



Governance and Performance Considerations in Superannuation

FINSIA - MCFS Banking and Finance Conference,
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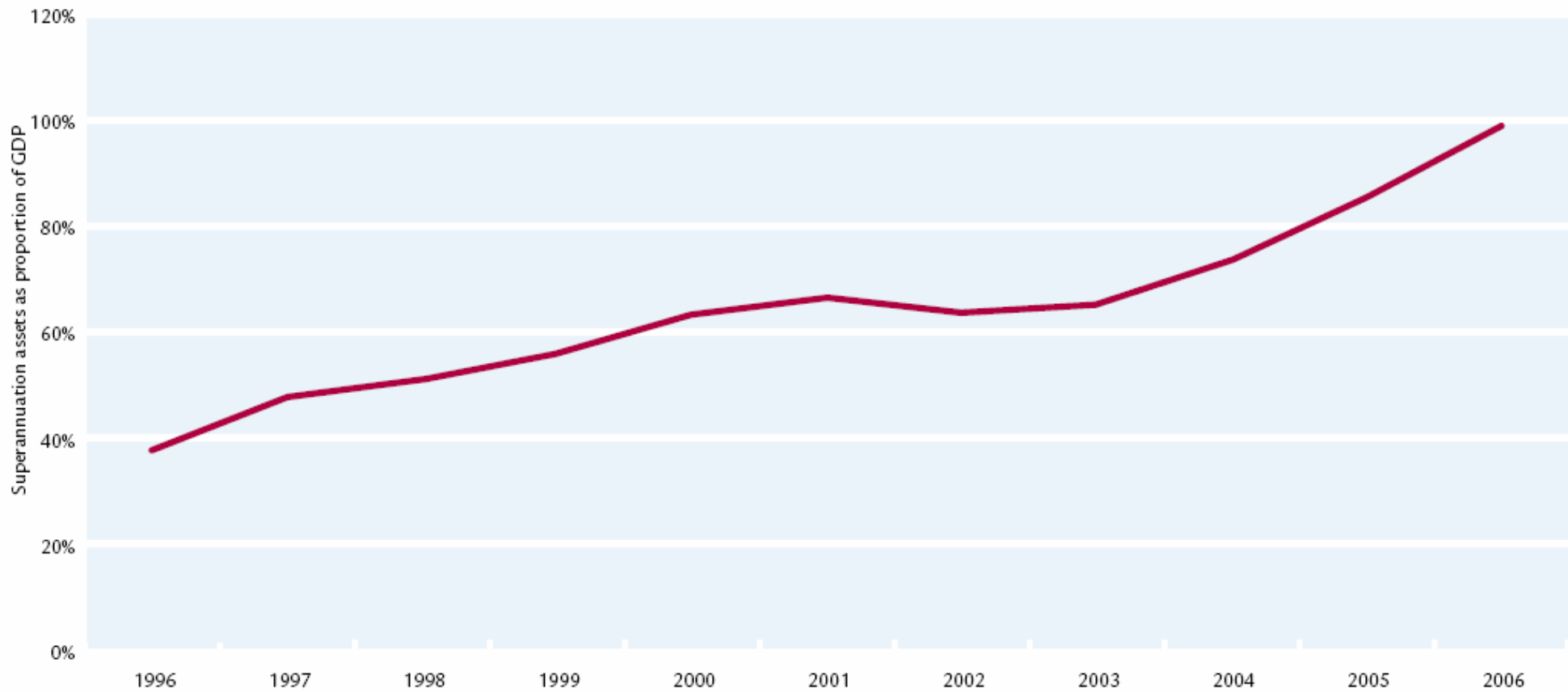


- “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor any other participant, may be revealed.”
- Encourage openness and sharing of information and comments
- Opportunity to examine some of the foundations and their relevance

