sunsuper

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Via Electronic Transfer

29 January 2018

The Honourable Kenneth Hayne AC QC
Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
FSRCSolicitor@royalcommission.gov.au

Dear Commissioner,

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

I refer to your letter dated 15 December 2017 in relation to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "Royal Commission" or "the Commission"). Sunsuper welcomes the opportunity to respond to the Royal Commission's request for information for the relevant period.

All answers are provided jointly on behalf of Sunsuper Pty Ltd (ABN 88 010 720 840, AFSL 228975), the Trustee of the Sunsuper Superannuation Fund (ABN 98 503 137 921), and its associated entities Sunsuper Financial Services Pty Ltd (ABN 50 087 154 818, AFSL 227867) and Precision Administration Services Pty Ltd (ABN 47 098 977 667, AFSL 246 604), which are wholly owned by the Sunsuper Superannuation Fund. Hereafter all entities are collectively referred to as "Sunsuper".

Who is Sunsuper?

Sunsuper is one of Australia's largest and fastest growing superannuation funds, with more than 1 million members, 85,000 participating employers and $49 billion of funds under management as at December 2017. Sunsuper has approximately 740 employees with our administration and customer service all managed in-house (insourced).

Sunsuper is the largest fund in Queensland by number of members and the eighth largest public offer fund in Australia (at June 2017). Established in 1987, our profit-for-members philosophy means our members can take advantage of low administration fees and a broad range of services designed to enhance their retirement benefit outcomes.

The Sunsuper Board is currently comprised of nine (9) directors made up of:

- Three (3) employer representative directors;
- Three (3) member representative directors; and
- Three (3) independent directors (all appointed during financial year 2015/16).

There are five Board committees that assist the Board in the discharge of its responsibilities. These committees are the Investment Committee; the Audit Compliance and Risk Management Committee ("ACRMC"); the Nominations, Remuneration and Governance Committee; the Claims Committee and the Successor Fund Transfer Committee. All are governed by their own Charters as approved by the Board. These committees review matters on behalf of the Board and either make recommendations for consideration by the Board, or make decisions as a delegate of the Board.

The Board has appointed independent members and independent experts to the Investment Committee, the ACRMC and the Claims Committee to provide additional oversight of and assistance to these Committees in carrying out their functions.

The following sections 1 - 4 are Sunsuper's response to the Commission's Information Request.

1. Misconduct

Definitions and Interpretations

"Misconduct" is defined in the Commission's Terms of Reference to include conduct that:

a) Constitutes an offence against a Commonwealth, State or Territory law, as in force at the time of the alleged misconduct; or
b) Is misleading, deceptive, or both; or
c) Is a breach of trust, breach of duty or unconscionable conduct; or
d) Breaches a professional standard or a recognised and widely adopted benchmark for conduct.

For the purpose of answering question 1 of the Information Request, Sunsuper has taken the view that as this is an inclusive definition, "misconduct" has its usual meaning being unacceptable or improper behaviour or mismanagement in the sense of culpable neglect of duties. It does not include behaviour resulting in administrative errors, delays in processing transactions, unit pricing errors and genuine human errors that have resulted in losses and compensation to members unless the relevant behaviour was also misleading or deceptive conduct (i.e. conduct that gives the wrong idea or impression and could cause a reasonable person to believe something that is not true), or constituted a breach of trust or duty.

Relevant to paragraph (d) of the definition of misconduct, Sunsuper is a member of the following professional bodies (or has been during the period from 1 January 2008) and holds or held itself accountable to the professional standards of these bodies:

- Australian Institute of Superannuation Trustees (AIST);
- Association of Super Funds of Australia (ASFA); and
- Financial Services Council (FSC) (formerly the Investment and Financial Services Association)[1].

Sunsuper Response

Sunsuper has reviewed all relevant records and consulted with internal and external legal resources, Sunsuper's external auditor and other relevant service providers. The review included (but was not limited to) records relating to litigation; matters referred to the Superannuation Complaints Tribunal; and Financial Ombudsman Service; Sunsuper records in relation to breaches and incidents; correspondence with government and regulatory bodies; external and internal audit reports; notifications to insurers; fraud and suspicious matters reporting; customer complaints; operational losses; human resources matters (including matters referred to the Fair Work Commission); EthicsLine (whistleblower) notifications and other internal investigations and media articles or reports.

