settings for superannuation? How should post retirement products be taxed? How can the complexity of the current tax regime be reduced?
- **Advice** - How can impartiality be achieved?
- **Transparency** - Will the focus on fees detract members from focusing on the best long term investment returns? Will the increased transparency on investment holdings disadvantage funds and impact returns to members?
- **Infrastructure** - What is superannuation's role in this area?
- **Offshore investments** - What is the impact of increased offshore investment on currency stability?

How should funds, industry associations and service providers work collaboratively to achieve strategic outcomes at an industry level?

Most CEOs were of the view that there should be a united industry view on strategic and regulatory issues. Paramount to CEOs is to ensure members' best interests are top of mind not only with CEOs but with the government and regulators.

To achieve a united industry CEOs said it was vital to have an agreed vision industry and compromise where feasible, while recognising agreement will not always be reached.

A way forward, as suggested by one CEO, is to focus effort on principles of good policy that can be supported across the industry. For example find the areas of agreement then build trust and earn credibility in the eyes of the government and opposition.

> *"Work hard to publically agree most issues and then let sectors make their own statements on areas that they cannot agree upon."*
>
> *~ Fund CEO*

> *"Focus on influencing, educating and assisting government, regulators, superannuants and other stakeholders to optimise retirement outcomes."*
>
> *~ Fund CEO*

