SUBMISSION ON POLICY ISSUES RAISED IN ROUND 5

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Submission for: My Self
Name of other person, business or organisation:
Do you agree to your submission being published: Yes
Do you agree to your full name being published: No
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I have read the Module 5: Superannuation Closing Submissions concerning the NAB/MLC and their various related responsible entities. The findings are dominated with the issue of charging or overcharging Advisor fees or Plan Service Fees where such services are not provided nor required. I believe that the overcharging of Advisory related fees are actually very minor in the scheme of things. The greatest overcharging of fees is within investment activities where fees charged are far greater than stated in PDS's. Fund Managers are charging fees for services which have been outsourced to external fund managers. These fee arrangements and "upstream" costs are buried in investment returns, impossible to detect from a review of financial statements. Background I have retired in the last year having saved towards that goal with [redacted] for over 30 years. I was originally employed by [redacted] who owned [redacted] and I spent a couple of years in the late 1980's working in the [redacted] funds management area, helping with the establishment and reporting for the [redacted]. I had confidence in how those funds were administered, a clear understanding of the fees that were charged and confidence in the investment philosophy. In the 1990's I moved to [redacted] but felt that [redacted] systems and reporting were way ahead of the [redacted] so I kept investing with [redacted]. My nest-egg grew and [redacted] appointed an "Advisor" to me. My wife & I met with him annually to check our progress and plans. Mainly, I found that the Advisor provided my wife with some assurance, independent of myself, as I felt I knew the operations of those funds better than him. [redacted] sold [redacted] about 18 years ago. After acquiring the [redacted] operations, commercialising and demutualising, [redacted] sold out, to fund their international property expansion initiatives. I was concerned when I found out that the [redacted] had acquired [redacted]. However, the [redacted] brand was maintained and, on the surface, nothing seemed to have really changed. I expect that most investors are like my wife and I. We keep saving, see the value of our funds steadily increasing (most years), have a pleasant meeting with our Advisors every year or so and slip back into our lives feeling comfortable that we are being looked after. But are we? What we were not doing is scrutinising the investment activities, the layers of fee changes and other changes by stealth that the [redacted] was undertaking. Two months ago, I discovered an anomaly in my Pension account. [redacted] had made a mistake and not followed my instructions. [redacted] has not managed to correct their errors in that time. During that period, I have become angry with [redacted] and with myself for trusting them. As a retired CFO who spent many years working in Funds Management, I felt I should have known better. I should not have trusted the [redacted] or expected by "Advisor" was looking out for my interests. In the ensuing two months, I have had time to consider what has gone wrong at [redacted] and I believe there are some serious matters which need to be looked into. At some point since [redacted] took over [redacted] customer returns has slipped off the priority list and maximising the fee take is number one. One can reasonable substitute [redacted] The issues raised below will be the same with many millions of investors impacted. This is a list of the matters I believe the Royal Commission should look into:- Fees Charged 1. Excessive levels of fees. a. Activity fees b. Administration fees c. Advisory fees d. Buy/sell spreads e. Exit fees f. Insurance fees g. Investment fees (the big one) h. Switching fees 2. There is a lack of transparency as to fees charged. 3. There is no whole of fund reporting to Investors hence no reporting of fees. 4. Product Disclosure documents are unclear as to exactly what fees are charged and leave scope for fees to be charged in excess of stated fee levels. 5. The fees charged do not equate to the service provided. eg: Investment fees charged in an actively managed/traded fund are the same as for conservative, infrequently traded funds. 6. [redacted] outsources much of its funds management to external, specialist funds managers. Their fees ought to be wholly paid from within [redacted] investment fee. Scrutiny of the PDS indicates that there is scope to pay the external funds managers more. One would expect, therefore that is what happens. There is no disclosure to investors what fees or extra fees beyond the headline fees are charged. 7. Where one [redacted] fund invests in another, it is unclear if there is double charging of fees. There should not be. 8. A lack of transparency and reporting of these funds means that the only way to properly investigate the extent of overcharging is for the Royal Commission to bring about an independent audit of fees charged by these funds. Performance 1. [redacted] seems to not care that its funds to not rate well against other peer funds in terms of performance. This is because very, very few investors would be looking to compare. 2. [redacted] funds performance, and returns to investors, would be significantly higher, compounding over time, if fees were lower. 