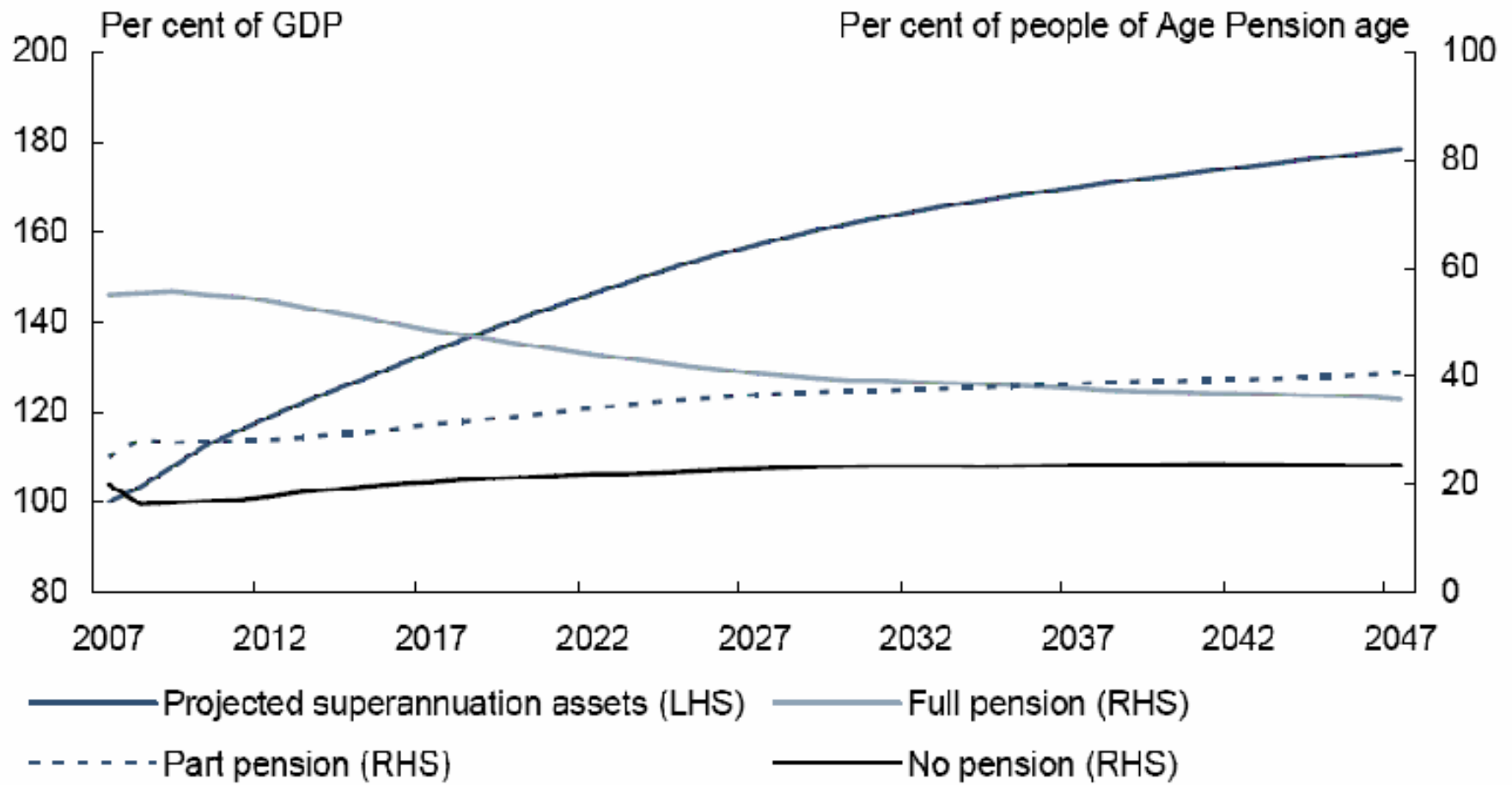


- What goes on in universities, ... is often derided for being obscure, speculative, abstruse, remote from daily life or unrealistic....
- It works on the assumption that what we are doing now only arose a relatively short time ago, and will inevitably die away and be replaced by something else. This insight lies outside of the annual business cycle, the three year election cycle, the 25-year mortgage cycle, even the span of the individual life. It is aware that on the slowly drifting continents of culture, the bedrock of values on which our judgements and opinions rest that we think are eternal and inevitable are themselves always about to shift sometimes surprisingly quickly and unexpectedly towards something radically different...
- The maddening, outrageous, sometimes even obnoxious thought that goes on in universities is in some ways the main game then.
- They will emerge in a world that is unfamiliar to us, not just a little but one perhaps totally unimaginable to us....
- It is this that the infuriating thought conducted in universities offers, and I commend it to you.

