

# **CORPORATE SUPER ASSOCIATION**

**SUBMISSION TO**

***THE COMMONWEALTH TREASURY***

***SUPERANNUATION & INSURANCE UNIT***

**ON**

***COMPENSATION ARRANGEMENTS FOR SUPERANNUATION***

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# CORPORATE SUPER ASSOCIATION

## BACKGROUND

### **1.1 The Corporate Super Association**

The Corporate Super Association is Australia's representative body for major Not For Profit corporate superannuation funds and their corporate sponsors.

The assets of Association members amount to approximately \$60 billion, representing about 85% of total corporate superannuation sector assets in Australia and some 750,000 individual employee fund members.

### **1.2 Abbreviations used in this submission**

The Association	The Corporate Super Association
The Review Paper	Review Paper, <i>Review into Part 23 of the Superannuation Industry (Supervision) Act 1993</i> , prepared by the Superannuation and Insurance Unit of the Treasury and issued for public comment in June 2003
SIS Act, SIS legislation	Superannuation Industry (Supervision) Act 1993, and related legislation

### **1.3 Context of submission**

This submission is provided in response to the Review Paper prepared by the Superannuation and Insurance Unit of the Treasury.

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## 2 EXECUTIVE SUMMARY

- It is essential that a safety net exist to protect superannuation fund members in the event of losses incurred by a superannuation fund whether for-profit or not-for-profit due to fraudulent conduct or theft. The integrity and equity of the whole superannuation industry depends to a large extent on the existence of such a protection mechanism.
- Compensation provided under such a system should be full compensation rather than any reduced percentage. We are concerned about various suggestions of various arbitrary levels of reduction in compensation cover: these suggestions tend to be complex and will almost certainly impair the integrity and credibility of the whole Australian Superannuation structure.
- We have heard concerns that 100% compensation may encourage moral hazard and may reduce incentives for the trustees and members to pursue available avenues of recovery. However, we note that such concerns are based on US experience where the prudential regulatory structure is less powerful and most important any level of compensation less than 100% is both inequitable and is itself of questionable integrity.
- The existing arrangements for a Superannuation Protection Reserve (SPR) should be activated immediately. The Reserve should be funded now as a pre-emptive measure rather than seek to fund the reserve after the event, which latter could send ripples of dissatisfaction through the superannuation structure and possibly dent the credibility of the system
- The SPR should be funded by all Stakeholders in superannuation – these are principally the for-profit funds, the not-for-profit funds and the Federal Government which itself is a major stakeholder. The latter should participate in the funding, as we can see benefits arising for Government from the delivery of a stable superannuation system: these include reduced burden on the public purse of providing government funded pensions in the future and public confidence in the system. Government funding can simply be in the form of setting aside approximately 1% of total tax revenue from superannuation in the manner of an insurance policy.
- A Claims Process needs to be established to determine the level of funding of the SPR, the management of the SPR and the mechanism for determining claims from the SPR. It is imperative that such a process be transparent with the highest corporate governance standard. The current mechanisms are not transparent. This lack of transparency is an inferior corporate governance standard and may tarnish the credibility of the Australian superannuation system and will almost certainly be the target of criticism.

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- To assist in the creation of a Claims Process and its implementation, a Superannuation Industry Board (SIB) should be established, comprising senior representatives of the key component sectors of the superannuation industry and including ASIC, APRA and Treasury. All such decisions should be tabled in Parliament and be open for public scrutiny if required.
- The SIB could further act as a ‘sounding board’ to the Minister on all macro issues regarding superannuation, thus taking positive steps to moving forward the various and differing interests in superannuation towards common goals for the ultimate benefit of all Australians.