[1] Sunsuper was a member of the FSC during the relevant period up until 30 June 2010.

Sunsuper has identified two instances of "misconduct" from 1 January 2008.

1. ASIC Inquiry into Sunsuper Advertising

In 2013, Sunsuper liaised with the Australian Securities and Investment Commission ("ASIC") over ASIC concerns that a Sunsuper advertising campaign, which compared Sunsuper fees to its competitors' fees, may have created a "misleading impression" as to the breadth and quality of the comparison conducted. A copy of correspondence with ASIC can be provided on request.

To answer the Commission's specific questions requested in question 3 of the Information Request:

a) The identified activity was the subject of ASIC inquiry that has now been resolved.
b) Sunsuper does not attribute the identified activity to particular culture or governance practices of Sunsuper but instead to differing interpretations of the advertising campaign.
c) Sunsuper does not attribute the identified activity to particular culture or governance practices of the superannuation industry but instead to differing interpretations of the advertising campaign.
d) Sunsuper does not consider that the identified activity results from other practices but instead to differing interpretations of the advertising campaign.
e) (i) To alleviate ASIC concerns, the campaign was discontinued.
   (ii) Sunsuper agreed to and has implemented improved governance and appropriate risk-based review of any future comparative advertising.

2. Inadequate Insurance Product Advice

During the relevant period, Sunsuper received a claim from a member for early release of part of his superannuation due to permanent incapacity to purchase a motorised scooter.

During a discussion with a Sunsuper representative, the partial payment was discussed and the member was encouraged to take a full payment. At this time, the member questioned if this would impact his insurance and was clearly told that it would have no impact on his outstanding Total and Permanent Disability (TPD) insurance claim.

As a result of this advice, the member agreed to a full payment of the benefit. Subsequently his account was closed and his insurance was cancelled from that time.

The member's health subsequently deteriorated to the extent that he would have been eligible for an insurance claim had he only taken a partial payment of his superannuation as per his original intent.

Upon hearing of his circumstances, Sunsuper was concerned that it had misled and deceived the member with regards to his TPD insurance claim. As a result, Sunsuper paid the member the amount of his insurance coverage ($250,000) after complying with appropriate internal policy and procedures.

To answer the Commission's specific questions requested in question 3 of the Information Request:

a) The identified activity is not the subject of another inquiry, investigation, or a criminal or civil proceeding.
b) Sunsuper does not attribute the identified activity to particular culture or governance practices of Sunsuper but rather to human error that resulted in the member receiving a misleading impression of the extent of TPD insurance cover.
c) Sunsuper does not attribute the identified activity to particular culture or governance practices of the superannuation industry but rather to human error that resulted in the member receiving a misleading impression of the extent of TPD insurance cover.
d) Sunsuper does not consider that the identified activity results from other practices but rather to human error that resulted in the member receiving a misleading impression of the extent of TPD insurance cover.
e) (i) Sunsuper took steps under its Make Good Policy to pay the member the amount of his insurance coverage ($250,000).
(ii) In this case, the Team Leader of the representative responsible for the error provided the representative with additional training on the product to ensure there was no recurrence.

Other Relevant Information

In addition to the above, for completeness Sunsuper would also like to note the following from its review of relevant records and consultation with internal and external legal resources, Sunsuper's external auditor and other relevant service providers:

1. Human Resources Matters

Sunsuper has approximately 740 employees. As the Commission would expect, from time to time, Sunsuper has had to deal with employee relations issues, including allegations of discrimination, sexual harassment, bullying and non-performance. Sunsuper has also had to manage undisclosed relationships between employees and between employees and staff of external service providers that resulted in a perceived conflict of interest. All matters have been investigated and appropriate action taken, including, where appropriate, disciplinary action against staff (including dismissal), and the updating of policies, procedures and employee training to mitigate the risk of future occurrence.