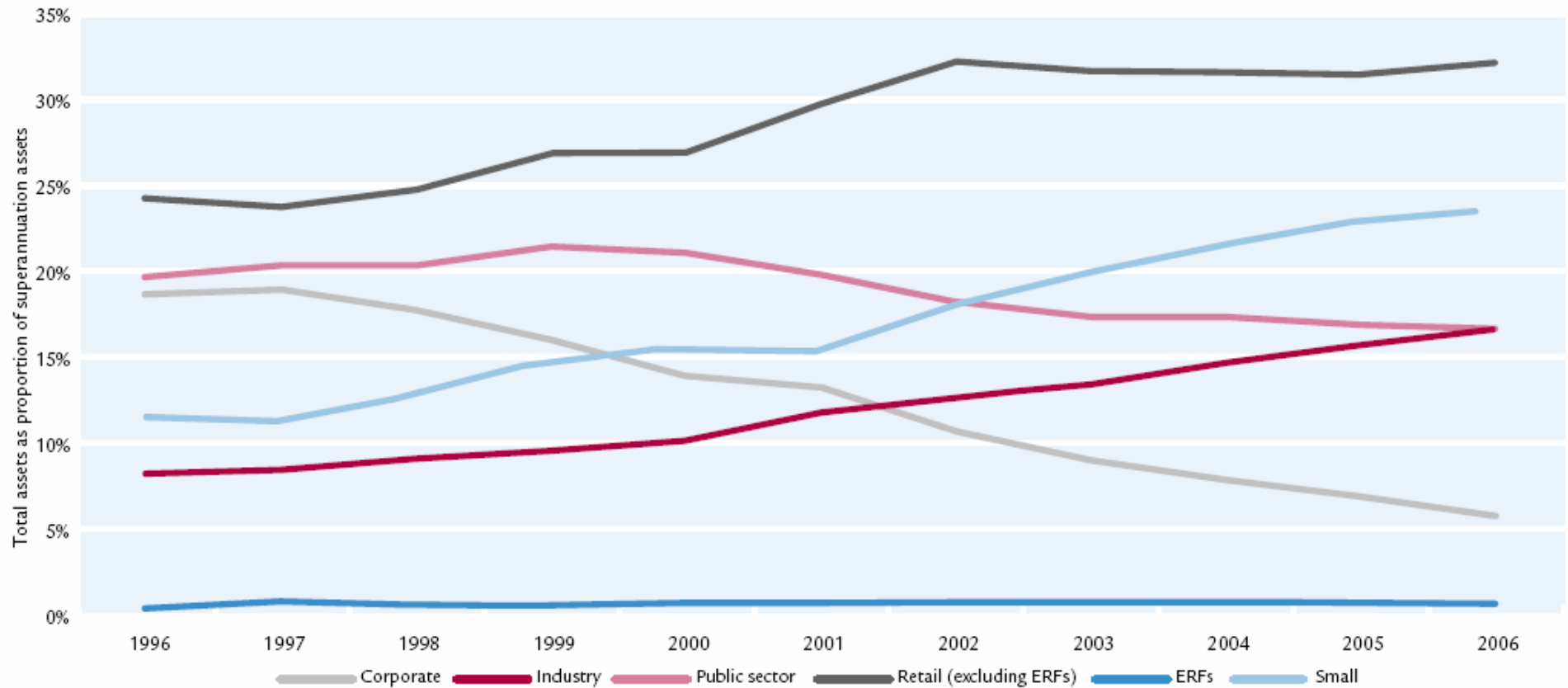
Superannuation assets - proportion of Gross Domestic Product (GDP)



