

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

BT – Westpac

BT162QW:

- (a) When was the last time you provided information to APRA or ASIC about how the level of profit margin built into your fee structure or the fee structure of your related entities is in the best financial interests of your members?
- (b) Has BT ever sought legal advice on how its fee structure and related party transactions comply with:
 - I. The requirement for trustees to act in members' best interest (including financial interest)?
 - II. The sole purpose test?
 - III. If so, please provide this advice.

Answer:

- (a) On 28 August 2020, information was provided to APRA regarding fees and costs applicable to the BT MySuper products, which included details on the profit margin built in the fee structure.
- (b) (I & II) Where changes are proposed to be made to its superannuation funds, BT (in its capacity as a superannuation trustee) will ordinarily obtain legal advice on its duties and obligations in the context of the relevant proposal. This may include for example changes to its product offering or to services arrangements.

(III) We are unable to provide the legal advice to external parties.

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BT – Westpac

BT163QW:

Please provide any information sought by APRA or ASIC over the past 5 years, in relation to BT's:

- (a) Marketing expenditure
- (b) Membership of industry associations or peak bodies (and expenditure on)
- (c) Related party transactions

Answer:

- (a) In late 2020, APRA undertook an information request in relation to fund expenditure of a number of superannuation trustees across the industry. This work will continue over the coming months and is focused on understanding how trustees meet their obligations to members. APRA's information request included fund advertising and brand promotional activities by BT and related entities.

ASIC have not issued any notices directly relating to BT's marketing expenditure in the last five years.

- (b) APRA and ASIC have not sought information from BT on its membership of industry associations or peak bodies over the past 5 years.

- (c) *Prudential Standard SPS 231 Outsourcing* requires BT to notify APRA of specific changes to its material outsourcing arrangements (including new arrangements and changes to existing arrangements with related parties). As a result, there is ongoing engagement with APRA on this topic as part of their regular supervision. APRA's other work streams include prudential reviews and information requests that cover outsourcing, including where services are outsourced to a related party.

ASIC have sought information regarding related party transactions and the management of conflicts of interest over the last five years. This includes the following notices:

- Issued in late 2016, which focused on BTFM's compliance with regulatory requirements, and governance and risk arrangements as a Responsible Entity. This included questions regarding the policies in place regarding related party transactions and the number and value of any related party transactions.
- Issued in late 2017 regarding interactions between employers and superannuation trustees, and insurance arrangements between insurers and

superannuation trustees. As part of this notice, ASIC required copies of BTFM's conflicts register and details of the most recent review of BTFM's conflicts / related party issues handling procedures.

- Issued in late 2020 as part of their review of corporate governance practices of Responsible Entities of Managed Investment Schemes. This included requests for information regarding the policies and processes in places that enables the BTFM Board to manage conflicts of interest and related party transactions.

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BT – Westpac

BT164QW:

In response to BT16QW(b) BT stated:

The Board may require the appointment of independent advisers/consultants as part of the selection and appointment process to benchmark or test the terms on which a related party is appointed.

- (a) How many time for each of the years 2015-2020 has the board sought this type of advice? Please provide a copy of any advice provided. If you are claiming commercial sensitivity, please then provide a list of the titles of each of the reviews and the external consultant that undertook them.
- (b) Have copies of each of these advisory reports been provided to APRA?

Answer:

- (a) The BT trustee board (**the Board**) has sought independent advice on the selection and appointment of a related party on a number of occasions as illustrated in the list provided below. This includes consideration of renewing/terminating existing arrangements with a related party. Some of the key focus areas in recent times were related party arrangements regarding custodial and administration services, and group insurance.

In the case of group insurance, independent advice was obtained in the process which saw the appointment of AIA Australia (an unrelated party) as BT Super's new group insurer from 1 July 2020. Prior to this appointment, Westpac Life Insurance Services (a related party) was BT Super's group insurer.

We are unable to provide copies of the reports due to commercial sensitivity. A list of the titles of the abovementioned reviews and external consultant details are provided below.