To answer the Commission's specific questions requested in question 3 of the Information Request:

a) The identified activities are not the subject of another inquiry, investigation, or a criminal or civil proceeding.
b) Sunsuper does not attribute the identified activity to particular culture or governance practices of Sunsuper but instead to individual employee behavioural issues.
c) Sunsuper does not attribute the identified activity to particular culture or governance practices of the superannuation industry but instead to individual employee behavioural issues.
d) Sunsuper does not consider that the identified activity results from other practices but instead to individual employee behavioural issues.

e) (i) On two separate occasions, employees accessed member data for personal purposes. The affected members were aware of the access. The employees involved were dismissed. The identified conduct did not otherwise have consequences for our members, consumers or other businesses.
(ii) As stated above, action taken has included, where appropriate, disciplinary action against staff (including dismissal), and the updating of policies, procedures and employee training to mitigate the risk of future occurrence.

2. Breaches of Financial Services Legislation

In accordance with financial services laws, Sunsuper advises, and at all material times has advised, ASIC and the Australian Prudential Regulation Authority ("APRA") of any breaches of financial services laws, including the requirement that financial services be provided efficiently, honestly and fairly: S912A Corporations Act 2001, S912 D Corporations Act 2001.

These breaches and actions taken to remediate are recorded in Sunsuper's Breach and Incident Register. Sunsuper can confirm that all breaches reported to regulators since 1 January 2008 have been the subject of appropriate actions to remediate and there are no outstanding inquiries from regulators as at the date of this letter. In Sunsuper's view, none of these matters involve "misconduct" or a failure to meet "community expectations" (please refer to our response to question 2) but are rather consistent with issues that would normally occur in financial services organisations of similar size and complexity to Sunsuper.

A summary of Sunsuper's breaches and incidents since 1 January 2008 is included at Appendix 1 along with a short description of all breaches formally reported to regulators to assist the Commission should it require further information on one or more of these.

3. Sunsuper's EthicsLine

Since December 2005, Sunsuper has maintained an externally managed EthicsLine (whistleblower hotline). EthicsLine provides a confidential telephone hotline service that employees, contractors and service providers can use to anonymously report fraudulent, unethical, illegal or corrupt conduct, including perceived or actual conflicts of interest, to an independent third party (currently PwC).

The existence of the EthicsLine is published regularly in internal communications and an EthicsLine brochure is reviewed annually and made available on Sunsuper's intranet (following approval from the ACRMC). The ACRMC is a Committee of the Board.

The details of the EthicsLine are also made available to Sunsuper suppliers.

From time to time, Sunsuper has received reports to the EthicsLine. These reports are thoroughly investigated (by an independent expert where appropriate) and overseen by Sunsuper's Conflicts Investigation Committee (generally comprising the Chair of the ACRMC, the Chief Risk Officer and the General Counsel).

Since 1 January 2008, there have been no matters investigated that meet the definition of "misconduct" as that term is defined in the Commission's Terms of Reference, other than matters included in the *Human Resources Matters* above.

However, the reports have identified breaches of policy and process as well as continuous improvement opportunities and a need for improved training and awareness of key policies within the organisation. All necessary improvement actions have been taken by Sunsuper.

2. Community Standards and Expectations

Definitions and Interpretations

Community standards and expectations are not defined in the Commission's Information Request or the Terms of Reference. Sunsuper has set standards for itself that are intended to meet members' expectations and are documented in Sunsuper's Code of Conduct, Conflicts of Interest Framework and other governing documents. Sunsuper has measured itself against these standards when responding to this request.

Sunsuper Response

Sunsuper has reviewed all relevant records and consulted with internal and external legal resources, Sunsuper's external auditor and other relevant service providers. The review included (but was not limited to) records relating to litigation; matters referred to the Superannuation Complaints Tribunal; and Financial Ombudsman Service; Sunsuper records in relation to breaches and incidents; correspondence with government and regulatory bodies; external and internal audit reports; notifications to insurers; fraud and suspicious matters reporting; customer complaints; operational losses; human resources matters (including matters referred to the Fair Work Commission); EthicsLine (whistleblower) notifications; and other internal investigations and media articles or reports.

Sunsuper has identified three business activities that it has engaged in since 1 January 2008, which it considers may have fallen below community standards and expectations.

1. Insurance Claim Delays

Increased member awareness of superannuation insurance benefits and increasing plaintiff lawyer involvement in superannuation insurance claims from approximately 2013 led to a substantial increase in the number of insurance claims that needed to be considered by superannuation funds across the industry.

