

COMMERCIAL-IN-CONFIDENCE



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26 October 2018

**Via Electronic Transfer**

The Hon K M Hayne AC QC  
Royal Commissioner  
Royal Commission into Misconduct in the  
Banking, Superannuation and Financial  
Services Industry

Dear Commissioner,

I am writing in relation to the Interim Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Commission). Specifically, this letter deals with findings in connection with the provision of financial advice.

As noted in QSuper's early voluntary submission to the Commission on 29 January 2018, QSuper Limited<sup>1</sup> is the sole owner of QInvest Limited<sup>2</sup>, an Australian Financial Services Licensee that has, since 1994, provided personal financial advice services to QSuper members.

The Commission's Interim Report raises a number of important issues for the industry to consider and QSuper fully supports measures that enhance advice quality delivered to superannuation fund members and consumers.

QSuper contends that structural questions raised in Chapter Nine of the Interim Report are not dissimilar to a number of policy questions raised as part of the Commission's Round 6 (Insurance) hearings questioning whether vertically integrated businesses can effectively operate in the best interests of superannuation fund members.

In answering the questions posed in both the Interim Report and the Insurance policy consultations, QSuper contends in the affirmative, that it is possible for integrated business models to mitigate:

- conflicted purpose;
- conflicted structures (organisational and remuneration); and
- conflicted culture.

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<sup>1</sup> ABN 50 125 248 286, Australian Financial Services Licence Number 334 546. QSuper Limited provides investment management and procurement services to the QSuper Group and is owned by the QSuper Board as part of the assets of QSuper superannuation scheme

<sup>2</sup> ABN 35 063 511 580, Australian Financial Services Licence Number 238 274

In QSuper's case, the best interests of our members have been served by leveraging the benefits of integrated advice and insurance businesses that have a sole purpose and mission and operate with rigorous conflict management policies and practices. Further information specific to group insurance is contained within QSuper's response, dated 25 October 2018, to the Commission's Insurance hearings policy questions.

The following provides context to QSuper's position regarding reaching this conclusion in relation to the financial advice model.

### **Background to the establishment of QInvest Limited**

As mentioned above, QInvest was established in 1994, predominantly to provide financial planning advice to QSuper members. QInvest was one of the first financial planning advice firms founded by a superannuation fund and became a wholly owned entity of QSuper in 2012.

QInvest provides advice to QSuper members and their families on superannuation, retirement planning, salary packaging and wealth creation strategies.

The fundamental premise of QInvest's establishment continues today - superannuation can be complex and members require a trusted source of information and advice to maximise their retirement. Therefore, members receiving assistance deserve informed and objective advice from an adviser, free from the conflicted obligation of the advice firm to provide a return to external, commercial shareholders.

QSuper also recognises that in many cases, superannuation funds are uniquely placed to ensure the member/client optimises the features and functions of the product for their benefit. The Integrated QSuper/QInvest model provides the scope to satisfy a member's appetite for receiving the right level of advice at the right time - from factual information about superannuation through a contact centre, education programs in workplaces to holistic retirement planning advice provided face-to-face with an adviser.

Distinct from most other superannuation funds, QSuper members often retire with larger than average balances and QSuper has non-standard benefit structures such as defined benefit and pension schemes. The QSuper/QInvest model provides specialist experience in these areas to assist members.

Consistent with the rationale for QInvest's establishment, QSuper contends that the QSuper/QInvest model has delivered tangible and long-term benefits to QSuper members. These benefits include ongoing access to affordable, cost-effective advice; specialist advice for unique Fund arrangements such as Defined Benefit funds where external adviser awareness is low and digital advice solutions not common in the industry. These benefits would be curtailed to the detriment of QSuper members if the model was not able to continue to operate in its current form.