Superannuation assets and Age Pension coverage projections



Share of superannuation assets

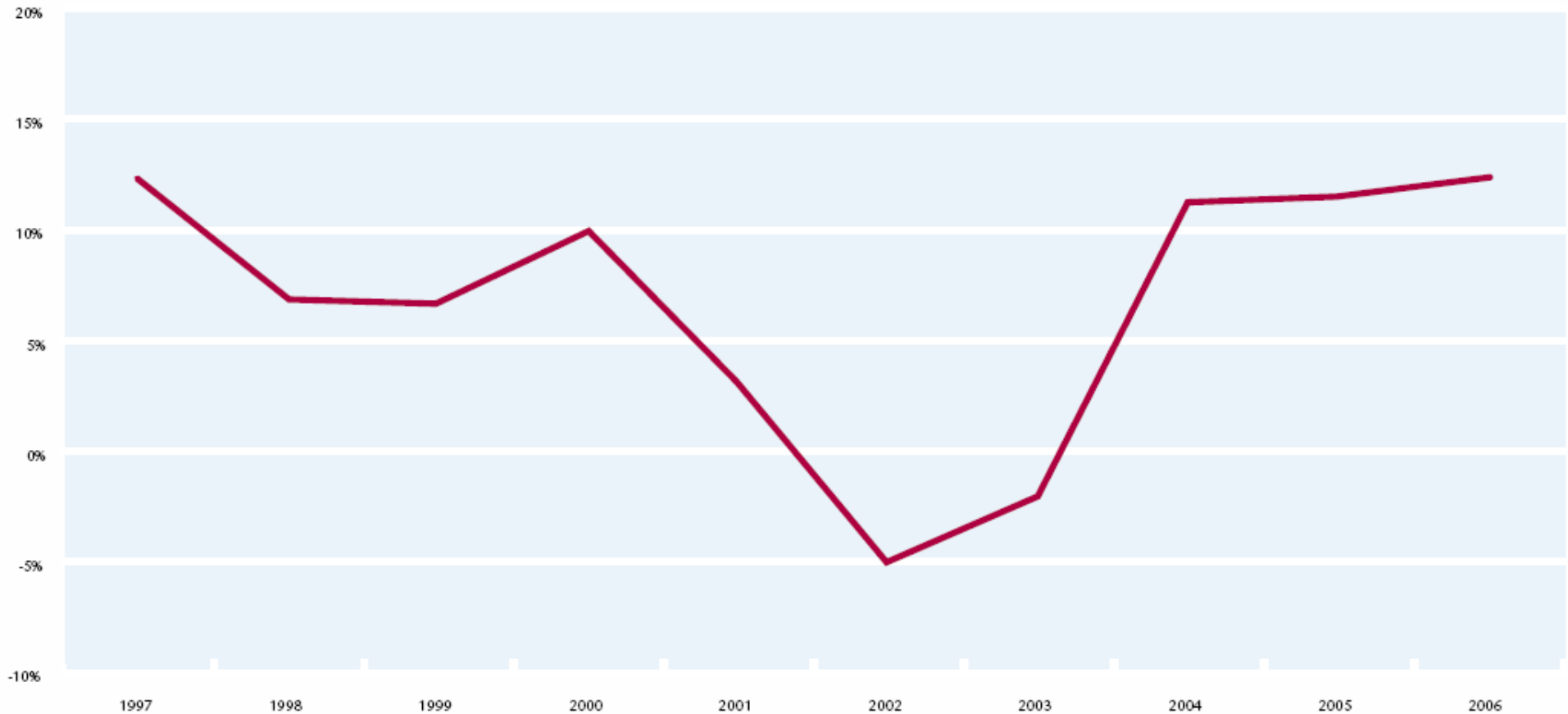


Growth in assets 1996 - 2006 (per annum)



| | |
|-----------|-----|
| Corporate | 2% |
| Public | 13% |
| Retail | 18% |
| Industry | 22% |
| SMSFs | 23% |