In Sunsuper's case, many of these claims related to injuries/illnesses suffered many years before the claim was submitted. The number of claims and detailed investigations required to address these claims put significant pressure on Sunsuper claims resources, leading to complaints about delays in resolving claims from both members and plaintiff law firms. Delay-related complaints peaked in approximately 2015. More detail in this regard is provided at Appendix 2.

To answer the Commission's specific questions requested in question 3 of the Information Request:

a) The identified activity in some cases is the subject of civil proceedings against Sunsuper and its relevant insurer in relation to a specific insurance claim and the ultimate decision rests with the Courts. As the Commission would be aware, insurance in superannuation has also been the subject of industry-wide review as part of the Industry in Super Working Group (of which Sunsuper is an active member). The Working Group has also considered appropriate service standards in relation to claims review.

b) Sunsuper does not attribute the identified activity to particular culture or governance practices of Sunsuper but instead to unprecedented growth in insurance claims across the superannuation industry and a failure to respond to this growth adequately and in a timely manner.
c) Sunsuper does not attribute the identified activity to particular culture or governance practices of the superannuation industry but instead to unprecedented growth in insurance claims across the superannuation industry and a failure to respond to this growth adequately and in a timely manner.
d) Sunsuper does not consider that the identified activity results from other practices but instead to unprecedented growth in insurance claims across the superannuation industry and a failure to respond to this growth adequately in a timely manner.
   (i) In late 2016, Sunsuper committed to actioning its then "backlog" of claims that had been considered by its insurers but awaited Trustee review. The goal of the focused effort was to action 300 claims by 30 June 2017 but, in fact, exceeded its target and 401 claims were actioned to the maximum extent possible by Sunsuper. The actions implemented to achieve this target were overseen by senior management and both Sunsuper's Claims Committee and ACRMC (both Committees of the Board). As at 19 January 2018, Sunsuper has 137 insurance claims awaiting Sunsuper review.
   (ii) Sunsuper has introduced and works to continually improve an electronic claims management system and prioritised resourcing on claims review within Sunsuper. Staff now have greater accountability to ensure timely decision making and outcomes. A permanent claims committee has been established comprised of two Sunsuper directors and an independent external expert to oversee the claims process. Reporting and visibility has greatly increased on claims review timelines. As the Commission would be aware, an industry wide Code of Practice for Insurance in Superannuation has been introduced.

Sunsuper has not provided additional supporting documents given the submission is restricted to no more than 50 pages; however, Sunsuper would be willing to provide a number of supporting documents that evidence appropriate oversight of improvement actions at Board and senior management level and successful implementation of these actions.

2. Death Benefit Payment Letters

ASIC contacted Sunsuper on 9 February 2017 regarding written responses provided by Sunsuper to complainants who object to the proposed distribution of superannuation death benefits.

ASIC was of the view the Sunsuper written responses between 2013 to 2016 may not have met the standards required by the *Superannuation Industry (Supervision) Act 1993* (SIS Act), and requested a response from Sunsuper. A copy of correspondence with ASIC can be provided on request.

To answer the Commission's specific questions requested in question 3 of the Information Request:

a) The identified activity was the subject of an ASIC inquiry.
b) Sunsuper does not attribute the identified activity to particular culture or governance practices of Sunsuper but instead to a misunderstanding of the level of disclosure required by the written response recipients.
c) Sunsuper does not attribute the identified activity to particular culture or governance practices of the superannuation industry but instead to a misunderstanding of the level of disclosure required by the written response recipients.

d) Sunsuper does not consider that the identified activity results from other practices but instead to a misunderstanding of the level of disclosure required by the written response recipients;

e) (i) Sunsuper agreed to review the written response templates and identify any potentially impacted persons. Internal analysis identified 303 instances during the period 1 July 2013 to 1 July 2016 where the written response in question was issued. Sunsuper undertook an internal review combined with external legal advice, which identified opportunities to improve the language of the relevant written responses by including more detailed explanations as well as adjusting the clarity of content. Sunsuper believes these changes reduced ambiguity by more clearly articulating the nature of the decision. Sunsuper completed the review by the end of April 2017. While recognising the clarity of written responses could have been improved, we formed the view that had more adequate written reasons been provided, this would not have changed the outcome of the cases involving written response recipients.

