

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

HESTA

HEST96QW: Since 1 January 2020, for each fund, please outline:

- a. The date and value at the highest valuation of the fund?
- b. The date and value at the lowest valuation of the fund?
- c. The number of business days between the highest and lowest valuation for the fund?
- d. The nominal value between the highest and lowest valuation for the fund?
- e. The percentage value between the highest and lowest valuation for the fund?
- f. The number of business days between the date of the ASX's lowest valuation, and the lowest day for the valuation of the fund?
- g. The number of business days between the date of the ASX's lowest valuation, and the lowest valuation of unlisted assets in the fund?
- h. What volume of switching of investments occurred between funds between the highest and lowest valuations?
- i. What volume of switching between funds occurred in that time by trustees of the fund that are also members of the fund, between the highest and lowest valuations?
- j. What volume of switching between funds occurred in that time by executives of the fund that are also members of the fund, between the highest and lowest valuations?
- k. What volume of switching between funds occurred in that time by other employees of the fund that are also members of the fund, between the highest and lowest valuations?
- l. What integrity measures were taken to prohibit trustees, executives and employees switching between funds from taking advantage of arbitrage of any gap between the lowest valuation date of the ASX and any revaluation of the fund?

Answer:

HESTA receives data relating to the number of option switches processed by its administrator on a monthly basis. In March 2020, HESTA can confirm that 53,439 option switches were processed.

HESTA does not consider it appropriate to seek to establish correlations between the highest and lowest valuations of the HESTA fund, and the highest and lowest valuations of the ASX. As disclosed in earlier responses, HESTA operates a diversified fund, with Australian listed securities only representing a proportion of the investments held by HESTA. Each specific investment option in which members can invest their retirement savings has a different exposure to the various classes of investments in which HESTA invests, with some investment options being more exposed to Australian listed securities than others. Further, analysing the highest and lowest valuations of the ASX (as a whole) as against the highest and lowest valuations of the HESTA fund assumes that HESTA is exposed to every entity listed on the ASX, which is not the case.

HESTA recognises that it is critical for the sound governance and good reputation of HESTA to ensure that at no time may any of its employees or directors use sensitive information gained through their roles to implement an investment option switch to their HESTA interests. Consequently, HESTA has in

place a *Securities Trading and Investment Option Switching Policy* (the **Policy**). Employees and directors of HESTA are advised of their obligations under the Policy as part of HESTA's induction program and are reminded of their obligations through periodic communications.

The policy provides, among other things, that no employee or director of HESTA may implement a switch into or out of an investment option with respect to which they are in possession of 'sensitive information' (broadly being any non-publicly available information that could relate to or impact the returns or market price of a HESTA product or investment). Such individuals are required to advise HESTA's General Manager of Risk (**GMR**) of their intention to switch into or out of a HESTA investment option prior to submitting an application to switch. This notification process affords the GMR an opportunity to investigate whether the individual may be in possession of sensitive information. Where it is determined by the GMR that the individual potentially has sensitive information, the CEO is notified (where the individual is a Director or the CEO, the Chair of the Board and/or the Chair of the Audit and Risk Committee is also notified). Where it is ultimately determined that the switch is a breach of the Policy, the intended switch is cancelled and the individual may be subject to disciplinary action.

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HESTA

- HEST97QW** On financial advisers providing non-intrafund advice (i.e. comprehensive advice - beyond the scope of intrafund advice) within the fund over the past five financial years:
- a. How many do you employ (or are you paying for through outsourced arrangements)?
 - b. What is the revenue generated from these non-intrafund advisers?
 - c. How many financial advisers within the fund also provide intrafund advice?
 - d. If you have non-intrafund financial advisers within the fund also providing intrafund advice, how is their remuneration determined from different sources?
 - e. Is there any cross-subsidisation for non-intrafund financial advisers within the fund from activities funded through intrafund advice?
 - f. Is there any cross-subsidisation for financial advisers from intrafund advice to non-intrafund financial advisers within the fund?
 - g. What is the total budgeted cost and actuals for financial advisers?
 - h. What is the remuneration level/range for the financial advisers employed to provide non-intrafund advice to your members?
 - i. What is the aggregated cost of their remuneration?
 - ii. What is the aggregated cost for their employment?
 - iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?
 - iv. What is the aggregated cost for marketing their services?
 - v. What is the aggregated cost for administrative support services?
 - vi. What is the aggregated cost for professional insurance and indemnity?
 - vii. What is the aggregated cost for compliance oversight?
 - viii. What is the aggregated cost for legal oversight?
 - ix. What is the aggregated cost for other regulatory oversight?
 - x. What is the aggregated cost for the unit, including overheads, that provides financial advice within the fund?