Return on assets (all entities)^a



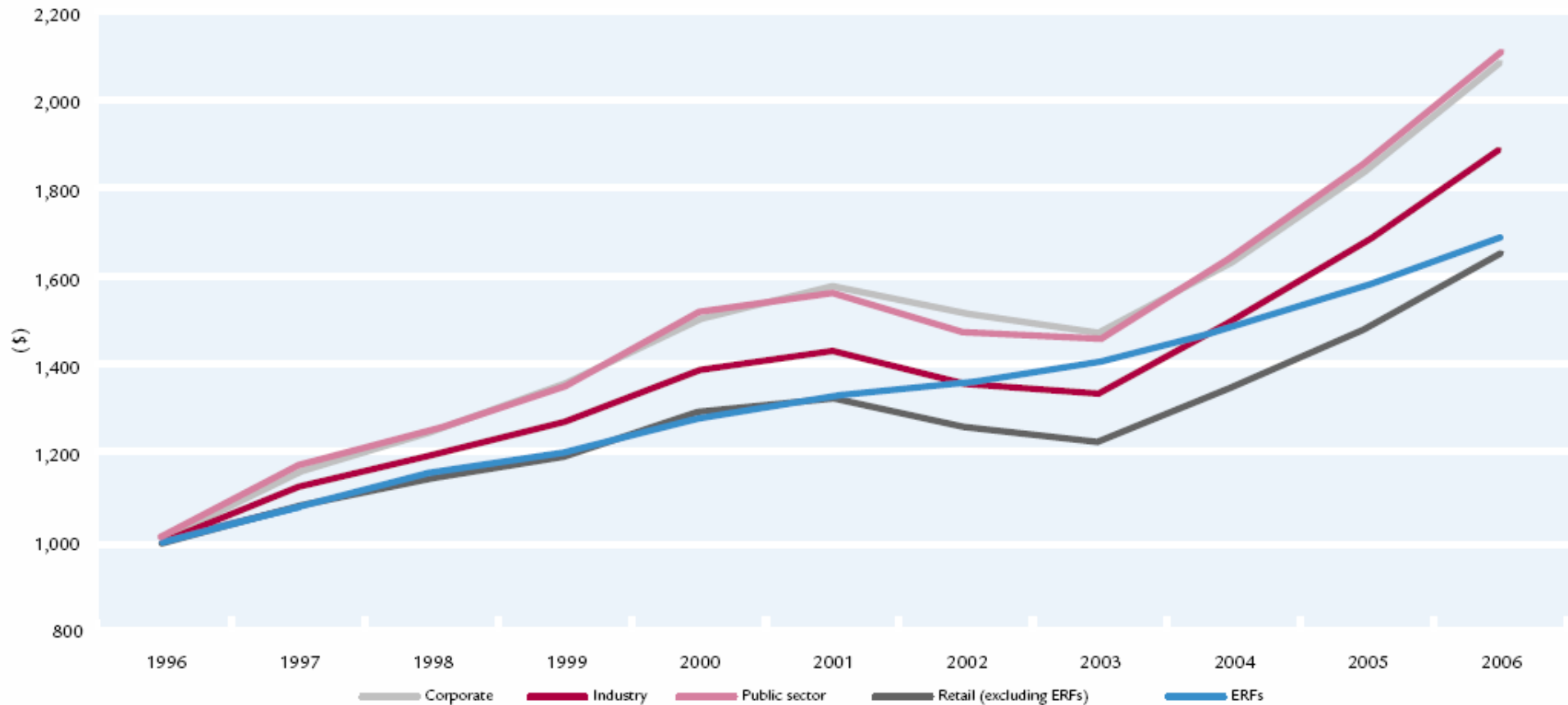
^a Entities with at least \$100 million in assets.

Return on assets^a



^a Entities with at least \$100 million in assets.

Value of \$1,000 invested at 1 July 1996^a



^a Entities with at least \$100 million in assets.