(ii) To prevent a recurrence of the activity, Sunsuper has:
- Sought independent external advice on Sunsuper's death benefit decision written response templates.
- Introduced a supervisory review step confirming the quality of all written response content;
- Updated internal policies and procedures; and
- Updated Claims Team training on the legislative and regulatory requirements and Sunsuper's processes for providing adequate reasons when advising a claimant of the Trustee's decision.

3. *Terminal Illness Insurance Claim*

During the relevant period, Sunsuper received a claim from a member for a terminal medical condition. The member was diagnosed as being terminally ill in March 2011. Their insurance cover ceased in July 2011; however, the first inquiry was in August 2011, at which point we advised that there was no cover.

A claim was submitted with accompanying medical certifications citing terminal illness (completed by treating doctors) on 19 and 25 August 2011. Sunsuper advised that cover was not in place at the date of certification.

Legal proceedings were issued against Sunsuper objecting to our decision.

After further internal review and consultation with our insurer, the claim was paid as the member was able to provide medical evidence of terminal illness dated prior to when the insurance cover ceased.

Further to our response in item 1 above (*Insurance Claim Delays*), it is common for claims to be contested and Sunsuper observes its obligations carefully. However, in this case, the initial action taken was not strictly in-line with the policy wording or intent.

To answer the Commission's specific questions requested in question 3 of the Information Request:

a) As noted, the identified activity was the subject of civil proceedings which were discontinued.

b) Sunsuper does not attribute the identified activity to particular culture or governance practices of Sunsuper, but rather to a technical policy interpretation without regard to wider circumstances.

c) Sunsuper does not attribute the identified activity to particular culture or governance practices of the superannuation industry but rather to a technical policy interpretation without regard to wider circumstances.

d) Sunsuper does not consider that the identified activity results from other practices but rather to a technical policy interpretation without regard to wider circumstances.

e) (i) Sunsuper took steps to ensure the member received their entitlement.
(ii) In this case, the Claims Team were provided with additional training on the product to ensure there was no recurrence.

3. Detail

Please note that the relevant information requested in question 3 of the Commission's Information Request has been included above in the responses to questions 1 and 2.

4. Historical Costs

Definitions and Interpretations

Question 4(a) of the Commission's Information Request included the following statement (the "statement"):

"investment of those funds, the administration of the superannuation fund and the payment of the member benefits".

The statement is not defined in the Information Request or the Terms of Reference. Sunsuper has taken the view that the statement means all the activities that are required to be undertaken to:

- Manage the investments of the Fund;
- Administer member, employer and other records;
- Provide service, education and support to members and employers;
- Process all member and employer transactions, including contributions and benefit payments;
- Manage the Fund, including finances, facilities, staff and other corporate services; and
- Govern and oversee the Fund.

Other items that are not included in the list of activities above are considered to not meet the statement in the Information Request.

Sunsuper Response

Sunsuper has undertaken a comprehensive analysis of its financial records over the 10 years ending 30 June 2017 and a summary of the analysis by cost centre is included at Appendices 3 and 4. More detailed information is available on request.

Sunsuper has identified several activities over the 10 years that do not fall within the class of activities we have identified as being covered in the statement. This includes advertising, sponsorships, events/functions and business development for employers and financial advisers. The financial analysis of these items and an explanation as to why these activities are in the best interests of members is included below.

In order to respond to question 4 fully and comprehensively and in the context intended, a section on Sunsuper and its strategy within the context of the current state of the superannuation industry generally is also set out below.

Sunsuper

Sunsuper was founded in October 1987 as a multi-industry fund in Queensland to cater for all workers in response to the introduction of productivity or "award" superannuation . The Fund was established under the sponsorship of three bodies: The Queensland Chamber of Commerce and Industry Limited (CCIQ) (three (3) shares), the Queensland Council of Unions (two (2) shares) and the Australian Workers Union of Employees Queensland (AWU) (one (1) share).

Sunsuper has grown over 30 years due to a combination of some early success in its first decade with the benefit of being nominated in most industrial awards in Queensland. In 1997, a trustee office was established that employed commercially competitive capabilities and, over a number of years, enjoyed significant success in having Sunsuper nominated as the default fund by employers. We note that only approximately 3% of our active members come from employers where unions have nominated Sunsuper as the default fund. This means that Sunsuper has had to compete in the open market to win members (unlike most single-sector industry funds).