02

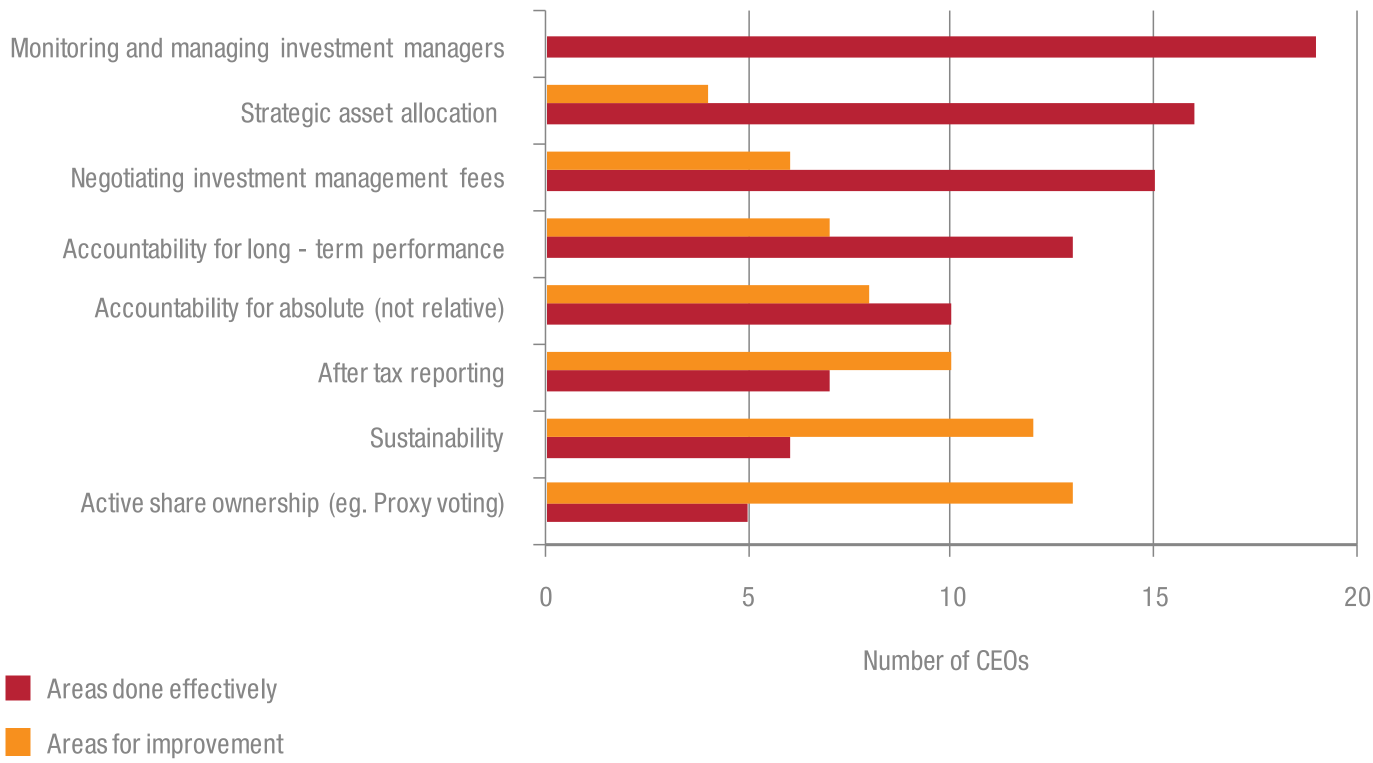
Investments

Investment governance

Investment governance is clearly paramount to maximising members' retirement outcomes. The CEOs believe that the area of investment governance that is done best by the industry is monitoring and managing investment managers. This is consistent with output from our survey in the previous year. This is important given the continuing preference for outsourcing as noted on the next page.

Negotiating investment management fees also scored highly and represented an improvement compared with the previous year. This is a reflection of funds focussing on costs and operational efficiency.

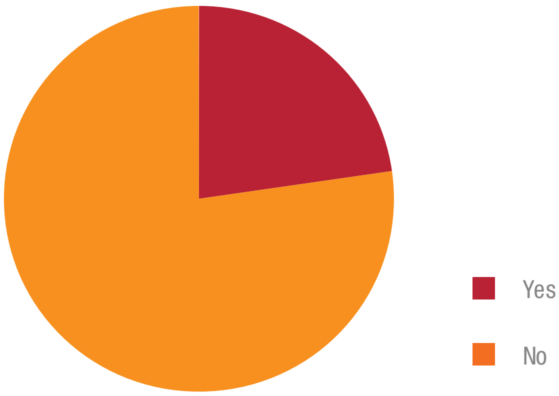
What are the areas of investment governance that you do very effectively? What areas of investment governance could you improve significantly?



77%

of CEOs do not intend to insource their investment management over the next 3 years.

Will you increase the extent of investment management performed in-house in the next 3 years?



Investment management

77% of CEOs do not intend to insource their investment management over the next 3 years. The main reasons for this are cost and scale. In addition, some organisations do not have the skills necessary or the risk appetite.

Those that do intend to bring investment management in-house referred to control and fee management as key reasons. Interestingly, the ability to make investment decisions was cited both for and against the insourcing of investment management. While one respondent said that insourcing would increase their capacity to be more flexible, another said it would lead to less flexibility and the risk of being captive to their internal investment team.

In addition to maximising member retirement outcomes, what other key factors are you considering in setting your investment strategy?

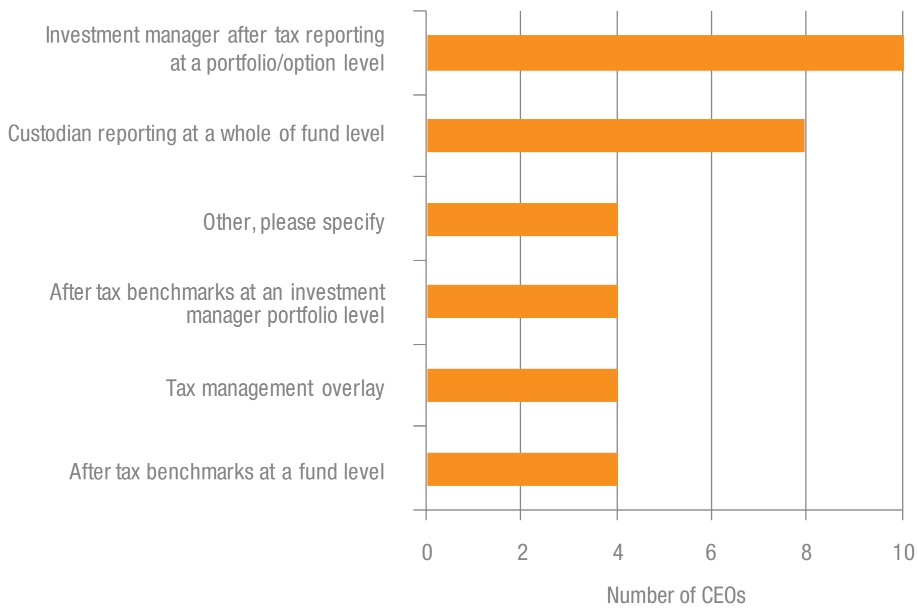
There were a large variety of factors provided by CEOs in response to this question. Areas of influence included member feedback, employer attitudes, member demographics and capability.