Ten-year average return on assets and volatility^a

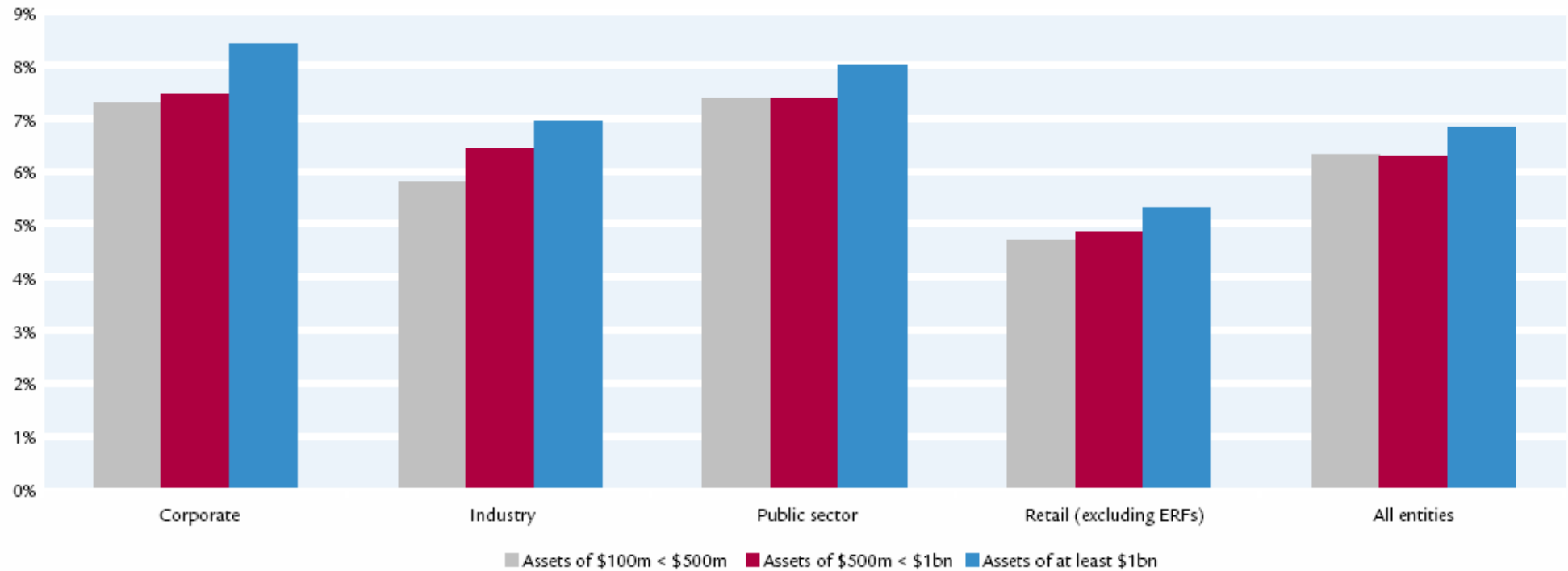


| | 1997-2006 | |
|-------------------------|----------------|------------|
| | Average return | Volatility |
| All entities | 6.7% | 6.2% |
| Corporate | 7.8% | 6.6% |
| Industry | 6.7% | 6.2% |
| Public sector | 8.0% | 7.2% |
| Retail (excluding ERFs) | 5.3% | 5.5% |
| ERFs | 5.4% | 1.8% |

^a Entities with at least \$100 million in assets.

