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Winning the race for today's HNWs — and the HNWs of tomorrow

By Andrew Varlamos, CEO / Co-founder, OpenInvest

If you're in the wealth management industry[1] – anywhere in the world – you cannot go a week without some article landing in your inbox dramatically highlighting the huge movement of wealth currently underway via the Great Intergenerational Wealth Transfer.[2] I'll put my hand up: I've written a few of these![3]

What usually follows by paragraph 3 of such articles is some form of marketing pitch as to how X Corporation can help advisers retain or capture more than their fair share of such wealth flows (well, that's pretty much how I structure mine, anyway). And most of these articles reference one of the many studies that show that as things stand the next generation is extremely unlikely to utilise their parents' adviser when they do get to a point of having sufficient wealth to make them ideal clients.[4]

You may be thankful to know this is not another version of these articles. Instead of talking about how various wealth managers are preparing their businesses for tomorrow's HNWs, I want to highlight an important statistic that is regularly overlooked:

In Australia, 65% of today's HNWs do not have an investment adviser![5]

Which means: perhaps the smartest way to win the race for tomorrow's HNWs is to re-focus on today's HNWs.

Hang on, we're trying

I know that sounds glib, because every wealth management firm obviously tries to attract new HNW clients.

Let's look for a moment at the many reasons why such a high proportion of HNWs chooses to remain unadvised. Some of these are clearly expressed by HNWs in survey after survey, whilst others require some imagination to deduce. First, the most common ones: advisers are too expensive; I don't trust financial advisers; I can make better investment decisions myself. However, surely the most significant one might be: I'm not confident I know where to start or whom to trust. Remember, who could honestly say there's a wealth manager in this country with a broadly recognisable household brand. And without the trust and certainty that a brand imbues (or a warm introduction), where does one start?

This is particularly acute for HNWs who don't live in places or mix in social circles where they meet HNW financial advisers. Perhaps the reality is that a significant proportion of unadvised HNWs just don't look like the current cohort of advised HNWs, whereas every wealth manager's marketing efforts — content and websites — are geared for people who already know who these firms are and what they do, as well as the prospect of knowing what they want.

Don't believe me? Check out the websites of the country's leading wealth managers as if you were a successful builder, or dentist, or plumbing contractor, or farmer, etc, rather than working in this industry. Every website asked me to start by filling in an online form stating what I was looking for. But to the non-expert, what are Managed Accounts? Hybrids? Fixed Interest Products? They're asked to choose between Portfolio Construction and Financial Planning, and elsewhere, between Investment Advisory and Managed Portfolios or General Investment Advice versus Discretionary Portfolios. Do you want International Shares or ETFs?

Who says the HNW prospect understands any of this jargon or knows what they want and need?

Tell me, who are you? 'Cause I really wanna know

But let's assume they're determined to proceed: now, whose form to fill in? It's not easy to get a sense of each firm based on their website and a read of their current crop of articles posted. However, let's say they do pick one and contemplate completing the form. Now someone is going to call back. Who? How do they know if they're right for them? It's daunting.

> "Perhaps the reality is that a significant proportion of unadvised HNWs just don't look like the current cohort of advised HNWs, whereas every wealth manager's marketing efforts — content and websites — are geared for people who already know who these firms are and what they do, as well as the prospect of knowing what they want.

My contention is that Australia's unadvised HNWs really do want help with investing. But perhaps they want to get to know you better first: at their pace, and in their own way. Perhaps they want to go through a trial of some sort, investing a small amount with you to see if they like the experience before committing to hand over their entire investable assets to you. And maybe they don't yet feel ready to engage a particular adviser but would trust the firm to manage at least some part of their portfolio, if they had that option.

Perhaps they want to do all of this online, like they do for most of their day-to-day business.