Sunsuper launched its first major advertising campaign with the introduction of Choice of Fund legislation in 2005 and, in the months following, Sunsuper attracted more new members than any other fund in Australia.

Sunsuper's commercially competitive position has been critical to its success. In comparison, the multi-industry funds from other states have not been as successful. In fact, the multi-industry fund established in NSW, Asset Super, merged with another fund in 2012 with $1.6 billion in assets and 85,000 members. By way of comparison, at 30 June 2012, Sunsuper had approximately 1 million members and over $19 billion in funds under management.

In 2014, Sunsuper reviewed its strategy in the context of the state of the superannuation industry generally and further information is provided below.

Our Industry View

The superannuation industry remains considerably fragmented. The high level of fragmentation leads to costs that are too high, and,to compound this, approximately half the industry is in net cash outflow, i.e. where funds receive less in contributions income than they pay out in benefits. Industry growth is decelerating rapidly and consolidation is becoming more important.

Organic growth for the system, as measured by net cash flows, remains under pressure and reflects the system's maturity. According to the Tria Super Funds Review[2], system organic growth continued its long-term decline, slowing to 2.1% in the year to June 2016. This is half the rate of five years ago as growth in benefit payments continues to outpace growth in contributions. A third of Tria's large fund universe, funds with assets greater than $1 billion, were in net cash outflow positions in 2015/16. For APRA regulated funds, this figure was closer to half the funds.

After peaking in 2010 at 32 million member accounts[3], the system has continued to decline with 28 million accounts recorded at June 2016. This trend reflects the government's efforts to resolve the issue of multiple or duplicate accounts (through account consolidation to the Australian Taxation Office ("ATO")) as well as system account consolidation, which in turn increases average member account balance. In this environment, growth in membership for individual funds

[2] Tria Investment Partners, 2016-2017 Tria Super Funds Review, 2016
[3] Rice Warner Superannuation Market Projections Report 2016

represents system outperformance. According to Rice Warner projections[4], this trend will continue over the medium term to stabilise at around 26 million accounts.

A continued increase in operating costs across the entire industry and another year of membership in decline has resulted in the deterioration of key cost-per-member metrics for many funds[5]. Over recent years, funds have relied on strong asset growth to fund increases in operating costs.

The number of APRA-regulated funds continues to decline and the total number of funds as at 30 September 2017 was 209[6].

APRA's View Regarding the Benefits of Growth

The APRA Working Paper "Effect of fund size on the performance of Australian superannuation funds"[7] detailing the results of research into the relationship between fund size and the performance of APRA-regulated superannuation funds found that "fund size has a positive impact on the performance of not-for-profit superannuation funds, which is evident both in gross returns and in expenses".

Using data from 280 funds over the period from September 2004 to June 2010, the Working Paper examined three (3) ways that members could possibly benefit from larger fund sizes:

- Better gross investment returns, due to investment opportunities that can be more effectively exploited by larger funds;
- Lower investment costs, with larger funds using their bargaining power to reduce the fees they pay to investment managers; and
- Lower operating costs, with larger funds spreading their fixed costs across a larger pool of assets and more members.

Our Strategy in that Context

In this context, Sunsuper's strategic plan emphasises our growth and retention, in terms of member numbers, total assets and geographical representation. A key component of the strategy is to increase our membership outside our traditional Queensland market where we have very strong market position.

Growth in both member numbers and assets enables the Fund to achieve scale and the ability to continually invest in high-quality services and tailored products without a need to erode members' retirement savings through higher fees. This growth strategy is underpinned by being a high-performance organisation, being more commercially competitive, increasing our external focus and building on our inclusive and collaborative culture. Sunsuper's growth strategy is being executed through a number of channels, including member direct, employers, financial advisers, and mergers and acquisitions.

System account consolidation and the ATO exits continue to negatively impact member growth. Overall, the industry has experienced an average decline in membership of 0.9% per year, for each of the past five years. However, at Sunsuper this negative impact has been offset by the strategic initiatives focusing on member growth and retention.