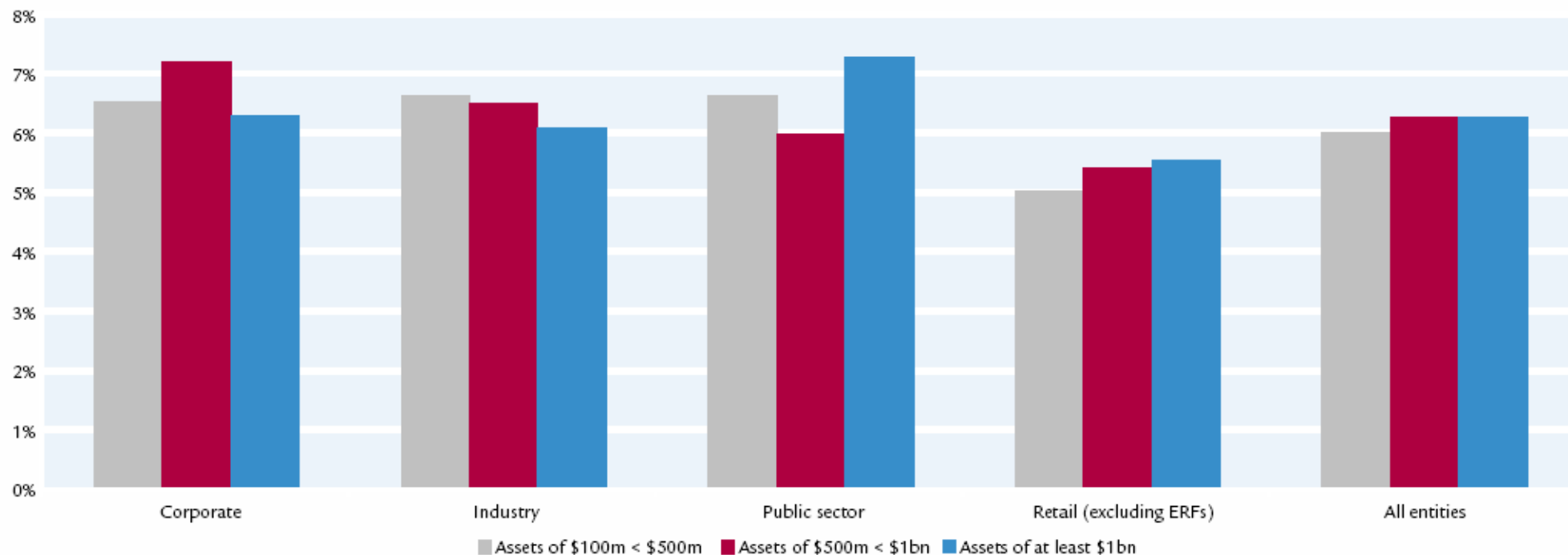


Ten-year average return on assets by size of entity ^a



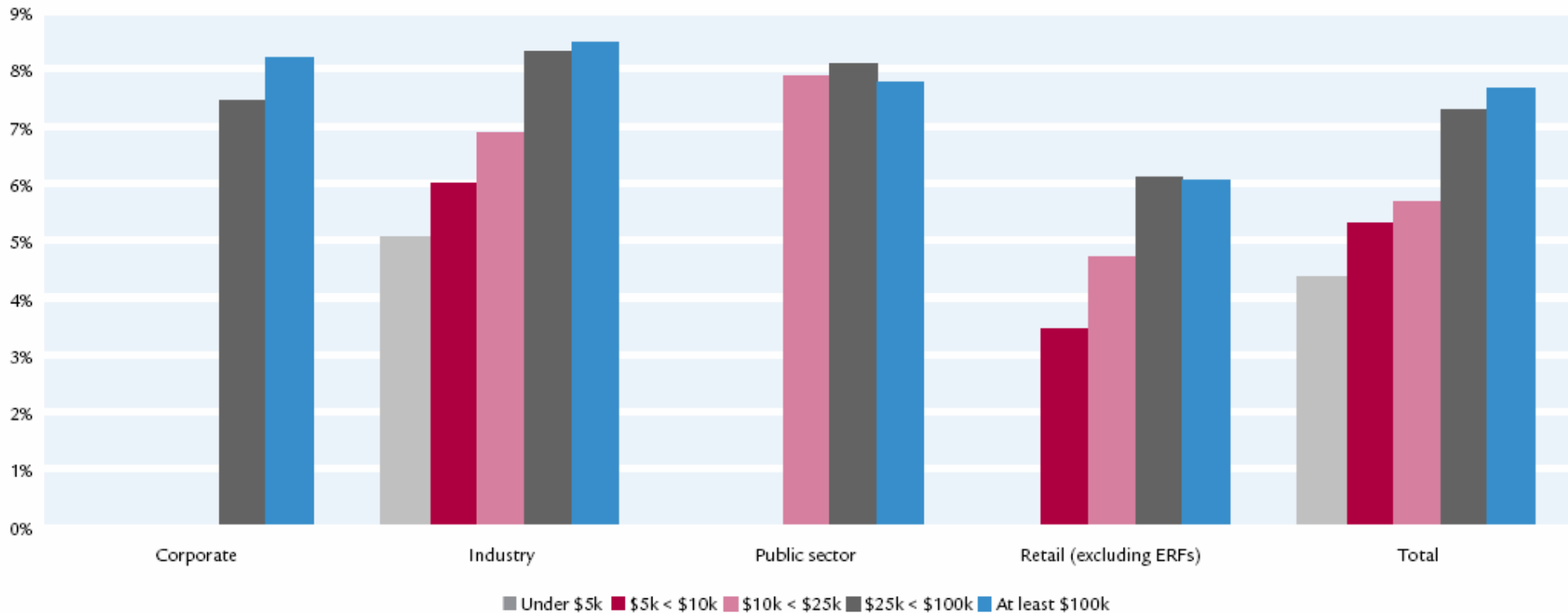
^a Entities with at least \$100 million in assets.

Ten-year volatility of returns by size of entity^a



^a Entities with at least \$100 million in assets.

