

CORPORATE SUPERANNUATION ASSOCIATION Inc.

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17 April 2016

Ms Karen Chester and Ms Angela MacRae
Superannuation
Productivity Commission
Locked Bag 2,
Collins St East
Melbourne VIC 8003

Dear Ms Chester and Ms MacRae

SUPERANNUATION EFFICIENCY AND COMPETITIVENESS

We refer to the invitation to provide input on the 16 March 2016 Issues Paper on the above topic.

We have focused our responses below on the areas of interest raised by you at the meeting at your premises attended by our Chairman, Mark Cerché, our Chief Executive, Bruce McBain and our Research Officer, Elizabeth Goddard, on 31 March 2016.

Background: The Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors.

The Association now represents a total of 22 funds controlling \$72 billion in member funds, held in a total of some 560,000 individual accounts. Of these funds, 12 have outsourced trustee services but maintain significant employer interest through policy committees. In general, these funds are sponsored by corporate employers, with membership restricted to employees from the same holding company group, but we also include in our membership two multi-employer funds with similar employer involvement and focus. A number of our funds have defined benefit divisions.

Size, in terms of funds under management, ranges from \$49 billion to \$64 million as at 30 June 2015.

Employer and Trustee Processes

You have asked us for information about employer and trustee process and decision making in the following areas:

- Outsourcing services;
- Trustee board selection; and

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- Insurance arrangements.

1. Outsourcing Trusteeship

We have, so far, provided you with contact information for one former member fund which outsourced its trustee and administration arrangements in December 2014. Another former member is being followed up. Our Chief Executive Officer is happy to provide an account of outsourcing processes followed by the fund where he was chairman of the trustee.

As this account will be confidential we can provide either as a separate document or as a verbal account.

2. Trustee Board Selection

The arrangements for director selection vary throughout our membership, but where the trusteeship has not been outsourced, the model is an equal representation model, with independents appointed, where the trustee considers appropriate, to fill knowledge gaps or to provide an external perspective.

(a) Employee / member representatives

Process

These are most often nominated by other members and then elected. In geographically or otherwise diverse workforces, there are separate wards in order to achieve more diverse representation. In highly unionized workforces, the member representatives are selected by the unions. This occurs in one of the multi-employer funds in our membership, and one of the single employer funds. In the other multi-employer fund in our membership, half of the employee representatives are nominated from workforce unions, and half are appointed by a body similar to an electoral college, which in turn has been composed by electing equal numbers of employee and employer representatives from the separate employers.

Evaluation of candidates for appointment:

The board of one of the multi-employer funds in our membership has set out a statement of director capabilities which outlines (for all director groups):

- (i) generic attributes for board members;
- (ii) Industry-specific attributes in investment, funds management and superannuation;
- (iii) personal attributes to match the Fund's values and to allow for fast assimilation and understanding of complex issues as well as an ability to engage in informed and productive board debate.

(b) Employer representatives

Process

Employer representatives are generally nominated by the employer.

One of our multi-employer funds has half of its employer representatives elected by one group participating employers, and half appointed by the other group of participating employers. The other multi-employer fund has half of its employer

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representatives nominated through the electoral college process, where elected employer representatives from the various employers determine the process. The other half of the employer representatives are nominated and elected by the senior executives of the employers.

Criteria for selection

Several funds refer to requirements for ethical and independent thinking, combined with one area of key knowledge, skill and experience such as investment, legal, accounting and commercial, medical and general management. Other funds require one senior employer representative from each of Finance and Human Resources; some seek legal expertise. In one fund, the employer avoids the appointment of very senior executives to the board.

Another fund, with a group of related employers, refers to the following requirements. This fund also uses the same criteria in relation to the selection of independents:

- Strategic expertise – the ability to guide and review strategy through constructive questioning and suggestion;
- Accounting and finance – the ability to read and comprehend the fund's accounts, financial material presented to the board (any financial reporting requirement) and some understanding of the organisation's financial drivers/funding and business model;
- Investment management;
- Legal – the board's responsibility involves overseeing compliance with numerous laws and contracts as well as understanding an individual director's legal duties and responsibilities;
- Managing risk – experience in managing areas of major risk to the organization;
- People and change management – getting the best in a volatile environment;
- Specific superannuation knowledge – passion for the cause, experience in similar organisations, sectors or industries;
- Marketing and Communications – the ability to reach out and connect with members;
- Technology – understanding how to make innovation work for the fund;
- Product Design – providing members with what they want and need to get the best retirement outcome;
- Advocacy – have the right connections to promote and grow the fund in the broader marketplace.