- BT Tender Evaluation (26/9/2016) - Rice Warner
- BT Review of Insurance Provisions 2016 (17/11/2016 & 17/3/2017) - Rice Warner
- Insurer Tender (18/11/2016 & 17/3/2017) – Minter Ellison
- Review of Group Insurance proposals for 2019 (May 2019) – Heron Partnership
- Internal Entity Benchmarking (8/11/2019) – Rice Warner

- Report to the Trustees, BT Superannuation Funds, Death and Disability Benefits (18/3/2020) – CHR Consulting
- Project GlassHouse, Phase 1 Final Report (May 2020) – KPMG

(b) Whilst copies of the abovementioned advisory reports have not been provided to APRA, the matters to which they relate may be linked to topic areas caught under APRA's routine prudential supervision activity. As such, there have been past engagement with APRA on the key developments (e.g. appointment of AIA Australia as BT's group insurer).

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BT – Westpac

BT165QW:

In response to BT16QW(c) BT said:

An independent review of the operation and effectiveness of the Trustees' Conflicts of Interest Framework is conducted on a triennial basis with the results reported to the Board Audit Risk and Compliance Committee, together with management's response to any recommendations or findings

- (a) When was the most recent review completed?
- (b) Please provide a copy of the review to the committee.

Answer:

- (a) The most recent review of BT's Conflicts of Interest Framework was completed on 22 February 2019.
- (b) Please note the report in relation to the review of BT's Conflicts of Interest Framework is not publicly available, and we are unable to provide a copy of the document due to commercial sensitivity.

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BT – Westpac

BT166QW:

In response to BT16QW(e) BT claimed commercial confidentiality, but referred to two recent material programs connected to related parties. One was a benchmarking review of its engagement with two related entities called Review of Administration and Custodial Services undertaken in 2019. BT stated:

- *Overall, the external consultant concluded the services provided by ACML and BTPS are mostly in line with the industry standard and identified areas of improvement that could be addressed through services/contract negotiations with the service providers;*
- *Following review and due consideration by the Trustee Board, management commenced the process for undertaking renewed services/contract negotiations with the service providers, including consideration of the areas for improvement identified in the review process.*

- (a) Who was the external independent third party that undertook the review?
- (b) What were the 'identified areas of improvement that could be addressed'?
- (c) What were the material changes to the service agreement or contract following re-engagement of the suppliers by the Trustees?
- (d) Were members at a financial loss as a result of this contract? If so, by how much?
- (e) What information has been sought by or provided to APRA or ASIC on this?
- (f) Does BT still use these related entities to deliver the same services? If so, has BT engaged a separate independent provider to ensure the problems identified have been addressed?
- (g) Has or will this be reported to APRA?

Answer:

- (a) Rice Warner was the external independent third party that undertook the review referenced in BT16QW(e).
- (b) The recommendations outlined in the Rice Warner report were focused on the opportunities to enhance clarity on the service level agreement and contractual terms. There has been ongoing engagement with the service providers to address the recommendations as outlined in the Rice Warner report, e.g. uplift of service levels.
- (c) Please refer to response provided in BT166QW(b).

- (d) As outlined in our response under BT16QW(e), the external consultant concluded the services provided by ACML and BTPS are mostly in line with industry standard. Members were not at a financial loss as a result of these arrangements.
- (e) As outlined in our response under BT163QW(c), Prudential Standard SPS 231 Outsourcing requires BT to notify APRA of specific changes to its material outsourcing arrangements (including new arrangements and changes to existing arrangements with related parties). As a result, there is engagement with APRA in relation to BT's outsourcing arrangement with ACML and BTPS as part of their regular supervision.
- (f) Yes, BT currently has an outsource agreement with ACML and BTPS. As per our response provided in BT166QW(a)-(d), the BT trustee engaged an external consultant to assist in considering whether the outsource arrangements with ACML and BTPS continue to be in the members' interests.
- (g) Please refer to response provided in BT166QW(e).