Ten-year average return on assets by average account balance^a



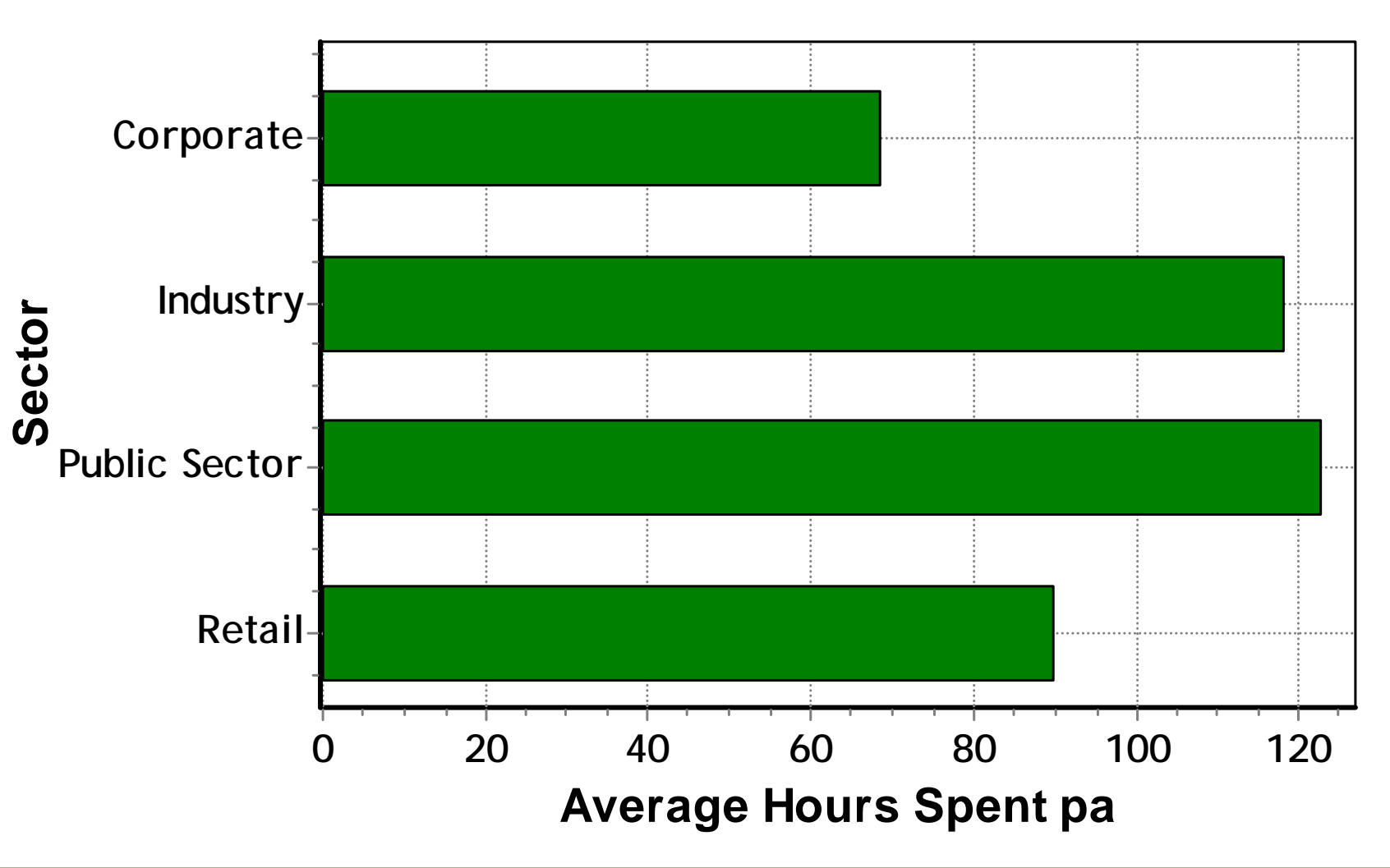
^a Entities with at least \$100 million in assets.

Board meeting statistics



| <i>Sector</i> | Average number of directors per Fund | Average number of board meetings p.a . | Average hours per board meeting | Total director meeting hours p.a. per fund | Average number of subcommittee meetings p.a. per fund | Average hours spent p.a. per director outside board meetings |
|----------------------|--------------------------------------|--|---------------------------------|--|---|--|
| <i>Corporate</i> | 7.8 | 6.7 | 3.8 | 200 | 13.1 | 69 |
| <i>Industry</i> | 8.8 | 7.5 | 4.8 | 319 | 14.7 | 119 |
| <i>Public Sector</i> | 7.1 | 9.1 | 4.3 | 279 | 15.1 | 123 |
| <i>Retail</i> | 5 | 9.1 | 2.4 | 110 | 10.7 | 90 |

Average hours spent p.a. per director outside board meetings



Main Sources of Input to Key Decisions by Sector



| <i>Sector</i> | <i>Corporate</i> | <i>Industry</i> | <i>Public Sector</i> | <i>Retail</i> |
|--|------------------|-----------------|----------------------|---------------|
| <i>Objectives & risk tolerance</i> | Trustee | Trustee | Consultant | Executive |
| <i>Strategic asset allocation</i> | Consultant | Consultant | Consultant | Executive |
| <i>Benchmark design</i> | Consultant | Consultant | Consultant | Executive |
| <i>Investment manager selection</i> | Consultant | Consultant | Consultant | Executive |
| <i>Performance monitoring</i> | Consultant | Consultant | Consultant | Executive |
| <i>Introducing a new fund option</i> | Trustee | Trustee | Executive | Executive |
| <i>Default option asset allocation</i> | Trustee | Consultant | Consultant | Executive |
| <i>Asset consultant selection</i> | Trustee | Trustee | Trustee | Executive |
| <i>Administrator selection</i> | Trustee | Trustee | Trustee | Trustee |
| <i>Foreign exchange hedging policy</i> | Consultant | Consultant | Consultant | Executive |

- Outsourcing Standard compliance, monitoring of service providers
- Conflict management
- Embedded conflicts in deed: fiduciary obligations?
- Need for an anti-avoidance measure to establish predominance of member interests?

- Reserving strategies: need for clarity
- Liquidity: changed scenario and need for increased attention
- Scope for industry cooperation?
- Recent market volatility: lessons for super?



Thank you

Questions and Comments?