(c) Independent directors

Typically, these are selected by the existing Board, to fill requirements in the way of additional skills for the Board. Some Boards engage consultants to find appropriate candidates to fill the gap.

Attributes sought will be ethics, independent thinking, and governance, combined with one area of key knowledge: for example, investment, legal, accounting and commercial, medical, general management and board experience. Where the

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independent director is to act as chairman, the capacity and authority to govern the board effectively is a necessary skill.

Generally, complementary skills are sought to those of the existing board.

Summary

We observe that the equal representation model reflected above strikes a balance between obtaining expertise in key areas and ensuring that members are well represented. Where members have a significant say in the choice of board members they have greater interest and ownership of the decisions made by the Trustee. Their participation enhances their interest in the performance of their fund.

3. Insurance Arrangements

Historically, many of our funds self-insured for the risks of premature death and disability. The funds have had experience in managing exposures and claims and had a particular expertise in managing the risks relating to their own workforces; hence the cost was well-managed and lower than available with external insurers. A number have workforces exposed to particular hazards and have had significant experience in managing the claims exposure, for which there is no significant specialist pool of expertise outside the industry.

In addition, some members provided additional areas of cover suited to the risks pertaining in their industry. Legislative change has banned self-insurance other than a grandfathering arrangement for defined benefit funds, and has removed the facility to provide cover for specialised risks (e.g. maiming, where the person is no longer fit to carry out his or her current occupation, but is not completely incapable of further work in another industry). Ill-health benefits are also now an issue.

A number of our funds with defined benefit divisions continue to self-insure as provided under the law. There has been a transition to external coverage for the areas no longer permitted under the law. The general observation has been that such arrangements are more costly, due to issues mentioned above.

As regards the management of tenders for insurance, the following information was provided from a recent survey.

- (a) Six out of eight respondents indicated that they have self-insured, and most of these continue to do so to the extent permitted under the law.
- (b) Six respondents indicated that their workforce was exposed to specialised risks. One mentioned that with a workforce employed in many different environments in Australia and globally, there was need to ensure cover in all relevant circumstances, and to ensure that base cover is provided without restrictions for all members.
- (c) Tenders were instigated for the following reasons:
 - (i) at the end of the rate period;
 - (ii) need to outsource under legislative change;
 - (iii) as part of triennial review under insurance management framework;
 - (iv) insurer premium rate increase;
 - (v) desire to maintain costs at a competitive level;

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- (vi) change in benefit design of insurance arrangements to ensure members' needs are appropriately met.
- (d) Providers for tender were selected as follows:
 - (i) under advice from external agents/consultants. Some are international, some local;
 - (ii) from international insurance pooling arrangements/global relationships;
 - (iii) negotiation with existing provider;
 - (iv) selection of 8 largest providers, direct negotiation.
- (e) Comparison of policy terms between insurers:
 - (i) The Trustee looks at existing and desired terms, and the cost and risk of selecting or excluding these, and draws up a comparison table.
 - (ii) Line by line, determining if proposed policy terms are better or less favourable than existing, or in line with existing terms and conditions. The comparison is provided to the Trustee by the insurance consultant.
 - (iii) Use of tools provided by consultants or work carried out by consultants and presented to trustee.
 - (iv) The Trustee specifies the terms required, and requests the insurers quote accordingly.
 - (v) Where global insurance arrangements apply, there is risk pooling for the local insurer and policy terms can be negotiated effectively.

Trustee weighting or ranking given to each of key characteristics in insurers:

	Fund 1	2	3	4	5	6	7	8
Price	Key	50%	30%	Key	2	3	35%	3
Benefit design/terms	Critical	25%	20%	Key	1	1	35%	1
Domicile of underwriter	Not key				4	5	0	
Degree of reinsurance	Key				5	4	10%	
Expedient claims payments and service capability	Key	10%	25%	Key	3	2	20%	2
Other	Culture: key	Insurer's control framework 5% Willingness to take on existing claims 5%	Insurer strength and market position 10%; implementation and transition 15%					

This information may provide an insight into processes followed in selecting providers. In general, where internal expertise is not available, external consultants are used to advise, but with trustee oversight. There is a focus on benefits and service for members and on restraining costs.

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We trust that the above information provides some assistance. We are happy to provide further feedback on the matters above or on the Issues Paper in general.

Yours sincerely

Mark N Cerché
Chairman
Corporate Superannuation Association