3. In years of industry turmoil, eg the GFC, [redacted] still managed to perform well in spite of the huge losses suffered by investors. This highlights that they have little alignment of interest as fees charged are not linked to performance and returns to investors. [redacted] fee levels are not sustainable. One thing the Royal Commission is doing is casting a spotlight on the big banks and Life companies riding rough-shod over their investors, maximising fees for below par performance. Things have to change. The inherent conflicts of interest have been exposed. [redacted] is selling [redacted] but the average investor has no clue. Unless you are an avid reader of the financial pages, and the vast majority of [redacted] clients are not, you would not be aware that the [redacted] is selling [redacted]. There has not been a single communication to investors about this major development. Nor will there be until a new deal has been consummated. Is this is the best interests of Investors? Don't we deserve some communication, perhaps reassurance of the process? [redacted] relying on high [redacted] fee levels to maximise the eventual sale price The sale price will be a multiple of future earnings. There it is! How long has the strategy been to drive up fees and earnings from [redacted] to maximise the sale proceeds to [redacted] Plucking the goose that laid the golden egg. The [redacted] logo is a golden egg in a nest. The [redacted] has plucked that goose, and the loyal [redacted] investors have paid for it. A lack of transparency and clear disclosure Having working in the funds management sector for years, I think I am far better placed to understand the way investment funds work than the average man in the street. I liked the way the [redacted] funds were set up as they were ostensibly unit trusts and the Fund Trust Deeds and prospectuses were pretty clear about how they operated, fees, investments, etc. When I moved to [redacted] I noted their pooled superannuation funds were different. Returns were determined by actuaries taking all manner of things into account, averaging out returns over time. Too complicated for me, so I stuck with the [redacted] unit trusts which I understood. Things have changed in 30 years. I defy anyone to read the [redacted] Product Disclosure documents and come away with a clear understanding of the fund will do and what fees it may charge. In an era when complex documentation is being simplified, [redacted] has gone the other way. There is that much vagary and "wiggle room" in the documents I have been reading that I am sure the Lawyers have been instructed to do just that. i.e. Obfuscate. The funny thing is, as an investor all these years, I don't ever recall having changes to Fund Constitutions brought to my attention. Only the Fund Managers benefit from captive super growth. Superannuation assets under management in Australia have grown by $2 trillion in the time that the [redacted] has owned [redacted] The [redacted] funds have grown accordingly. These huge funds are able to leverage their economies of scale. e.g. It costs the same to process a $1m transaction as a $500m transaction. One would reasonably expect fees to be lower as the larger funds have far lower costs per dollar under management than smaller funds. Hence, you would expect them to charge lower fees, attract more investors and provide better performance. Not in this World because the Banks are hooked into a growing market and don't really need to compete for funds. The gravy keeps flowing. It's money for jam and the opportunities to clip the ticket are endless. Why aren't the big bank super funds charging lower fees than their smaller competitors? Why aren't there any big bank super funds in the group of leading performance superannuation funds? Why? Because they don't care about providing a lean, performing fund to investors. They only care about maximising the fees and the Banks' returns as that drives their bonuses. When, in 2016, [redacted] performed a successor fund transfer, which consolidated multiple entities and super funds into one super fund (the [redacted], the efficiencies from the consolidation would have been enormous. I'm sure there was a compelling business case to go to all that trouble. How much flowed to investors through a fee reduction? Nothing. How about improved performance? None. Was this even in the best interests of Investors? We don't know. We were not told about it until after the event. Millions of investors impacted Senior executives move between financial institutions and, while they may not "collude", they will be acutely aware of the fee-charging practices their competitors employ. It's not just about me and my current unresolved gripe with [redacted] Consider that it is likely that all of the major banks and financial institutions are dong the same with fees, clipping the ticket and double clipping the ticket at every opportunity. The loss of returns to investors, people saving to fund their retirement, is enormous. It is cold comfort to note that our funds are heavily weighted in bank stocks. The lack of performance and huge salaries/performance bonuses paid is unfair. A comprehensive audit If the Royal Commission is to instigate some real change in the sector, it should cause a review of stated fees (disclosed to investors), fees actually charged (including expense recoveries) and compare those to the service actually provided. The Advisor fees are "small beer". Someone needs to unpack the investment management fees and expense recoveries, charged at multiple levels, where Funds Managers are double charging for work they are not actually performing i.e. for work they have outsourced. Industry Superannuation Funds The ISF's are the same but different. Their investors are providing a growing pool of funding which supports the Trade Unions and the Labor Government. The ISF's deserve their own Royal Commission to expose the ways that so many small investors are paying for and supporting these political groups and their apparatchiks at the expense of providing better returns to investors.