

CORPORATE SUPER ASSOCIATION

1. BACKGROUND:

The Corporate Super Association is Australia's dedicated Representative Body for major corporate not-for-profit superannuation funds and their Corporate Employers.

The assets of Association Members now exceed \$55 billion, representing approximately 75% of total corporate superannuation sector assets in Australia and some 750,000 individual employee fund Members.

This Submission has been prepared in order to summarise in a hopefully helpful and constructive manner the Association's position, in anticipation of giving further evidence to the Productivity Commission at a Hearing on October 31 2001.

2. SUMMARY OF POSITION:

- The Association shares concerns that the superannuation savings of Australians be safeguarded and subject to sound management. However these concerns will not be addressed through introducing Capital Adequacy requirements and Licensing for the corporate not-for-profit provision of superannuation.
- On the contrary, the introduction of Capital Adequacy and Licensing has serious potential downsides which would be at odds with the Productivity Commission's stated objectives, aggravate Australia's problems of funding adequate retirement income for its aging population, and reduce the actual retirement benefits for Individual Australian Consumers (employees) through:
 - increasing the complexity and costs of providing for not-for-profit superannuation
 - further discouraging Corporate Employers from maintaining their not-for-profit provision of superannuation, where the key driver is selfless concern for the best interests of members / employees governed by disinterested Trustees
 - encouraging Corporate Employers to abandon not-for-profit provision of superannuation in favour of transferring their employees into a 'Retail' commercially-driven superannuation product, where the prime motivator is profit for shareholders.
 - diminishing future retirement benefits for Australian Consumers / Employees by increasing their costs suffered through being transferred into a Retail superannuation product. The Association estimates that these higher costs for Australian Consumers would be around \$400 Million each year in lost benefit value and
 - as a consequence of these increased costs, aggravating the burden on Australia as an economy to provide adequate income in retirement for its aging population.

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- Further, Capital Adequacy Requirements and Licensing will unfairly restrict competition by diminishing the number of medium to large Corporations sponsoring not-for-profit provision of superannuation, and as a consequence distort the market in favour of the commercially-driven provision of super.
- Capital Adequacy requirements and Licensing are totally inappropriate for the not-for-profit provision of superannuation but are appropriate for the commercially-driven provision of super
- Minimum capital requirements would not assist operational integrity.
- The Association has grave concerns regarding the appropriateness and equity of establishing an operational reserve in a “Not-for-Profit” fund. In an accumulation fund, there are immediate practical difficulties as there is no immediate source of funding for a reserve other than from assets currently designated for member benefits. In a defined benefits fund, the purpose of an operational reserve is questionable because the risk of loss does not rest with the members and the funding risks are already carried by the employer under independent actuarial scrutiny.
- Concerns about better safeguarding Australians’ retirement benefits would be more effectively addressed through focussing on the two critical areas of potential failure - Administration Failure and Investment Failure - by tightening Regulations for not for profit super funds broadly in the following manner:
 - 1. Funds whose assets fall below a certain quantum should be obliged to have their diversified investment strategy delivered through pooled investment vehicles managed by professional Investment Managers, which are properly licensed and which have appropriate capital adequacy.
 - 2. In House investment should generally be abolished with some clear exceptions including such as where such an event occurs through external investment managers’ objective investment decisions
 - 3. “Threshold tests” of appropriate systems, resources and capabilities requirements for each Fund should be introduced.
- It is imperative that commercially-driven Service Providers are properly licensed and regulated, and that these institutions provide Indemnity Insurance to Trustees of super funds to protect member benefits.
- It is important to underline the fact that the hypothetical advents of Licensing and Capital Adequacy will not of themselves do much to address one of the key concerns of APRA, which is regarding the practical difficulty of trying to monitor with limited resources the activities of thousands of small corporate non public-offer funds. In fact there is a strong argument to contend that the whole process of instituting and monitoring Licensing and Capital Adequacy will only put further strain onto APRA and aggravate the regulator’s current problems.

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- In order to assist the Regulators optimally achieve their objectives there is a practical role for the key Representative Group in Australia of corporate not for profit superannuation, the Corporate Super Association, to work alongside the Regulators in a cooperative manner in order to help establish 'Threshold Tests' to determine appropriate levels of required systems, resources and capabilities for corporate not-for-profit super funds and to facilitate on-going monitoring of these Funds. If Funds do not pass the requirements of these threshold tests then they would generally be ineligible to provide superannuation on a 'stand alone' basis and would be obliged to outsource to a commercially-driven Service Provider.
- The Association strongly supports the recommendations of the Draft Report where the SIS legislation be amended in specific areas to remove unnecessary restrictions to competition, but without more radical modification such as restructuring or partial repeal.
- The Association offers its full support of and participation in discussions with the Government, Regulatory Bodies and other relevant entities in order to best protect and enhance the optimal provision of superannuation benefits to Australian employees.