Answer:

- a. How many do you employ (or are you paying for through outsourced arrangements)?

2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
4.00	4.00	5.00	6.00	5.00

- b. What is the revenue generated from these non-intrafund advisers?

The revenue generated from non-intrafund advisers is commercially sensitive. We do not consider it to be in our members' best interests to disclose such information.

c. How many financial advisers within the fund also provide intrafund advice?

HESTA financial advisers do not provide members with intrafund-only advice. A component of a comprehensive advice provided by a HESTA financial adviser may include intrafund advice.

d. If you have non-intrafund financial advisers within the fund also providing intrafund advice, how is their remuneration determined from different sources?

HESTA financial advisers are remunerated on a fixed salary pursuant to the terms of their employment with the fund. Their remuneration is not determined from different sources.

e. Is there any cross-subsidisation for non-intrafund financial advisers within the fund from activities funded through intrafund advice?

HESTA is proud to deliver advice services for members at low prices so that cost is not a barrier for members seeking advice. Most members of HESTA will benefit from advice on their accumulation account – the cost of this advice is contained within the standard administration fee. HESTA aims to keep the cost of advice on holistic financial planning as low as possible, but at commercial levels.

f. Is there any cross-subsidisation for financial advisers from intrafund advice to non-intrafund financial advisers within the fund?

Please refer to our response to question HEST97QW(e).

g. What is the total budgeted cost and actuals for financial advisers?

The budgeted cost and actuals for financial advisers is in HESTA's view appropriate for the provision of advice to members. These figures are commercially sensitive and we do not consider it to be in our members' best interests to disclose such information.

h. What is the remuneration level/range for the financial advisers employed to provide non-intrafund advice to your members?

- i. What is the aggregated cost of their remuneration?**
- ii. What is the aggregated cost for their employment?**
- iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?**
- iv. What is the aggregated cost for marketing their services?**
- v. What is the aggregated cost for administrative support services?**
- vi. What is the aggregated cost for professional insurance and indemnity?**
- vii. What is the aggregated cost for compliance oversight?**
- viii. What is the aggregated cost for legal oversight?**
- ix. What is the aggregated cost for other regulatory oversight?**
- x. What is the aggregated cost for the unit, including overheads, that provides financial advice within the fund?**

Advice at HESTA has been designed to deliver on our mission to make a real difference to the retirement outcome of every member. Our goal is to provide access to quality advice that is in the

member's best interest at the lowest possible cost to that member, whilst maintaining fairness to all fund members.

As an AFS licensee, HESTA must ensure that representatives are adequately trained and competent to provide the financial services authorised under their AFSL. This includes obligations concerning continuing training. ASIC's expectations regarding continuing training are detailed in RG 146.

HESTA's employee remuneration for financial advisers employed to provide non-intrafund to HESTA members is fair and reasonable, and benchmarked against industry.

HESTA notes that many of the costs associated with providing financial advice (including costs relating to marketing, administrative support services, professional insurance and indemnity, compliance oversight, legal oversight and regulatory oversight) form part of HESTA's broader costs, which would not change substantively if HESTA were to cease providing financial advice.

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SUPERANNUATION SECTOR**

HESTA

- HEST98QW** On financial advisers providing intrafund advice (i.e. strictly limited to advice on your super fund for the member only - not spouse) within your fund over the last five financial years:
- a. How many do you employ (or are you paying for through outsourced arrangements)?
 - b. What is the remuneration level/range for the financial advisers employed to provide intrafund advice to your members?
 - i. What is the aggregated cost of their remuneration?
 - ii. What is the aggregated cost for their employment?
 - iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?
 - iv. What is the aggregated cost for marketing their services?
 - v. What is the aggregated cost for administrative support services?
 - vi. What is the aggregated cost for professional insurance and indemnity?
 - vii. What is the aggregated cost for compliance oversight?
 - viii. What is the aggregated cost for legal oversight?
 - ix. What is the aggregated cost for other regulatory oversight?
 - x. What is the aggregated cost for the unit, including overheads, that provides intrafund advice?
 - c. What is the revenue that intrafund advisers have generated?
 - d. How many financial advisers providing intrafund advice also provide it within the fund?
 - e. If you have financial advisers providing intrafund advice also providing it within the fund, how is their remuneration determined from different sources?
 - f. Is there any cross-subsidisation for financial advisers providing intrafund advice from revenue funded through activities within the fund?
 - g. What is the total budgeted cost and actuals for the intrafund advice unit?
 - h. What is the revenue generated from these financial advisers?
 - i. Within your fund, is there any cross-subsidisation for intrafund advice services?

