

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

**IOOF25QON:** Transferring to MySuper products

- a) What was the period of time you took to complete the transfer of your members' accrued default amounts (ADAs) into MySuper products following the commencement of the MySuper regime on 1 January 2014?
- b) How did that duration reflect the best interests of your members?
- c) Was there anything that prevented you from transferring accounts sooner?
- d) Please quantify the fee revenue lost if you had transferred members by 30 June 2014, 2015, 2016 and 2017 respectively.

**Answer:** a) IOOF Investment Management Limited (IIML) completed the transfer of all accrued default amounts (ADA) within the IOOF Portfolio Service Superannuation Fund into MySuper products by 28 February 2016. This was 16 months ahead of the regulatory deadline (1 July 2017) and well ahead of many industry peers.

IIML undertook the transfer in two tranches:

Tranche	Date	Product	No. of members
1	30 September 2015	IOOF Portfolio Service and LifeTrack	~65,000
2	28 February 2016	IOOF Employer Super (including sub plans)	~82,000

- b) The time taken to complete the transfer to MySuper products reflected IOOF's commitment to transition the ADAs as soon as practicable. We pursued this timetable on the basis that it would:
- result in reduced fees for members
  - reduce the operational risk of managing dual accounts for members
  - further simplify and rationalise IOOF's products.

As noted, the transfer to MySuper products was completed well in advance of the regulatory deadline and ahead of many industry peers.

- c) The following factors impacted on the time taken by IOOF to complete the transfer to MySuper products:
- (i) Required product structural changes: In 2014, IIML operated three corporate (employer) superannuation products that were administered on two different systems with different features and tax management approaches. This necessitated structural changes, including:
    - a. the unwinding of an existing pooled superannuation trust tax structure used on one of the administration systems
    - b. the development of direct investment capability on one of the administration systems which required significant IT involvement

- c. the implementation of large-scale system changes to support changes to the insurance arrangements.
- (ii) Communicating with members: Historically, IOOF corporate (employer) superannuation products have offered employers a high degree of flexibility to tailor default arrangements for their employees. There were a significant number of these arrangements in place at the time. The introduction of MySuper resulted in many of these arrangements being simplified. As a result, an extensive communication campaign was required to inform members, advisers and employers of the changes. For some members, material capital gains were realised as a result of the transfer of ADAs. Additional communication was required to these members.
- (iii) Product simplification: A successor fund transfer to the IOOF Portfolio Service Superannuation Fund was completed in 2014. This resulted in the net rationalisation of 16 products (across investment, superannuation and pension), three superannuation funds and one administration system. While transferring in the first tranche of the ADAs, IIML also consolidated the three existing corporate (employer) products (including Choice members) into one corporate super offering, IOOF Employer Super. This resulted in a simpler product structure that benefited members and employers and reduced operational risk.
- (iv) Complexity and risk: There was significant complexity involved in mapping the historical tailored arrangements in place with employers or carried over via previous successor fund transfers. Managing the transfer across administration systems was very complex and needed to be undertaken carefully.

Despite these challenges, IIML was able to complete the transfer of all ADAs to MySuper products ahead of the regulatory deadline and well ahead of many industry peers.

d) IOOF was committed to transitioning the ADAs to MySuper products as soon as practicable. Therefore, we did not undertake modelling of the precise type requested by the Committee. Moreover, revenue modelling is complex due to product structures, pricing arrangements and member movements.

However, initial modelling indicated that the ADA transfer to MySuper was expected result in a net reduction in revenue of approximately \$2.1 million per annum. This was subsequently revised down to approximately \$1.5 million per annum. For context IOOF's net operating revenue from platforms was approximately \$210 million for the financial year ending June 2014.