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[4] Rice Warner, Superannuation Market Projections Report, 2016
[5] Super Ratings Benchmarking Report 2017
[6] APRA Quarterly Superannuation Performance Statistics to 30 September 2017.
[7] Dr James Richard Cummings, Australian Prudential Regulation Authority (APRA), March 2012

Sunsuper's financial forecasts include a net rise in member numbers driven by the execution of our strategic plan and offsetting the transfer of lost and inactive accounts to the ATO, account consolidation and increased competition. They also include the benefits from our investment in an improved customer experience and digital-service transformation. While not included in our financial forecasts, further growth through mergers and acquisitions is expected as the industry consolidates.

4 (a)

Items that do not meet the definition of the Statement

Over the last 10 years ending 30 June 2017, the uses and the amounts that members' funds have been applied other than for the investment of funds, the administration of the superannuation fund and the payment of benefits is shown at Appendix 3.

Our explanation of why this application of members' funds was in their best interests follows.

Whilst these other activities fall outside the core administrative and investment management functions of the Fund, Sunsuper believes that the investment in these activities is beneficial to all members through increased retention and growth in new members leading to a lower cost per member.

4 (b)

In respect of the activities listed in 4(a) above, following is an explanation as to why that application is in the best interests of members.

Advertising, Sponsorships, Member and Employer Events

Sunsuper considers that advertising, sponsorships, member and employer events are activities that do not meet the statement included in the Information Request. However, as evidenced below, these activities increase our brand awareness, which supports acquisition and retention in Queensland and, in more recent years, growth in other states, and in particular, NSW and Victoria.

These activities have formed a central pillar of our overarching national growth strategy and following the introduction of Choice of Fund in 2005 and in the months following Sunsuper attracted more new members than any other fund in Australia. Given that the Australian superannuation industry has matured and become increasingly competitive, these initiatives have ensured Sunsuper continues to retain existing members and attract new members to the Fund.

Sunsuper's growth aspirations are reflective of the view of APRA and other industry experts, who maintain that the future of the Australian superannuation industry and members' best interests are best served by a resilient sector that is characterised by strong growth and less fragmentation. In the context that Sunsuper is different to single-sector industry funds as it has to compete in the open market to win and retain a majority of its members, the importance of having a strong brand that is distinct in the market place allows us to maximise opportunities to engage with our target audiences - consumers, employers and financial advisers.

In June 2017, Sunsuper was one of Australia's fastest growing of the top 10 superannuation funds, reaching more than $45 billion in funds under management and achieving a 25 per cent increase in assets over the 2016/17 financial year. During 2017, Sunsuper was recognised by four highly regarded industry observers as "Fund of the Year" (*Money Magazine*, Super Ratings, Chant West and Super Review).

It is predicted that the Fund's assets will reach $57 billion by the end of 30 June 2018, with the key contributing factors being strong positive cash flows and the merger with Kinetic Super (Kinetic) in May 2018. The growth in assets over the 10 years to 30 June 2017 is 14% per annum, which is well ahead of the industry average (approximately 8%).

Over the 10 years to 30 June 2017, the number of members in the Fund has increased against the backdrop of reducing number of accounts in the industry (see above). It is predicted that member numbers will reach 1.4 million by the end of 30 June 2018 with the key contributing factors being our growth in Corporate Super plans and the merger with Kinetic in May 2018.

Our brand awareness in Queensland has remained relatively stable over the period 2010 to 2017, which reflects both the very high levels of brand awareness (around 80%) and the fact recent advertising and events have been targeted at NSW and Victoria.

The targeting of advertising and events in NSW and Victoria delivered a strong increase in brand awareness in these markets from around 15% in 2010 to around 35% in 2017. During this period, our membership outside Queensland has also grown from 138,000 members to 225,000 members. Following the merger with Kinetic, the membership outside Queensland will significantly increase to over 400,000 members.

This growth in turn drives economies of scale leading to lower fees and the ability to invest in the development of industry-leading products and services – all of which ultimately benefits members.

Business Development – Employers and Financial Advisers

A key component of Sunsuper's strategy is growth of members through both acquisition of employers (winning corporate super mandates) and financial advisers as customers.

