

Wednesday September 5, 2018 | Cairns Convention Centre

## AIST CEO Eva Scheerlinck opening address at ASI 2018

Profit-to-member super has been in a defensive position for longer than we all care to remember. We have had to defend against attacks on the compulsory nature of superannuation by those who would rather see full wages freedom as opposed to a compulsory retirement savings system. We have had to defend our sector's governance structure and the role of employer and employee representation on equal representation boards. We have had to defend boards choosing whether or not independent directors are right for them, over a Government-mandated board composition legislative solution. And almost unbelievably, we have also had to defend our outperformance of retail super funds. Our stats have been questioned, as has our asset mix. The establishment and use of collective vehicles like IFM and ISPT have also been attacked.

Decades of being on the defensive and continuously delivering results for our members. But now, it turns out, our stronger response has been our success. This year - in fact the past 4 months - has seen a significant shift in the discourse.

The Productivity Commission affirmed the P2M sector's consistent outperformance and for once the message got through. The message was freely accepted as fact. Then came the Round Five hearings of the Royal Commission. The Commission's learnings into superannuation – contained in a 230 page report released last month - had a strong focus on fund governance: there was no significant criticism of equal representation nor of the role of unions or employer groups. There was no mention of the need for independent directors. Instead, structural and governance issues in the retail sector were called out.

Indeed, the Royal Commission proved to be a damning indictment on the retail super funds, with the Commission concluding that it was open to find that eight retail funds and related parties (covering almost the entire retail sector) may have engaged in over 150 separate instances of misconduct. These range from fee gouging, charging commissions banned under FOFA, cross-selling members into higher fee products, to the snail-pace transfer of members to MySuper products to preserve both grandfathered commissions and fees for no service.

The report noted that the Australian Securities Investments Commission expects that compensation due to members will top \$1 billion for problems relating to fees for no service alone. By contrast, the Commission identified two instances of possible misconduct involving two not-for-profit funds, out of total of more than 50 not-for-profit funds.

So few were surprised, when two weeks ago - amid a leadership spill in Canberra, and a new ministry being sworn in - that the Government conceded defeat on its governance legislation, requiring a third independent directors on P2M super fund boards and an independent chair. And this morning – abandoned raising retirement to 70. So many of the things we have been staunchly defending, seem at least for now, to have been won.

We are not, however, naïve to think that plenty of challenges do not lie ahead. As everyone here would be well aware, bull markets don't last forever. While investment returns to members of P2M funds have far exceeded expectations over the past year or two, this - paradoxically- raises the likelihood of a market

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downturn in the not too distant future. Many of our speakers over the next few days will no doubt be discussing this issue.

Another challenge for P2M funds is responding to an increased focus – among both the media and some members – on how funds are responding to ESG issues such as climate change. Increasingly funds will have to be able to provide more transparency around ESG investment and there are a number sessions at ASI that tackle this topic.

This year's conference also has a strong collective focus. Compulsory super has been around now for more than 25 years and, increasingly, we are seeing how the unique collective approach of the P2M sector is delivering value for members. Just yesterday IFM investors, which is owned by 27 industry funds, announced it was giving investors a 7.5 per cent rebate of management fees after better-than-expected returns over the last months. A great outcome for members of P2M funds.

Over the next few days you will hear more about collective approaches to investment challenges including operational due diligence and designing retirement products. As P2M funds we are clear on not only our investment objectives, but also our purpose. The values-based leadership at the heart of decision making in our industry, where member outcomes are always front and centre, delivers results. But we are not complacent.

The Royal Commission has signalled it will consider recommending a range of radical reforms to superannuation in its final report due next February. It has also posed a number of important questions – concerning retail funds but also P2M funds. AIST will carefully examine these questions and any recommendations the Commission makes that relate to our sector.

With regard to governance, the closing submission asks whether there are structures in the retail sector that raise inherent problems for trustees being able to meet their fiduciary duties. AIST's answer to this is a resounding, yes. Being a super trustee is a special and privileged job. Trustees are the stewards of other people's money. A trustee director cannot be focused on returning profits to members when he or she is also having to return profits to shareholders or prop up related parties. You cannot serve two masters and look after members' interests at the same.

Retail trustees, with their independent directors, were unable to protect members from fee gouging and other misconduct. The regulators have proved themselves unable to stop bad behaviour.

Therefore, AIST believes that there is no place for retail funds in MySuper, where members in a compulsory super system have the right to expect the highest level of protection. We will be advocating this position to the Commission, to the regulators and to Parliament. There exists now, a real opportunity, for us to capitalize on our outperformance, our governance structure that puts members first, and take our market lead to a new level.

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***AIST is the peak industry body for the \$1.2 trillion profit-to-member super sector which includes industry, corporate and public sector funds.***

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