

Questions on Notice - Senate Economics Legislation Committee

KETTER: *Would it surprise you to learn that research there suggests that when looking at super fund rollover and switching behaviour people are actually switching into funds that have higher fees and lower performance? It suggests that the estimated increase in super fees was \$170 million, of which, 92 per cent related to switching into the retail sector. We are talking about people moving into the choice area and making what would appear to be irrational decisions.*

The Rice Warner report indicates there has been a net aggregate increase of around \$137 million in fees. The major component of this increase was a \$170 million increase in fees due to switching into funds with higher fees. Ninety two per cent of this increase was attributed to moves into retail funds.

The report does not provide an explanation of why people switch funds or whether higher fees reflect additional product features or services or the extent to which variation in performance reflects more conservative investment strategies.

KETTER: *I'm not familiar with that evidence. I'm aware of things we talked about earlier that we analysed a bit more closely, but can you come back to us with the evidence that you're aware of that links the presence of independent directors to fund performance?*

Research by Professor Ambachtsheer, which was discussed with Mr Murray in his evidence to the Committee, attributes better performance to good governance; which the Financial System Inquiry considered to include independence.

Other research linking improved governance to better member outcomes includes:

- B Ding and R Wermers, "Mutual Fund Performance and Governance Structure: The Role of Portfolio Managers and Boards of Directors" <http://dx.doi.org/10.2139/ssrn.2207229>
- O Kowalewski, "Corporate Governance and Pension Fund Performance" CAREFIN Research Paper No. 26/2010. Available at SSRN: <http://ssrn.com/abstract=1799962>
- ET Nisbet, "Influence of Board Structure on the Performance and Governance Framework of Australia's Superannuation Funds" <http://www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Documents/Nisbet-2013.pdf>