The most common thread was around risk and the need to avoid volatility in performance. There was acknowledgement of the importance to set a risk profile suitable for the majority of members while offering investment choice options which are attractive to members.

With the current economic climate impacting on returns, CEOs noted the need for flexibility and diversification. This included a scenarios approach to stress testing and consideration of more sophisticated downside management options.

Another factor in setting investment strategy was Stronger Super and its focus on simplicity and cost-effectiveness. Some CEOs warned that to focus only on costs and short-term strategy could lead to lower returns or even negative investment outcomes.

Which of the following do you use in your after-tax strategy?



Most CEOs use multiple measures in setting and assessing their after-tax strategy, with option level reporting and custodian whole of fund reporting being used. After tax reporting is likely to increase in prominence given the MySuper reporting requirements for investment returns and performance fees and the need for Trustees to consider "tax consequences" in formulating investment strategies.

> ***"The current environment is dominated by 'financial repression' and central bank policy. This means lower returns can be expected for some time, plus risk of bubbles. Therefore there is a greater need for dry powder, flexibility, diversification and medium term asset allocation tilts."***
>
> *~ Fund CEO*

Operational matters

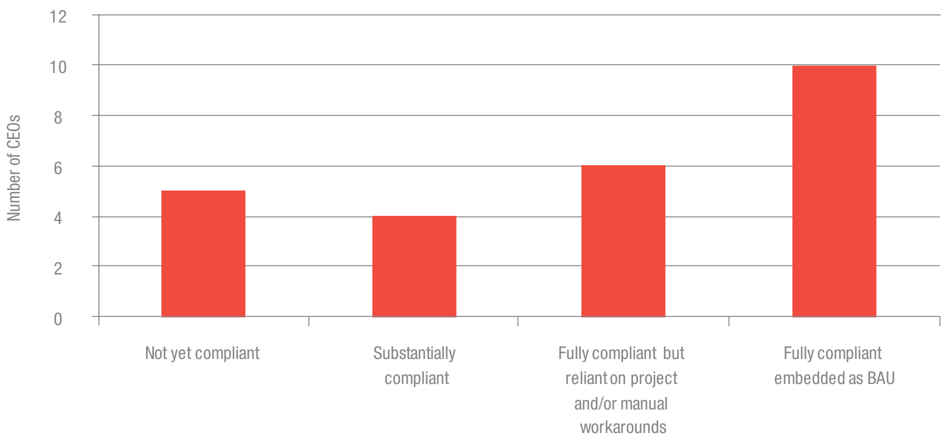
03

The primary operational focus of organisations over the past 12 months has been the implementation of the Stronger Super reforms, particularly the reporting requirements. CEOs have diverse views in relation to the challenges and benefits of the new reporting regime. However, most are in agreement that their data quality is improving and that members are more engaged.