There's got to be another way

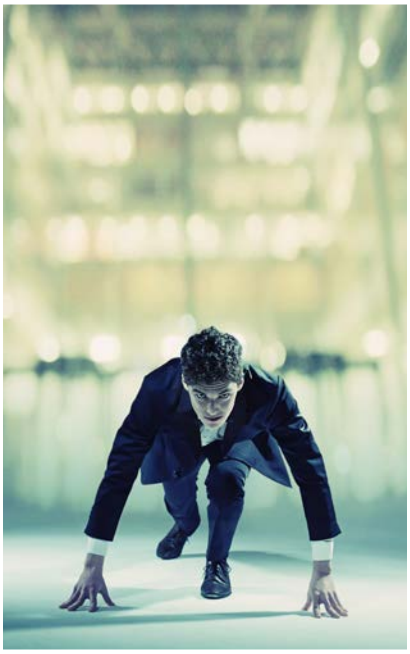
In this way, wealth managers can readily show that their fees are reasonable; that they have resources and expertise that mean of course they are better placed than the prospect to manage their portfolio; that they're trustworthy. And, that each is different from their competitors in innumerable ways.

How are major HNW wealth managers in the US, UK and Asia seeking out and engaging with new HNW clients? Well, they're reaching out to them online and giving them the option of choosing how they want to engage: if they're not ready to be introduced to an adviser, they can trade shares online or open a portfolio management account with any amount. Once the client is within the firm's technology platform, they can be nurtured along, targeted with relevant content, encouraged to place more of their wealth in the firm's capable hands, and ultimately, to start an adviser relationship.

Does an online solution cannibalise clients that otherwise would sign up to an adviser? When James Gorman of Morgan Stanley talks about the firm's technology platforms, he uses the term "funnel" — a means to serve and encourage the client along to increasingly value-adding and profitable services — with advisers the natural endpoint. All at scale, for close to zero marginal cost. Fidelity, Merril Lynch, Wells Fargo and Schwab use their online platforms in a similar way. And their advisers love these initiatives, as what regularly comes through the funnel are engaged, aware and enthusiastic new clients for them. Everyone wins.

Yes, but what about the HNWs of tomorrow?

Well, I started this article with a typical reference to tomorrow's HNWs, so let me go back to them. Of course, the beauty of a wealth manager having its own scalable online investing+content solution is that it's also the perfect way to engage with younger people today — especially high income earners whose wealth is as yet limited[6], and the children of existing HNWs, who will almost certainly become the HNWs of tomorrow. At scale, with a low cost to serve.



And, it's Game On

Where are today's and tomorrow's unadvised HNWs? They're everywhere — in every town, region and city of Australia. And they're all online, because, well, everyone is.

And joining Vanguard, we have some new heavyweights going after this opportunity — a mere few days before writing this, three separate online initiatives to reach Australia's mass market were reported in the media. Online broker SuperHero; fast-growing asset manager BetaShares; and online investing+education community RASK have all gone public with their plans. What do all three have in common? They already have customer numbers in the hundreds of thousands (including plenty of HNWs and future-HNWs), they have digital marketing expertise at the core of their DNA and they're incredibly ambitious. Others are sure to follow close behind.

It's Game On.

OpenInvest configures and deploys white label online investing solutions for its partners, allowing them to offer their own portfolios and associated content, in their branding, to their audience, in their way. You can find out more about the OpenInvest platform at https://openinvest.com.au/white-label.

1 I use the term "wealth management" broadly, and mean it to include such firms however they describe themselves, whether stockbrokers, financial advisers, financial planners, etc.

2 I've not actually seen it referred to with its own catchy name like that, but let's see if my term takes off. By the way, the actual quantum of this wealth transfer in Australia has been estimated by the Productivity Commission at $3.5tr by 2050.

3 Here's one I wrote earlier, also for the Stockbrokers and Investment Advisers Association newsletter: https://shorturl.at/givFJ.

4 The starkest of these studies suggests barely 13% of adult children of affluent parents choose to engage their parents' adviser: https://www.investmentnews.com/only-13-of-adult-children-would-use-parents-adviser-cerulli-79471 ("…of the remaining 87% of investors who report not using their parents' adviser, *88% of them indicate that they had never even considered doing so*." – my emphasis)

5 Up from 60% from a year ago: Investment Trends' 2023 High Net Worth Investor Report

6 Sometimes called HENRYs: High Earners, Not Rich Yet (see https://www.financialadvisoriq.com/c/4150454/541303/henry_bill_high_earning_asset_starved_young_clients?)

> "When James Gorman of Morgan Stanley talks about the firm's technology platforms, he uses the term "funnel" — a means to serve and encourage the client along to increasingly value-adding and profitable services — with advisers the natural endpoint.

