

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS
REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

BT16QW:

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.

a) Answer:

The Trustees manage sourcing and procurement (whether from internal or external parties) through the *Westpac Group Commercial Services Team* who manage the *Sourcing and Procurement Framework*. The purpose of this framework is to provide a consistent approach to all sourcing and procurement activity in line with the *Westpac Group Outsourcing Policy* and *Supplier Governance Framework*.

The *Westpac Group Outsourcing Policy* incorporates the requirements applicable to RSE Licensees, including in SPS 231. The Trustee Board has approved the adoption of the *Westpac Group Outsourcing Policy* and, in doing so, considers the appropriateness of the policy to the obligations of the Trustees.

Approval of material outsourcing arrangements, and material agreements with related parties, and material changes to those arrangements, are reserved for the decision of the Trustee Board under the terms of their Charter. The Trustee Board comprises a majority of independent non-executive directors (including the Chair of the Board). The Board may determine to appoint Board delegates to oversee in more detail certain aspects of the selection and appointment process.

If the selection process includes a related party, conflict protocols are used to document requirements for the management of conflicts. This may include the establishment of information barriers and separation of teams. Where appropriate, independent advice will be sought to support the Board's consideration, for example independent actuarial, investment or legal advice.

Depending on the sourcing/procurement activity, there may also be regard to one or more of the following policies (details are also included where these policies/frameworks comply with the requirements of a relevant prudential standard):

- Custodian Selection and Maintenance Policy;
- Insurance Management Framework (SPS 250);
- Investment Management Framework (SPS 530); and
- Conflicts of Interest Policy (SPS 521).

b) Answer:

Members' best interests are considered as part of the business case for each supplier arrangement. These considerations inform the business requirements and commercial objectives of the supplier selection process.

The Commercial Services team focuses on achieving the desired commercial outcome based on the objectives, following the *Sourcing & Procurement Framework*. Commercial Services acts independently to the decision-making process and makes recommendations based on its market engagement and supplier due diligence. These are captured in the proposal developed by management in the superannuation business for consideration by the Trustee Board for approval.

Arrangements with related entities must be on arms' length terms and the appointment must be considered to be in the best interests of members. The Board has approved a Members Best Interests Guidance Note to provide guidance in the preparation of proposals for approval and this includes considerations to ensure priority is given to the interests of members. The Board may require the appointment of independent advisers/consultants as part of the selection and appointment process to benchmark or test the terms on which a related party is appointed. Arrangements are subject to ongoing monitoring by the Board and reviewed on a periodic basis.

c) Answer:

Conflicts of interest are managed in accordance with the Westpac Group Conflicts of Interest Policy. Any conflicts of interest identified during the sourcing process are considered and avoided or managed in line with the policy.

If the selection process includes a related party, conflicts protocols are used to document requirements for the management of conflicts. This may include the establishment of information barriers and separation of teams. Where appropriate, independent advice will be sought to support the Board's consideration, for example independent actuarial, investment or legal advice.

A conflicts of interest scenario register is maintained which provides guidance on scenarios which may give rise to conflicts of interest and suggests options for their management. Board papers are required to clearly identify conflicts of interest relating to a proposal for approval and the actions taken to mitigate the conflicts. Further, conflicts are disclosed at all Board meetings and, where appropriate, the Board may determine to require Board members (such as Executive Directors) to abstain from voting or be absent from Board

discussion. As referred to above, the Board may use external independent consultants as considered appropriate.

d) Answer:

Ongoing contract management is supported by Commercial Services, whose governance includes management of conflicts of interest. These measures include:

- Defined roles and responsibilities in the Supplier Governance Plans;
- Conflicts are a standing agenda item (regarding conflicts of interest management) in Supplier Governance meetings;
- Conflicts identified are required to be disclosed in a conflicts of interest register, including the way in which the conflicts are managed and monitored on an ongoing basis;
- Regular reports on contract management and supplier health risk assessments are provided to management and the Board Audit Risk and Compliance Committee.

From time to time, external legal may be engaged to assist in providing guidance on conflicts as it relates to current arrangements.

The Trustees conduct an annual review of their framework for the management of conflicts of interest. The results of the annual review are reported to the Board Audit Risk and Compliance Committee.

An independent review of the operation and effectiveness of the Trustees' Conflicts of Interest Framework is conducted on a triennial basis with the results reported to the Board Audit Risk and Compliance Committee, together with management's response to any recommendations or findings. The Committee monitors the way in which recommendations are addressed.

The Board Audit Risk and Compliance Committee may also request specific reviews, including through its internal audit function or the external auditor.

In the context of related party engagements, evaluation of the effectiveness of conflicts of interest management processes may include independent assurance reviews conducted by second line risk or Group Audit on compliance with internal policies e.g. Conflict of Interest and Code of Conduct policies.

e) Answer:

Where the Trustees have undertaken benchmarking processes, these are considered commercially sensitive. Below we provide details of two recent material programs connected to related parties.

Request for Proposal (**RFP**) to select group insurance provider to Westpac Corporate and Retail Superannuation Funds (2016)

- This was a market exercise to select a provider for group insurance within the Trustees' superannuation offers;

- The process was carried out between May and December 2016 and was subject to the protocols and control room frameworks;
- An independent external organisation was engaged as a specialist to inform the process, support the RFP creation and to lead the review and financial analysis of submissions;
- The RFP was issued to the market in May 2016 to six providers (three subsequently withdrew and three submitted proposals);
- Following assessment of the submissions, clarification with the providers and presentation/Q&A with the providers, the Trustees deselected one provider on the basis of not meeting criteria with two taken forward for further evaluation;
- Westpac Life Insurance Services Limited was subsequently selected as the preferred provider with the Trustee Boards subsequently approving the appointment, including following the consideration of external legal and actuarial advice.

Review of Administration and Custodial Services

- The Trustees conducted a benchmarking review by way of an RFI process with two related party providers of custodial, administration and cash management services: BT Portfolio Service Limited (BTPS) and Asgard Capital Management Limited (ACML);
- An independent external organisation was engaged to provide a view of the services provided by the related party providers by gathering information to enable a benchmarking exercise to be completed;
- The process was run between January 2019 to October 2019 and was subject to the protocols and control room frameworks, and this included consideration of the Group Outsourcing Policy, Custodian Selection and Maintenance Policy & Conflicts of Interest Policy amongst others.;
- Overall, the external consultant concluded the services provided by ACML and BTPS are mostly in line with the industry standard and identified areas of improvement that could be addressed through services/contract negotiations with the service providers;
- Following review and due consideration by the Trustee Board, management commenced the process for undertaking renewed services/contract negotiations with the service providers, including consideration of the areas for improvement identified in the review process.