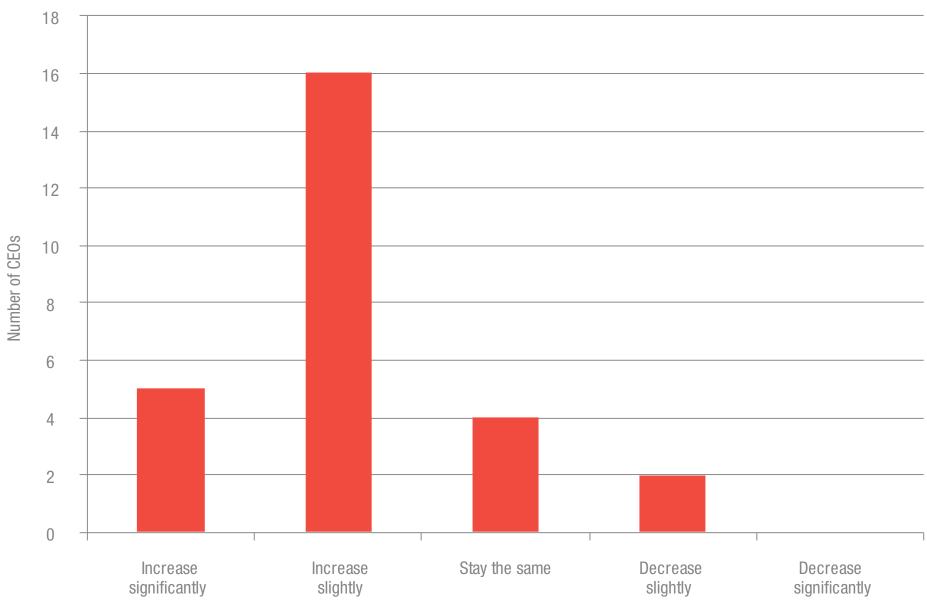
Stronger Super

The majority of CEOs are confident their organisations are fully compliant with the new prudential standards. It will be interesting to see over the next 12 months how fund trustees monitor compliance with these new standards, for example through quarterly compliance reporting.

How successful has your organisation been in adopting APRA's prudential standards?



How do you anticipate that your operating costs will change in 3 years time (i.e. after Stronger Super implementation)?



Superstream and MySuper were introduced with an expectation of a significant reduction in operating costs across the industry and a corresponding reduction in member fees.

Despite this objective most CEOs said they expected that their ongoing operating costs would increase after Stronger Super is implemented.

While there has been a rise in straight-through processing across the industry and a corresponding reduction in manual handling of paperwork and cheques, the savings arising from these appear to be more than offset by the ongoing investment in technology (and its subsequent amortisation) together with additional costs, including increased disclosure obligations and levies payable to regulators.

What are the strategic implications of increased reporting to APRA?

There were mixed responses to this question. Some CEOs did not see strategic benefits behind the increased reporting. Other CEOs were more positive and cited benefits such as greater transparency, increased peer awareness and demonstration of good governance.

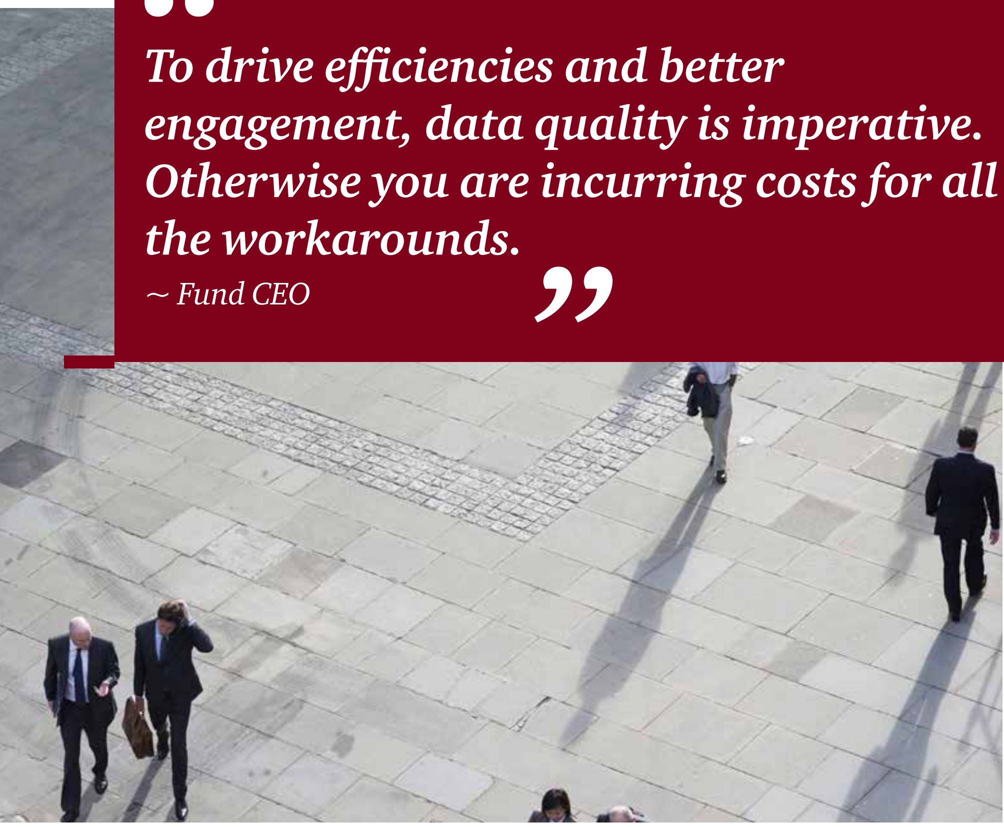
While many CEOs identified benefits there was also some caution around the long term implications such as competitive disadvantage. CEOs said members will raise the bar of expectation across the industry and funds will need to find new ways to differentiate themselves. For example, investing time educating and engaging members to believe that value can be derived by different investment approaches. Another concern was about risk of misinterpretation of comparative data by the average member.