CPD EVENTS

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Netwealth 2023 AdviceTech: Humans with machine

Wednesday 8 November
1.00pm to 2.00pm AEDT

Netwealth's Andrew Braun will explore how machines can supercharge human productivity and the client experience, with a close look at current and emerging technologies. He will do a deep dive in how you can introduce artificial intelligence into your practice, with a discussion on the practical applications that are available right now.

Professional Standards CPD: 1.0 Technical competence
ASIC Knowledge Area: 1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

ANDREW BRAUN
General Manager Marketing, netwealth

Bridging the intergenerational advice divide webinar

Wednesday 15 November
1.00pm to 2.00pm AEDT

Recent HSBC research shows that the vast majority (96%) of advisers feel taking an intergenerational approach is important. However, only just over a third (35%) have met the client's children and only 30% have discussed the financial plans with them. moneyGPS is an Australian FinTech that has created digitally enabled, fully client-led personal advice capability.

Professional Standards CPD: 1.0 Technical competence
ASIC Knowledge Area: 1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

GEORGE HARAMIS
CEO & Co-Founder, accountantsGPS & moneyGPS

AARON WILLIAMSON
Head of Digital, moneyGPA

The Client File

Thursday 23 November
1.00pm to 2.00pm AEDT

Something that should be relatively unambiguous is often the source of plenty of debate when licensees are looking at historical matters and responding to requests for "Client Files". James Dickson, CEO of OCG, will outline the critical elements, to avoid potential issues in the future.

Professional Standards CPD: 0.5 Client care and practice | 0.5 Regulatory compliance and consumer protection
ASIC Knowledge Area: 1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

JAMES DICKSON
CEO,
Oceanic Consulting Group

Charitable giving as impact investing

Wednesday 6 December
1.00pm to 2.00pm AEDT

Vicki Norton will discuss why philanthropy is a beneficial topic to raise with clients, provide an overview of common philanthropic structures and some guidance on real-world scenarios. Rufimy Khoo will speak to responsible investing, outlining the current market and the types of problems impact funds aim to solve, supported with examples.

Professional Standards CPD: 1.0 Professionalism and ethics
ASIC Knowledge Area: 1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

VICKI NORTON
Director,
Strategic Projects,
Philanthropy Australia

RUFIMY KHOO
Associate Director,
Responsible Investing,
JBWere

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ASIC and Interactive Brokers infringement notice

By Abigail Sheppard, Consultant, Wendy Prince & Associates Pty Ltd

This is a commentary on the recent decision about Interactive Brokers by ASIC's Markets Disciplinary Panel (the MDP).[1]

Last month, ASIC announced that Interactive Brokers had paid a penalty of $823,000 in connection with alleged breaches of the Market Integrity Rules (the MIR)[2] pursuant to an infringement notice (IN) issued by the MDP.

The MDP found that Interactive Brokers was negligent in allowing repeated 'marking the close' trading by one client in one security over several months, which it should have identified as suspicious.

The MDP also found that IBA had not addressed the client's trading even after it was contacted by ASIC, allowing the client to continue to place more suspicious orders, which the MDP found "*was reckless and an aggravating factor*".

This matter reminds market participants that they are important gatekeepers for the market. It is not enough to have post – trade surveillance systems: there must be enough trained and supervised staff to properly analyse large numbers of alerts, to make appropriate decisions about them, and in a timely manner.

What is the MDP?

Members of the MDP are appointed by ASIC, but they are experienced market experts from the broking and investment banking industries, so it is a peer review panel.[3]

The MDP's decisions concern failures of market participants' systems and processes leading to alleged breaches of the MIR (unlike ASIC enforcement actions for substantive market misconduct under the Corporations Act 2001 such as insider trading and market manipulation).

If, after considering information from ASIC and the market participant, the MDP decides it has *reasonable grounds to believe*[4] that a market participant has contravened the MIR, the MDP can issue an IN inviting it to comply with the IN by paying one or more penalties, and/or other sanctions, such as remedial action and/or an enforceable undertaking.[5]

The market participant is not required to comply with the IN.[6]

The advantages of complying with an IN are that compliance does not mean the market participant has, or has admitted to, contravening the MIR[7], and it can avoid being exposed to civil penalty proceedings or other enforcement action brought by ASIC. The IN process is also quicker and cheaper than court proceedings.

Who is Interactive Brokers and what did it do?