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BT – Westpac

BT167QW:

In response to BT35QW BT disclosed \$361 million in payments to related parties.

- (a) Please outline how these expenses to members are reported to APRA.
- (b) Please outline how these expenses are disclosed in BT's annual reports (noting the annual reports for BT funds say: *The full retirement wraps audited financial statements and auditor's report are available on request by contacting 132 135*) and/or the annual reports of BT's related entities.

Answer:

- (a) The administration and operating expenses are reported to APRA on a quarterly basis under Reporting Standard SRS 330.0 Statement of Financial Performance for all BT's superannuation funds.
- (b) The amounts referenced in our response to BT35QW are disclosed at our superannuation fund level annual reports. Specifically, the expenses are reflected in the 'Total expenses' category in the Income Statement (which comprises of 'Trustee's fees' and 'Other expenses').

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BT – Westpac

BT168QW:

During the 6 November hearing BT representatives referenced the Westpac financial results. According to Westpac's annual results 2020 BT turned a profit of \$111 million last financial year (FY20), and \$285 million in FY19.

(a) How much of this profit was due to:

- i. Related entities servicing BT?
- ii. Margin built into BT administration fees?
- iii. Margin built into other fees charged to members?

Answer:

- I. The amounts referenced in the Westpac Annual report are in relation to the entire BT Superannuation, Investments, Platforms & Operations business within Westpac, which includes the following superannuation trustees: BT Funds Management Limited (**BTFM**); Westpac Securities Administration Limited (**WSAL**); and BT Funds Management No.2 Limited (**BTFM2**)¹. As such, BTFM's profit only represents a portion of the profit figures quoted in the question. None of BTFM's profit is attributable to related entities servicing BTFM.
- II. Margins that BTFM has earned from its administration and investment management fees charged to members were as follows: FY2019 = 0.23%, and FY2020 = 0.07%². This data is market sensitive and has not been separately disclosed by BT and Westpac. We are therefore requesting that it be treated as confidential.
- III. Refer to response provided in BT168QW(a)(ii).

¹ For the reporting periods FY19 and FY20, WSAL did not receive revenue in its capacity as a superannuation trustee. BTFM2 and WSAL ceased to be a superannuation trustee in April 2019 and October 2020 respectively.

² The figures provided represent margins for BT's MySuper and Choice unitised products.

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BT – Westpac

BT169QW:

During the 6 November hearing, in response to the Deputy Chair's question on BT's main source for obtaining new customers, BT representatives replied "We have primarily digital ways of contacting our members for marketing. We are present on apps across the banking websites for Westpac and St George brands."

- (a) What is the cost to BT of being present on apps across the banking websites for Westpac and St George brands? Is that below market rate?
- (b) Aside from apps across Westpac and St George's banking websites, where else does BT's digital marketing appear?

Answer:

- (a) BT, Westpac, St George, Bank of Melbourne and Bank SA are all part of the Westpac Group. Wealth products are provided under the BT brand. No payment is exchanged internally within the organisation for the presence of BT branding on apps available to Westpac Banking Group customers.
- (b) BT Super is available across BT digital channels as well as Westpac Group digital channels, this includes our public websites, secure websites, mobile apps and social channels. Beyond our owned channels, the product can be found across most search engines. We also undertake paid digital advertising so BT Super will also appear across a large number of external sites.

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BT – Westpac

BT170QW:

- (a) Please list BT's member services that are managed by Westpac (ie online interface for BT Super for Life accounts).
- (b) For each of the last three financial years, what are the total annual fees BT pays Westpac for providing these services?

Answer:

- (a) Please note the member services, including the online interface, is managed by BT. Westpac, St George, Bank of Melbourne and Bank SA online banking customers are able to view their BT Super or BT Super for Life account alongside their banking products. This service is managed by Westpac.
- (b) No payment is made to Westpac by BT over the past three financial years for the services outlined in BT170QW(a).