Answer:

- a. **How many do you employ (or are you paying for through outsourced arrangements)?**

2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
10.40	14.00	14.00	15.80	22.40

- b. **What is the remuneration level/range for the financial advisers employed to provide intrafund advice to your members?**
- i. **What is the aggregated cost of their remuneration?**

- ii. **What is the aggregated cost for their employment?**
- iii. **What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?**
- iv. **What is the aggregated cost for marketing their services?**
- v. **What is the aggregated cost for administrative support services?**
- vi. **What is the aggregated cost for professional insurance and indemnity?**
- vii. **What is the aggregated cost for compliance oversight?**
- viii. **What is the aggregated cost for legal oversight?**
- ix. **What is the aggregated cost for other regulatory oversight?**
- x. **What is the aggregated cost for the unit, including overheads, that provides intrafund advice?**

Advice at HESTA has been designed to deliver on our mission to make a real difference to the retirement outcome of every member. Our goal is to provide access to quality advice that is in the member's best interest at the lowest possible cost to that member, whilst maintaining fairness to all fund members.

As an AFS licensee, HESTA must ensure that representatives are adequately trained and competent to provide the financial services authorised under their AFSL. This includes obligations concerning continuing training. ASIC's expectations regarding continuing training are detailed in RG 146.

HESTAs employee remuneration for financial advisers employed to provide intrafund to HESTA members is in our view fair and reasonable, and benchmarked against industry.

HESTAs notes that many of the costs associated with providing financial advice (including costs relating to marketing, administrative support services, professional insurance and indemnity, compliance oversight, legal oversight and regulatory oversight) form part of HESTAs broader costs, which would not change substantively if HESTA were to cease providing financial advice.

c. What is the revenue that intrafund advisers have generated?

The revenue generated from intrafund advisers is commercially sensitive. We do not consider it to be in our members' best interests to disclose such information.

d. How many financial advisers providing intrafund advice also provide it within the fund?

HESTAs superannuation advisers that provide intrafund-advice only (i.e. not financial planners who provide comprehensive advice; a proportion of which may be intrafund advice) are all within the Fund. None of these roles are outsourced.

e. If you have financial advisers providing intrafund advice also providing it within the fund, how is their remuneration determined from different sources?

HESTAs financial advisers are remunerated on a fixed salary pursuant to the terms of their employment with the fund. Their remuneration is not determined from different sources.

f. Is there any cross-subsidisation for financial advisers providing intrafund advice from revenue funded through activities within the fund?

HESTA is proud to deliver advice services for members at low prices so that cost is not a barrier for members seeking advice. Most members of HESTA will benefit from advice on their accumulation account – the cost of this advice is contained within the standard administration fee. HESTA aims to keep the cost of advice on holistic financial planning as low as possible, but at commercial levels.

g. What is the total budgeted cost and actuals for the intrafund advice unit?

The total budgeted cost and actuals for intrafund advice is in HESTA's view appropriate for our members and is commercially sensitive. We do not consider it to be in our members' best interests to disclose such information.

h. What is the revenue generated from these financial advisers?

The revenue generated from these financial advisers is commercially sensitive. We do not consider it to be in our members' best interests to disclose such information.

i. Within your fund, is there any cross-subsidisation for intrafund advice services?

HESTA is proud to deliver advice services for members at low prices so that cost is not a barrier for members seeking advice. Most members of HESTA will benefit from advice on their accumulation account – the cost of this advice is contained within the standard administration fee. HESTA aims to keep the cost of advice on holistic financial planning as low as possible, but at commercial levels.

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HESTA

- HEST99QW** Do you allow members to use their funds to pay for:
- a. Financial advice?
 - b. Internal financial advisers?
 - c. External financial advisers?

Answer:

a. Financial advice?

Yes.

b. Internal financial advisers?

The cost for intrafund advice is borne by all members of the fund. HESTA do not charge member's funds in addition. The *Superannuation Industry (Supervision) Act 1993* (Section 62 – Sole Purpose Test) (*SPT*) governs what advice fees can be funded via the member account. Where members receive personal advice and the scope of the advice is within the definition of the SPT, this cost can be funded from the member's HESTA account.

Accordingly, HESTA allows fees to be deducted from a member's account to pay for advice received that relates to a member's superannuation from the following sources:

- HESTA Superannuation Advisers
- HESTA Financial Planners
- External (non-HESTA) Advisers.

HESTA does not provide ongoing fee-for-service advice.

c. External financial advisers?

HESTA does not refer members to external financial advisers. HESTA allows external advisers to deduct advice fees that relate to the member's HESTA account, within prescribed limits.

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HEST100QW Do you allow external financial advisers access to online facilities to charge for external financial advisers consented by members using their funds?

Answer: No.