Interactive Brokers Australia Pty Limited (IBA) is a provider of full service, on-line only direct access broking services. It is a subsidiary of a US company.[8]

The IN sets out the details of the alleged contraventions of the MIR by IBA[9], involving two alleged breaches, namely of Rules 5.7.1(b) and 5.5.2 (the rules relating to manipulative trading, and the need to maintain organisational and technical resources, respectively).

The suspicious trades were all entered by a single, unidentified client of IBA, who was an experienced trader and had worked in the broking industry. The client had a large holding, and traded actively, in the shares in Orthocell Limited[10].

Although this matter involved a large number of trades and over 40 alerts on IBA's post trade surveillance system, the MDP decided that there was a single course of conduct, so there was only one breach of Rule 5.7.1(b).

Between 10 March and 5 November 2021, IBA's client placed tens of orders for shares in Orthocell late in the closing auction at prices higher than the last traded price (sometimes two or three price steps higher), or at the same price as, or higher than, the highest traded price that day. The orders tended to be for small volume and value and involved disproportionate brokerage cost so appeared to be uncommercial. They were also not consistent with the client's trading patterns in Orthocell even on the same days.

IBA's client's trading in Orthocell triggered numerous 'marking the close' alerts on IBA's post trade surveillance system in this period. Although IBA eventually reviewed the alerts, this was often a long time afterwards, often over 20 days later. By that time, there were many alerts backed up that needed to be reviewed and IBA's surveillance officers could not review them all properly. This meant that IBA closed the alerts and took no further action, on the basis that the trades were not suspicious.

The MDP found that IBA's recorded reasons for closing the alerts were inadequate, and sometimes factually incorrect. The MDP considered that IBA should have 'reasonably suspected' the client was engaging in suspicious trading that was characteristic of 'marking the close' manipulative trading and should have treated all the orders as suspicious under Rule 5.7.1(b).

On 14 October 2021 (a Thursday) ASIC contacted IBA about the alerts and asked it to review all alerts related to Orthocell for the previous three months.

IBA attempted to contact the client for the first time about these trades on Monday 18 October, by email. The client did not respond, nor to IBA's subsequent emails sent on 25 and 27 October, or to IBA's telephone calls on 29 October and 1 November. IBA did not restrict the client's trading, and the client continued to enter suspicious trades in Orthocell which generated alerts in the surveillance system.

On 2 November 2021, ASIC issued statutory notices to IBA seeking information about the alerts in Orthocell and the steps IBA had taken. The day after the ASIC notices, IBA placed the client's account in 'liquidation only' status and informed the client accordingly by email. IBA soon lifted the client's 'liquidation only' status because the client finally contacted IBA and was warned about marking the close trading.

It seems that IBA's warning to the client was not taken very seriously, because on 5 November 2021, the client place yet another suspicious 'marking the close' order in Orthocell. On the same day, IBA submitted its first suspicious activity report about the client's trading in Orthocell to ASIC.

The MDP's decision

The MDP acknowledged that IBA's post trade alert systems were effective to the extent that they picked up on the suspicious trades in the first place. Not surprisingly, the concerns were about how the alerts were categorised as not suspicious, closed and no further action taken.

This history showed that IBA was not responding to its alerts in an appropriate, or timely, manner. IBA's information as produced to ASIC showed it had a general problem with delays reviewing and closing alerts. The MDP concluded that IBA did not have sufficient appropriately qualified or supervised staff to assess the alerts and so did not have "*necessary organisational and technical resources*".[11]

As stated above, the MDP characterised the first alleged breach (Rule 5.7.1(b)) as negligent. IBA's failure to attempt to contact the client until after ASIC's intervention and allowing the client to continue the suspicious trading while IBA tried to make contact, even after ASIC's notices, meant the client continued to trade and placed more suspicious orders. This second breach (Rule 5.5.2) "*was reckless and an aggravating factor*".

The MDP concluded that although "*the conduct risked damaging market integrity*", there were some mitigating factors: the trades had minimal and temporary market impact, and IBA had taken remedial steps, including improving reviews of alerts, improving training, and recruiting compliance staff. IBA will also now restrict client trading in cases of suspected market manipulation.

Conclusion

Although the closing price of Orthocell was affected on many days over this period by the suspicious trading, it was minimal. Despite this, these two alleged breaches have attracted a significant penalty.

