Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 119

Topic: Mergers of superannuation funds

Hansard Page: Written

Senator Bushby asked:

I note the exchange on 24 Feb 2011 between Senator Cormann and APRA on the prudential issues which arise in relation to mergers of superannuation funds. The answers by APRA, unfortunately, were narrower in scope and focus than would have been anticipated and, instead, focussed solely on the potential cost reduction benefits which might accrue as a result of economies of scale.

Consequently, there was no mention of the more critical prudential risks which might arise in mergers of superannuation funds, for example, loss of investment earnings when funds liquidate assets, loss of liquidity as a result of integrating funds with different member and investment profiles, loss of member records, loss of trustee supervision and attention during the transition, breakdowns in customer service standards (e.g. causing delays in processing switch transactions in the midst of volatile markets), loss of key management personnel and wastage of corporate memory capability.

By reading in the AFR on 1 March 2011, I found that APRA does have a concern (which it did not convey to the Committee) on these material manifestations of prudential risk. In this regard one of APRA's senior managers, Greg Brunner, has apparently written to trustees warning them of the inherent risks of merger procedures, and alerting them inter alia to take care to avoid conflicts of interest.

- Without naming funds, could you instance practical examples of these concerns, and what has APRA done to rectify the matters?
- Can APRA provide to the committee the relevant correspondence between APRA and its regulated funds on this matter?

Answer:

Q1: This is very difficult to do without considerable redaction to ensure that the funds concerned are not able to be identified. APRA considers it is more meaningful to provide the above guidance, which demonstrates some of the concerns that have been found in its discussions with a number of trustees on potential merger activity.

Q2: APRA issued a letter to superannuation fund trustees on 28 February 2011. This letter gave rise to the Australian Financial Review mention. The letter provides an outline of the matters APRA has observed, in a number of merger and successor fund transfer discussions over several years, where trustee practices and procedures were sometimes not sufficiently robust. The letter was issued by APRA as a proactive measure to remind trustees of the various risks associated with fund mergers and of some of the technical aspects to be addressed (eg trustees may need to reapply for current legal instruments with the transferee fund) and to encourage them to talk to APRA early in the process. As with all issues of concern that APRA might observe in its regular supervisory processes with the superannuation industry, APRA ensures that trustees address any material concerns and/or change their practices or proposals in order to mitigate the risks that inadequate practices might give rise to for superannuation fund members.