Developments in the governance of superannuation funds

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What I will be talking about

- What very bad governance looks like
- A potted history of theft and fraud in the superannuation sector
- Objectives of good fund governance
- Various possible ways of identifying good governance
What very bad governance looks like

- Good governance might be in the eye of the beholder, but really bad governance is easy to spot, at least when things have gone wrong.

- Bad governance in Australia and overseas has involved the committing of frauds on the members fund and/or the tax revenue.

- Bad governance typically involves agency risks where the interests of those operating the fund diverge from those of the members.
Fraud and theft – when governance has gone very wrong

- Fraud and theft in super has never been legal but it has occurred in the past

- In Australia most of the perpetrators have not been trustees – has also included fund managers, accountants and other service providers

- Fraud or theft historically occurred when governance was not strong – supposed industry funds without proper member representation, fringe retail players who did not have a larger brand to worry about
More to good governance than fraud avoidance

- Good governance about delivering high pension fund performance and keeping costs as low as possible

- Challenge of defining good fund performance

- Industry and government still seeking the holy grail of comparable investment performance

- Performance involves both risk and return
Identifying good fund governance

- Statistical analysis of factors associated with good fund performance

- Existence of assorted risk assessment and abatement processes (the regulator approach)

- Peer and/or CEO subjective assessment of governance practices

- Comparing fund practices with traditional trust law approaches
Statistical approach

- APRA survey in 2006, results released in 2008

- The two years of analysis appeared to largely remove any conclusions

- Much of the material not much more than descriptive

- Conclusions and findings re Directors and their families being or not being members very questionable

- Conclusions about related service providers rather underdone
APRA requirements

- Resources, outsourcing and risk management
- Fit and proper, both initially and ongoing
- Funds now have much better documentation, with some having better practices as well
- Licensing has substantially increased entry costs, pricing out some fraudsters
Assessing the impact of better governance practices

- Remarkable absence of any rigorous empirical studies

- One international study suggests 1% to 2% additional investment return a year

- Accuracy of this not clear, nor its relevance to Australia post APRA licensing

- Minister Sherry was keen on exposing supposed underperforming funds
Putting together a list of good/better governance practices

- Go to the Attachment to the paper

- Big funds are good at doing mission, value and vision statements

- CEOs of the funds surveyed rate their own work relatively highly but are more critical of how the governing fiduciaries operate

- Relatively few of the statements relate to investment process, with investment process statements also getting low scores
Conclusions

- Good governance is important and there will be increasing focus on this in the future

- More work is needed on what exactly good governance is

- Dealing with conflicts an important part of good governance

- Marginal increases in good governance may have only a very marginal impact on investment performance