Since the penalties were increased in 2019[12], it is now more usual for the MDP to issue large penalties in matters of this type.

In this IN the MDP specifically recommends that market participants must review alerts quickly, and against the background of earlier alerts. In urgent cases, the reviews must start on the same day, even within hours. The reviews must be concluded within 14 days at most, to ensure that there are not too many to be properly considered. Obviously, market participants must have enough trained staff to do this.

The MDP also recommends that market participants should consider suspending the account if the client does not respond quickly to enquiries about suspicious transactions.

More information on Wendy Prince and Associates Pty Ltd can be found here: https://www.wendyprinceandassociates.com.au/.

1 See ASIC media release MR 23-255
2 The ASIC Market Integrity Rules (Securities Markets) 2017
3 https://asic.gov.au/regulatory-resources/markets/markets-disciplinary-panel/ and ASIC Regulatory Guide 216
4 The relevant breaches are referred to as "alleged" contraventions / breaches.
5 Reg 7.2A.04; 7.2A.08(1) *Corporations Regulations 2001*
6 Reg 7.2A.15
7 Reg 7.2.A.10(2); s798H(1) *Corporations Act 2001*
8 https://www.interactivebrokers.com.au/en/general/about/about.php
9 https://download.asic.gov.au/media/mmzfkmku/infringement- notice_mdp05_23_interactive_brokers_australia_pty_ltd.pdf
10 A small capitalised listed company https://www.asx.com.au/markets/company/occ
11 The Federal Court in *ASIC v State One Stockbroking Ltd* [2018] FCA 1830, and as quoted from by the MDP.
12 *Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019*

Understanding the surge in extreme weather events and the climate connection

By Harshine Ramalu and Mariana Wheatley, Altiorem

In recent years, the world has witnessed a visible acceleration in extreme weather events due to climate change. This trend emphasises the need to combat global warming through collective action and to keep global temperatures aligned with the Paris Agreement, i.e., below 2 degrees Celsius, while pursuing a 1.5 degree global temperature rise. This article examines the rise in extreme weather events and their connection with climate change, their devastating consequences, and provides practical investor resources designed to support climate action and guide us towards a more sustainable future.

Pollution is at the root of this crisis, it causes climate change, and climate change causes extreme weather. Greenhouse gasses from burning coal, oil and natural gas pollute the air forming a heat-trapping blanket which warms the Earth. This blanket leads to shifts in weather patterns and the intensification of extreme weather events. The impacts of extreme weather events including floods result in unaffordable insurance premiums, damaged homes, and the devastating loss of loved ones. The best way to reduce the frequency and severity of these events is to curb pollution.

The human and economic consequences of extreme weather

Extreme weather events are not confined to environmental disasters, they exacerbate inequality and conflict, and devastate communities, businesses and lives. In the last 50 years, the climate change has claimed the lives of two million people and over 90 percent of these fatalities have occurred in developing countries.

Severe weather events caused a staggering $4.3 trillion in losses for the global economy, with far-reaching economic consequences. These events can result in significant economic impacts, which include extensive property damage to homes, infrastructure and businesses. This then leads to billions of dollars in losses and severe impacts on people's financial stability and the security of entire sectors. For instance, the global fashion industry could face significant challenges due to extreme heat and flooding. Four leading garment-producing nations may potentially lose out on $65 billion in earnings by 2030.

> "Severe weather events caused a staggering $4.3 trillion in losses for the global economy, with far-reaching economic consequences. These events can result in significant economic impacts, which include extensive property damage to homes, infrastructure and businesses.

Extreme weather challenges in Australia

The rise in global temperatures has unleashed a wave of extreme weather events. 2023's northern hemisphere's summer, has experienced wildfires, floods, and the emergence of four heat domes. The record temperatures observed in Australia's southern states during September and October serve as a warning that the nation is on course for a summer marked by unprecedented heat and heightened vulnerability to extreme weather events, particularly an increased risk of bushfires.