> ***"Members are becoming more aware (or maybe just more concerned) and are therefore contacting us to obtain advice."***
>
> *~ Fund CEO*

Is the level of data quality at your fund changing?

Most CEOS said that data quality had either increased or stayed the same. They are mindful of the strategic and operational benefits of good data. Consequently there is a continual focus on fixing issues and improving systems as part of a long-term strategy.

> ***"To drive efficiencies and better engagement, data quality is imperative. Otherwise you are incurring costs for all the workarounds."***
>
> *~ Fund CEO*



Is the number of members seeking advice changing?

More than 80% of respondents said the number of members seeking advice was increasing.

There is a strong correlation between increased member engagement and increased advice sought. The heightened awareness of areas such as market volatility and longevity coupled with enhanced access to channels that suit the consumer (for example online access) have been leading factors. Another influence is the combination of point in time advice at a reasonable cost.

Many CEOs also cited how the demographic of members is evolving with more members approaching retirement and therefore more concerned in relation to retirement outcome.

Another reason was the struggle by members to keep pace with legislative changes and their ability to interpret the requirements.

04

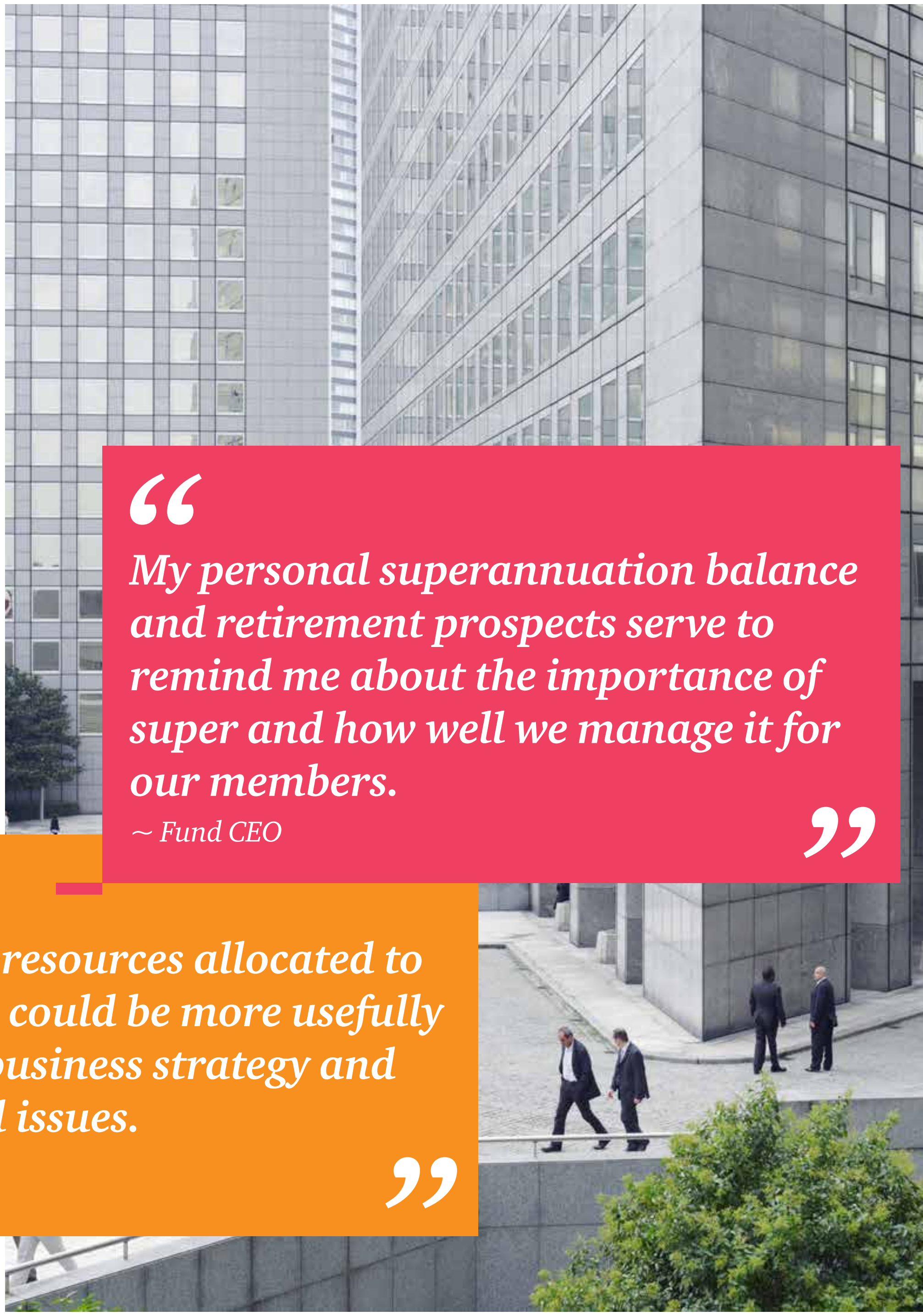
What keeps you awake at night?

