

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

#### AMP

#### AMP37QW:

Several case studies in the Royal Commission highlighted that related party contracts in vertically integrated super funds (into the wealth management arms of banks) led to conflicts where the interest of the shareholder came before the super fund members.

- a) Please describe your tender process for related party contracts such as custodial services, insurance, brokerage, administration and investment management.
- b) How do you determine that these contract arrangements reflect value for money for members?
- c) Please describe the potential conflicts of interest with such arrangements and how you manage them?
- d) How do you evaluate whether your management of conflicts of interest is working?
- e) Have you prepared or commissioned any reports focussed on benchmarking the performance and cost of contracts with related-party service providers, relative to the wider market? If so, please provide these for the period covering the last five years.

#### ANSWER:

AMP's superannuation trustees are aware of their fiduciary obligations under SIS Act.

The related party contracts entered into by the AMP superannuation trustees are complex. The payments made between related parties are not calculated based upon administration services provided. The majority of the administration services are performed by AMP Life (related party) as the issuer of the life policy through which the majority of members' money is invested.

The related party contracts entered into by the AMP superannuation trustees pre-date the introduction of SPS 231. No tender process (a) has been triggered.

AMP has an Outsourcing Policy that addresses the requirements under APRA prudential standards (CPS231 and SPS231). It includes specific requirements on how tenders are assessed including related parties.

A decision to outsource a business activity to a service provider must:

- be in the best interests of members and not expose AMP or its members to unacceptable risk;
- support the strategic intent of AMP and allow AMP to leverage the strengths of the service provider; and
- be cost effective.

Assessment of any outsourced service provider considers:

- A criticality assessment, where AMP has developed a methodology to classify outsourcing arrangements according to the risks involved. For outsourced arrangements classified as material, AMP must also be able to demonstrate to APRA that it has undertaken certain activities which includes demonstrating its due diligence process.
- That all outsourcing arrangements must have a legally binding contract in place and must incorporate certain contractual provisions
- That there are sufficient and appropriate resources to manage and monitor each outsourcing arrangement
- For related parties, there is an additional requirement that AMP must:
  - satisfy themselves as to the party's ability to perform and that all the risks can be adequately managed;
  - consider how the related body corporate's expectations and interests are managed in the context of the best interests of members; and
  - demonstrate that the arrangement is conducted on an arm's length basis.