As part of the updated strategy in 2014 and with increased competition, an investment in key staff was made to strengthen our activities in both the Corporate Super market and, more recently, in the Financial Adviser market.

For the Corporate Super market, new staff were brought in to strengthen these activities from financial year 2014/15. The key goal of these staff was to win Corporate Super business, which is predominantly run through open tenders. This investment has proven to be very successful with a significant increase in our success. Since 2014/15, Sunsuper has won new Corporate Super plans totalling approximately $4.4 billion in assets and 24,000 members. These additional Corporate Super plans provide a significant amount of revenue and, when assessed over a number years, provide a benefit to the Fund in terms of scale, which will ultimately lead to lower fees and the ability to invest in the development of industry-leading products and services – all of which ultimately benefits members.

In relation to our financial advice offering, Sunsuper has led the industry in becoming one of the first funds to separate product from advice, through the appointment of a National Advice Panel. In this regard, Sunsuper continues to offer intra-fund advice services, however, no longer employs a team of in-house face-to-face financial planners who provide comprehensive financial advice.

From 2016/17, this new strategic direction for Sunsuper has also involved embracing the financial advice community as customers and leveraging their existing relationships with our members. In line with this strategy, new staff were brought in to support these activities.

Sunsuper has repositioned itself as "adviser friendly""in order to retain and attract new members who have an independent financial adviser. In a reasonably short period of time, Sunsuper has nearly 2,000 external financial advisers who have registered with Sunsuper in order to recommend Sunsuper products to their clients and access financial services. There are 18,000 Sunsuper members who have appointed an external financial adviser via a third party authority on their account representing $2.4 billion under management. In 2016/17 we received over $300 million of inflows from these advisers. This is a significant change from the historical position where financial advisers were a source of significant outflows from the Fund.

In addition, to complement our internal intra-fund advice services, we have a network of advisers via our National Advice Panel. These advisers are available for members who wish to engage with an adviser who can cover more aspects of their advice needs. We currently have over 30 practices in 38 office locations, and over 50 individual advisers appointed to this panel – covering all major geographies across Australia.

Please note that Sunsuper has implemented the National Advice Panel Governance Framework which documents the totality of systems, structures, policies, processes and controls (including due diligence processes prior to appointment) that Sunsuper deploys when referring Sunsuper members to third party financial advisers to obtain advice about their Sunsuper accounts and other financial matters.

The retention and addition of these members and their associated assets helps drive economies of scale leading to lower fees and the ability to invest in the development of industry-leading products and services – all of which ultimately benefits members.

4(c)

Items that meet the definition of the Statement

Over the last 10 years ending 30 June 2017, the uses and the amounts that have been applied for the investment of funds, the administration of the superannuation fund and the payment of benefits is shown at Appendix 4.

Please note that the table provides information about the cost centres that are attributable to administration as requested under question 4(c) of the Commission's Information Request. The financial figures have been prepared based on Sunsuper's audited financial records for each financial year. For the purpose of providing meaningful cost- centre level information Sunsuper has "looked through" its entity structure and has also removed inter-company transfers allocation to provide a view that is consistent with how management view the operating costs of the Fund.

Included in the table is a brief commentary to help explain each line item. In respect of the financial years 2007/08 and 2008/2009, the administration services were outsourced to an external administration business and from 1 July 2009, administration was insourced.

Please note for the Board costs, additional detail has been provided and it is noted that for some Board members, the remuneration is paid to the employing organisation of the relevant directors (who are appointed on behalf of sponsoring organisations).

We have undertaken a detailed assessment of all the project costs over the 10 years to 30 June 2017 and confirm that all these costs meet our definition of the statement (as administration costs). Capitalised project costs have not been shown and form part of the Fund's depreciation expense predominately in the Information & Technology cost centre.

Additional Information

Sunsuper understands its duty to assist the Commission and trusts that this response meets the requirements of the Commission's Information Request.

Sunsuper confirms that:

- All factual information provided in this response is true to the best of its knowledge and belief; and
- All opinions expressed are its genuinely held opinions.

Should you wish to contact us for further information in relation to our response to any of the questions, please contact Lachlan East, Chief Risk Officer, on [redacted] or by email, [redacted]

Yours sincerely,

Scott Hartley
Chief Executive Officer