

Independents bill still a bad idea



OPINION | The trustee governance debate is heating up again in Canberra, with the Senate set to decide on legislation that could radically change the structure of profit-to-member super fund boards.

Members of the Senate Economics Committee have until October 23, 2017, to report on whether they support the government's second attempt to mandate that profit-to-member funds discard the equal representation governance model and appoint independent directors to make up one-third of their boards.

The debate about the board composition of profit-to-member funds has been on and off the boil since the early 2000s, fueled by ideology rather than any hard evidence of the need for change.

These funds have outperformed the retail super sector in the lead up to the global financial crisis, during the downturn and in recent years.

No super fund has needed to be bailed out and there have been no bank-like scandals. The government's intervention in profit-to-member fund board composition is entirely unwarranted.

The Australian Institute of Superannuation Trustees' (AIST) policy on the appointment of trustee directors has been well-documented. AIST supports all profit-to-member boards (including the boards of industry funds) having the flexibility to appoint up to one-third non-representative directors while maintaining an equal representation of member and employer directors.

Cornerstone of accountability

The government's push to abolish the legislative basis for equal representation is concerning. This model of governance has been the cornerstone of member representation and accountability in the superannuation industry for decades.

Far from being peculiar to Australian super funds, the representative trustee system is prevalent in many overseas occupational pension funds and is recognised as providing an important mechanism for accountability to members. Many of the top pension fund systems in the world, as measured by the highly respected Melbourne Mercer Global Pension Index, feature an equal representation system of governance.

Ensuring there are representatives for both workers and employers on super fund boards maintain a balance in decision-making and a true understanding of the membership base. Most importantly, aligns the decision-making of the fund's board with the needs of its members.

Unlike retail fund directors, who have parent shareholder interests to consider along with those of their members, the directors of profit-to-member funds have only their members' interests to consider.

When members come second

It would appear that the consideration of shareholder interests ahead of member interests was behind the poor treatment of existing default members by some retail funds following the introduction of MySuper legislation in 2013. While most profit-to-member funds were quick to transfer existing default members across to new MySuper products, the retail sector dragged its feet.

Taking full advantage of the three-year transition period that ended on July 1, 2017, many thousands of existing retail customers were kept in high-fee legacy default products right up until the 11th hour.

Rainmaker has estimated this transition delay cost retail fund members about \$800 million from 2014 to 2017. That's a whopping \$800 million less in super savings for those members and \$800 million extra to the bottom line of retail funds and their parent-company shareholders.

One can only guess at how the trustee directors of the retail funds involved – among them many independent directors – justified this costly penalty as something in their members' best interests. It is certainly unlikely that a profit-to-member board with direct member and employer representation would ever allow this to happen.

Profit-to-member funds were jointly created by unions and employers to serve working Australians and they have been run successfully for more than 20 years.

They have invested for the long term, insulated the Australian economy and invested heavily in Australia's infrastructure.

Interfering with how super fund owners run their fund, by mandating how their boards are structure is not something the government does to listed companies nor to any other prudentially regulated financial institutions. It runs counter to international best practice and, most worryingly, it could hav a material impact on members' retirement.

Eva Scheerlinck is chief executive of the Australian Institute of Superannuation Trustees.



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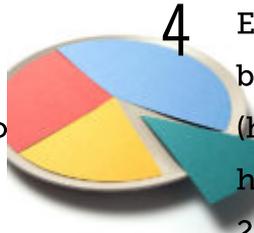
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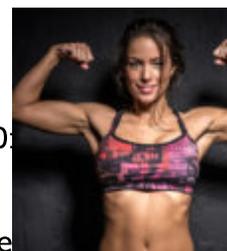


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