Although the connection between El Niño and climate change is complex, research illustrates that El Niño amplifies the impact of extreme weather patterns influenced by our changing climate. The warming of sea surface temperatures in the eastern equatorial Pacific Ocean disrupts the normal atmospheric circulation, leading to several key impacts on Australian weather, including a decrease in rainfall in the south-eastern regions of Australia. This leads to droughts, water scarcity and a decline in agricultural productivity. During El Niño, temperatures rise across the country leading to heatwaves and greater evaporation rates. As a result, there is an increased risk of bushfires which pose risks to both rural and urban areas.

Bushfires have been an enduring natural phenomenon in Australia, shaping Australia's distinct ecosystems. The Black Summer bushfires left a sad statistic in their wake, with an estimated loss of 429 people due to the smoke's impact. Furthermore, thousands of individuals required hospitalisation for various smoke-related health issues. Prolonged exposure to bushfire smoke can have detrimental effects on respiratory health along with adverse cardiovascular effects.

Acknowledging these risks, Australia has taken proactive measures to enhance its preparedness for bushfires, informed by the recommendations of a royal commission that outlined 80 actions. These measures include early warning systems, real-time air quality monitoring, and a National Emergency Management Stockpile to mitigate supply chain disruptions during emergencies. A concerted campaign to raise public awareness and educate citizens about bushfire risks is also underway.

Urgency for immediate action and climate change strategies

Climate change is overwhelming and so is understanding what actions to take and who should be responsible. However, the good news is that actionable tools are available for investors. For those seeking practical guidance, Altiorem offers a summary of Project Drawdown's guide on climate solutions at work, with additional investor resources for climate action available here.

The increasing frequency of extreme weather events, stemming from climate change, serves as a reminder of the need to address pollution and combat global warming. Pollution from fossil fuels is the driving force behind climate change, which, in turn, intensifies extreme weather patterns, bringing devastating consequences. The economic toll and the loss caused by these events highlights the importance of climate action. To secure a sustainable future, we need to act now. To access actionable investor resources for climate action, visit Altiorem.

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COMPETITIVE ADVANTAGE THROUGH DIGITAL EMPOWERMENT

Part 3 – Fed by curiosity, feeding curiosity

By Gaye Anable, Head of Institutional Sales, Saxo Australia

It stands to reason that the primary objective of stockbrokers and wealth managers is to help their clients build their wealth, enhance their prosperity, and secure their retirement. But beyond the potential monetary advantages to investment lies a suite of benefits that clients may not typically think about. Beyond making money, the act of investing shapes the world as we wish to see it – and every deployed dollar makes a difference in the society in which we live.

We often hear about values-centric investing in relation to green energy – the allocation of capital in pursuit of not just long-term financial gain, but also positive environmental externalities such as the reduction of greenhouse gases and air pollution and mitigation of climate change. Investment in green energy, the argument goes, is good for both your hip pocket and the planet.

But the concept can extend further. If "every dollar is a soldier", every financial choice investors make can uphold or further a cause close to their heart. Investors can choose to invest in a pharmaceutical company developing a drug for a disease they care deeply about, or which has personal relevance to them. Or they can choose to invest in an agribusiness taking steps to champion the regional communities that put food on urban supermarket shelves each day. Investors can place their money into equities that mean something to them beyond financial gain – and in doing so, become more curious and empowered human beings, citizens, and members of society. As noted in the ASX's *Australian Investor Study 2023*, as many as 30% of investors are now conscious of Environmental, Social, and Governance (ESG) factors when choosing investment products. A significant number more consider their own personal values when making investment decisions.

No matter the cause, investors can – facilitated by improvements in digital technology and accessible trading apps – match passion to their potential profits. Yet this increased investor involvement and values-centric investing need not be a source of fear for stockbrokers. Stockbrokers can continue

> Stockbrokers can continue to play a major part in their clients' investment activities by knowing their goals and aspirations, suggesting solutions that pair profit with purpose, and facilitating conversation on their clients' investment decisions, strategies and decision-making processes.

to play a major part in their clients' investment activities by knowing their goals and aspirations, suggesting solutions that pair profit with purpose, and facilitating conversation on their clients' investment decisions, strategies and decision-making processes.

And as investors are fed by their passions and curiosity, their participation in financial markets feeds their curiosity further. At Saxo, we call this "The Investment Effect" – the hidden and progressive non-monetary power of investing that creates smarter, sharper, and more empowered humans.

