

## SC16QW

### Question

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.

### Answers

- a)
  - SPSL has controls to ensure appropriate outsourcing governance and disciplines apply to all outsourced, including related party, arrangements and that associated risks are effectively managed.
  - SPSL's process may include:
    - Considering the incumbent provider in order to leverage the benefits of the existing relationship, including conducting benchmarking with the support of an independent consultant of the incumbent provider
    - Conducting a limited tender between selected candidates
    - Conducting a full market tender
  - The interests of SPSL are represented by the Office of the Superannuation Trustee during sourcing activities including related party arrangements.
  - The independent SPSL Trustee Board has final decision on sourcing arrangements and has the option to retain independent advisers.
- b)
  - SPSL's strategic intent is to ensure service arrangements held with outsourced providers, including related party providers, deliver value for members, support ongoing sustainability of its superannuation fund and, are compliant with relevant regulatory requirements.

- Service providers are required to ensure that the service level agreements are met, and continuous process improvement is in place to deliver better member outcomes.
- Regular monitoring of the outsourced arrangements is undertaken by the SPSL Board, through formal quarterly reporting on service level performance from its service providers, including its related party providers.
- SPSL engages independent industry consultants to benchmark services received as required.

c)

- There is the potential that the interests of SPSL and its beneficiaries may not be in alignment with the interests of outsourced providers, including related party outsourced providers.
- SPSL has policies and processes in place for the identification of any potential or actual conflict of interest and that all reasonably practicable actions are undertaken to ensure that conflicts of interest are avoided or prudently managed.
- SPSL requires that:
  - Identified potential and actual conflicts are declared in all SPSL Board submissions,
  - Identified potential and actual conflicts will remain a regular agenda item at SPSL Board meetings,
  - Priority is given to the duties to and interests of members when managing the conflict
- Conflicts are recorded in the SPSL Conflicts Register which forms part of the SPSL Register of Relevant Duties and Relevant Interests and is a regular agenda item at SPSL Board meetings. The Register is maintained by the Office of the Superannuation Trustee.
- SPSL embed policies and delegated authorities, supported by risk management frameworks, systems, monitoring and procedures to ensure SPSL's arrangements with related party providers are effectively managed.

d)

- SPSL maintains a Conflicts of Interest Management Framework and provides on-going training and business processes to guide Management and Employees.
- The Independent Trustee Board reviews the framework regularly.
- SPSL engages an operationally independent review of its Conflicts of Interest Framework at least every three years. The review considers the adequacy of the Conflicts of Interest Framework and the extent to which the requirements are embedded and effectively actioned.

e)

- Yes. Please see attached reports which are provided on a confidential basis.