CEOs are primarily concerned about regulatory change and the pressures it brings. They highlight the complexity of such regulation and the extent of change that has occurred within relatively short time-frames. There is also concern that such changes do not pay regard to established business practices, heritage products and systems. This all culminates in a detrimental impact on cost to members and the outcome for future generations.

There is also anxiety at government's lack of forward planning and use of superannuation as a tool to be manipulated for political gain.

Other CEOs are also worried about their capacity to continue to invest in the administration systems impacted by regulatory change.

Longer term concerns include funding levels of defined benefit plans and the possibility of another financial downturn.



> *"My personal superannuation balance and retirement prospects serve to remind me about the importance of super and how well we manage it for our members."*
>
> *~ Fund CEO*

> *"The level of resources allocated to compliance could be more usefully applied to business strategy and operational issues."*
>
> *~ Fund CEO*

05

What are you most proud of?

CEOs are most proud of member engagement and the commitment and loyalty of their staff to deliver member service. The short term measures of success in this area are low complaint levels and trusted relationships with members.

CEOs said that the most important longer term objective is the provision of adequate retirement outcomes to members. While they are proud of their achievements to date, it will remain an area of focus

Another source of pride is the achievement to contain costs and drive efficiencies. An example of this is having an administration system that is error free and provides straight through processing. CEOs are proud when low costs can translate to lower fees to members.

Other factors that make CEOs proud include having a socially responsible investment strategy (for example excluding tobacco products), innovation for members and being part of an Australian model which is ranked high amongst the world's superannuation systems.

"Our superannuation system represents a secure, tax-effective investment environment that will ensure more Australians are able to enjoy a comfortable retirement."

~ Fund CEO

06

About the survey

The ASFA/PwC Survey 2013 was conducted from September to October 2013. Respondents are CEOs from a wide range of organisations across the superannuation industry including industry, retail, corporate and public sector funds. In total 26 CEOs took part in the survey.

This report provides an overview of the survey findings together with analysis and interpretation of the results. We have also included some direct quotes from CEOs throughout the report. These quotes reflect individual views and demonstrate the passion and/or breadth of CEOs' views and are not necessarily consistent with the overall survey findings.

We thank the CEOs who participated for their time and insight.

Thank you Thomas Green and Gennesee Rock for their assistance and contribution to the survey.

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