In short, Saxo believes that investing gives individuals "skin in the game" – a stake and interest not just in the purchased asset and its financial performance, but the broader industrial, societal, and historical context in which that asset exists, operates, and fluctuates. In turn, we believe this knowledge and contextual understanding makes for better, more empathetic humans – leading to better interpersonal interactions, more informed citizens and constituents, and ultimately better politics, better public policy, and better societies and places to live. This fresh knowledge and perspective then provides impetus for further investing, initiating a virtuous cycle.

Investors, in this way, are both fed by curiosity and feeding their curiosity. Stockbrokers and wealth managers can and should play a major role in this process by supporting their clients' ambitions and research, arming themselves with the best possible digital toolkit to aid customised content distribution, and helping to build a foundation for the curiosity that will serve them and their family for life.

Part 1 was published in the June *SIAA Monthly* and Part 2 was published in the July *SIAA Monthly*.

Bigger not necessarily better

By Darin Tyson-Chan, Editor, *selfmanagedsuper*

As the Australian superannuation system continues to evolve, we're seeing more and more mergers between public offer funds, resulting in significantly larger outfits than members once thought they were joining.

Already we've seen Cbus amalgamate with Media Super and EISS Super, Hostplus unify with Intrust, Statewide and Maritime Super, and AustralianSuper join forces with Club Plus and LUCRF, just to name a few.

And there are more on the horizon with the mergers of Active Super and Vision Super, Care Super and Sprit Super, and Mercer Super, Lutheran Super and the Holden Employees Superannuation Fund in the wings.

The theory behind all of the merger and acquisition-type activity is to promote scale – the larger an organisation can be, the more efficient it can be in terms of costs and the ability to provide its members with more and better services. A great sentiment, but apparently not so good in reality and it is something of which all superannuants must be aware, particularly seeing the fund they choose at the start of their journey into employment could be the one they have for their whole working life due to the new stapling rules. And there have been a few recent incidents illustrating flaws in the scale argument.

As I mentioned, larger is supposed to mean a better capacity to service clients, but after the Australian Securities and Investments Commission's (ASIC) recent rebuke of AustralianSuper, this may not be the case.

On 8 September, the corporate regulator issued a release announcing it had commenced civil penalty proceedings against the trustees of the country's largest public offer fund, AustralianSuper.

Specifically, ASIC has alleged the trustees of AustralianSuper failed to put in place procedures to identify members who had multiple accounts with it and address the issue for close to a 10-year period.

Further, it has alleged around 90,000 members were affected between July 2013 and March 2023 and these individuals lost out to the tune of $69 million due to multiple sets of fees being charged to them.

Worse still the corporate watchdog expressed concerns AustralianSuper knew of the problem in 2018, but did not take adequate steps to investigate and resolve the issue until late 2021.

In addition, after a thematic review, both ASIC and the Australian Prudential Regulation Authority (APRA) recently criticised public offer fund trustees over their sluggishness in providing better retirement income solutions for superannuants.

For at least the past 15 years the financial services industry has been discussing the generational shift Australian society is experiencing and the subsequent need for super funds to provide better services for members in the retirement phase of their lives.

Inaction on this front was so serious it led to the introduction of the Retirement Income Covenant, which came into effect on 1 July 2022. Specifically this measure requires all APRA-regulated super fund trustees to develop a retirement income strategy for their members to improve the financial outcomes for retirees.

However, after reviewing 15 super funds, both regulators found trustees are showing a lack of urgency in embracing the intent of the covenant and any retirement income solutions on offer vary greatly.

ASIC and APRA highlighted the funds examined need to improve their focus on understanding the requirements of members, designing fit-for-purpose assistance and overseeing the implementation of retirement income strategies.

APRA deputy chair Margaret Cole noted: "Some trustees have made a good start, but overall there has been a lack of progress and insufficient urgency. As more members approach retirement, trustees must step up and deliver both well-considered strategies and action to support members in retirement."

> "So while super funds continue to argue for increased scale and the benefits that come with it, the reality is the funds themselves are getting bigger, but services are not reflecting the expected commensurate improvement in services provided..

So while super funds continue to argue for increased scale and the benefits that come with it, the reality is the funds themselves are getting bigger, but services are not reflecting the expected commensurate improvement in services provided.

And while the evidence provided above only covers two areas of super fund activities, they are both fundamental and extremely significant.

It does illustrate bigger is not always necessarily better.

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