### **Why is the QSuper/QInvest model different to the Retail Financial Advice model?**

There are many similarities between the QSuper/QInvest model and those established by a number of profit-for-member funds. Conversely, there are material differences between the QSuper/QInvest model and the retail financial advice model including:

- Singularity of purpose – The QInvest business model generates revenue from advice fees, meaning members and/or QSuper (for Intrafund advice) pay QInvest for the advice provided, rather than from the placement or implementation of financial products. QInvest advisers have always been able to provide objective financial advice, free from commercial pressures to sell the QSuper product or any other products for profit or personal benefit. QInvest rebates or removes all product commissions where

possible, including for insurance. In circumstances where financial product commissions cannot be rebated or removed from legacy products, full disclosure of commission/s received is provided to the QInvest client in an advice document.

- Salaried advisers – QInvest advisers are salaried employees. No product commissions are payable to individual advisers and performance bonus' are calculated based on balanced business objectives such as service standards, advice quality, risk management, member satisfaction and behaviour that meets organisational values. QInvest advisers are not remunerated based on sales or conversion to other aligned products and no legacy product commissions are payable to individual advisers.
- One culture and value set – QInvest's culture and values are shared with the QSuper Group. This ensures a commonality of purpose and mission firmly centred on member interest.
- Structural integrity – QInvest's sole shareholder is QSuper Limited and any funds additional to operational requirements may be returned to the Fund and are therefore, held or reinvested for the benefit of all QSuper members. Further, the QSuper Board as part of its trustee obligations monitors the operational performance, including costs, of QInvest. There are no third-party commercial shareholders for whom a profit must be returned.

Additionally, the model provides economic benefit to members via economies of scale generated across the QSuper Group being leveraged to reduce QInvest's operating costs thereby reducing barriers to members accessing advice, ultimately enabling quality advice to be provided to more members, at a lower cost.

A large component of personal advice services delivered through QInvest is intrafund advice via the telephone or digitally on discrete topics, with members valuing the immediacy of delivery and the clear understanding of the Fund rules which QInvest advisers are uniquely positioned to provide.

At the QSuper Group level, measures to address conflicted purpose, conflicted structures and conflicted culture are reinforced through a framework that includes internal policies and practices such as:

- a formal Code of Conduct applicable to members of the Board, all employees, contractors and consultants. The Code of Conduct requires responsible management of conflicts of interest with ongoing declaration obligations and mandatory training;
- the Gifts and Benefits, and Conflicts of Interest Policy for Employees outlines behaviours to appropriately manage conflicts, including conflict of duty;
- the QSuper Group Performance Framework and Remuneration policy aligns reward with the separation of duties for relevant employees and has a focus on values and behaviours alongside performance; and
- audits and independent reviews.

## **Conclusion**

QSuper strongly advocates for the continuation of models such as the QSuper/QInvest model, on the basis that it benefits members through the provision of specialist, objective and non-conflicted advice focussing on improving financial wellbeing in retirement.

It is QSuper's strong belief that appropriate disclosure and remuneration structures are essential to building trust from members that the advice they are receiving is in their best interests, rather than the interest of their advisers or a third party. Structures and processes must be designed to ensure conflicts of interests (if any) are managed and best interest to the

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member/client is the sole focus of the advice. This includes clear disclosure regarding the subject matter, the scope of advice, and members are given options to access alternative information avenues.

QSuper considers that there is a risk that any change which removes QInvest as a source of financial advice exposes QSuper members to the material risk of being required to choose an adviser who may not have the appropriate understanding of QSuper products and whose focus may not be aligned to QSuper's profit-for-members and financial wellbeing philosophies.

QSuper recognises the Commission hearings have highlighted the detriment to consumers that has occurred under existing regulatory regimes, disclosures and requirements. Therefore, the Commission may wish to consider a further licensing condition that requires entities to demonstrate how they can provide advice that is absent of, or mitigates, the conflicts listed above.

With regard to other questions raised in the Interim Report, QSuper is an active member of multiple industry associations and will contribute to submissions of those associations where we feel we can add value.

I trust this information will be beneficial to the Commission. I would ask that any questions be directed to me in the first instance. I can be contacted on telephone [REDACTED] or by email [REDACTED]

Yours sincerely



Michael Pennisi  
Chief Executive Officer