Insurance

and

Superannuation

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APRA's organisation structure

APRA has a new organisation structure designed to help it achieve its Vision: To be a world-class integrated prudential supervisor recognised for its leadership, professionalism and innovation.

This article summarises plans for change in the broad functional structure for APRA.

Since its establishment in July 1998, APRA' s internal organisation has largely reflected structures inherited from the Insurance and Superannuation Commission and the Reserve Bank. There are currently four Divisions:

- Insurance and Superannuation – basically the supervision functions of the former ISC;
- Authorised Deposit-Taking Institutions – basically the operational part of the RBA' s old Bank Supervision Department;
- Policy Development and Research - with staff from both ISC and RBA;
- Corporate Services – largely inherited from the ISC.

Within this model, a start has been made on combining resources and supervisory work, but a new structure was considered essential to achieving the objectives of integration, regulatory harmonisation and improved efficiency with which APRA was established.

The proposed structure endorsed by the Board will help to achieve these objectives and has been designed with APRA' s Vision in mind : *To be a world-class integrated prudential supervisor recognised for its leadership, professionalism and innovation.*

The structure includes the responsibilities for credit unions, building societies and friendly societies presently carried out at State level and will only be fully operational after the transfer of those responsibilities to APRA, as is currently proposed.

New APRA

The main changes are to *operational, or front-line supervision functions.*

Two operational groups are planned. One will deal with *diversified* or complex financial institutions, including conglomerates and institutions with international links. The other will be responsible for the large number of more *specialised* or straightforward institutions operating within traditional industry boundaries. The latter Division will include APRA' s State offices which will supervise institutions operating largely in their region. It will also house an enforcement and rehabilitation unit. This unit will be available to the other Division as needed.

The *Diversified Institutions Division* will be responsible for approximately 275 licensed entities, corresponding to about 50 groups and another 50 stand-alone institutions with international connections. Each financial group will have a 'relationship manager' as its point of contact with APRA on most questions.

Specialised Institutions Division will be responsible for about 500 licensed institutions (including some insurers and banks) and the great majority of superannuation funds.

This arrangement will have the advantages of, as far as possible, grouping similar supervisory tasks together and ensuring that conglomerates and other diversified groups are supervised consistently and efficiently. At the same time, having deposit-taking, insurance and superannuation within each Division will promote the cross-fertilisation of staff experience and knowledge and will provide opportunities for staff to broaden their knowledge and skills and develop new specialisations. This arrangement will also provide a relatively straightforward structure for managing APRA' s State offices and ensuring consistency in their regulatory approach.

Clearly, one outcome of this structure is to spread APRA' s interests in the conventional industry groups – deposit-takers, insurers etc – across Divisions. While one of the assumptions behind the structure (and underlying APRA's formation) is that these 'industry groupings' are becoming gradually, less meaningful, they are still the basis of much legislation and of key representative bodies. Consequently, while

moving to a more integrated structure, APRA will need mechanisms to handle industry issues professionally. These will include a small number of cross-divisional, high-level working groups. These would also tackle questions of APRA-wide supervisory consistency in conjunction with the Policy Division, which is described below.

In conducting front-line supervision, the operational Divisions will call on specialised consulting services provided by the *Policy, Research and Consulting Division*. This will include staff expert in the various aspects of risk management - including credit, operational, liability and market risk - who would participate in prudential consultations and on-site visits to any regulated institution as required. There will also be staff to advise on complex compliance questions.

It is envisaged that this Division will also be responsible for prudential policy development and legislative review, along with developmental work on supervision methods, research of a more theoretical nature and finance sector analysis. This Division will also manage APRA-wide statistical collections and publications, and will coordinate APRA's international activities.

Corporate Services Division will be responsible for managing the key support activities – information technology, human resources policy, finance, internal audit, administrative support and so on. A General Counsel's Office will provide legal advice on issues related to APRA's governance and statutory responsibilities.

A Public Affairs Unit will sit outside the main Divisions, and report to the *Company Secretary*.

Senior Management positions

Les Phelps will lead the Specialised Institutions Division and *Tom Karp* will head Diversified Institutions. *Brian Gray* will lead Policy, Research and Consulting.

David Knott will continue as Chief Operating Officer with responsibility for Corporate Services Division. He will also have a general policy advisory role, and act as CEO where necessary.

Next steps

The aim is to have APRA's new organisation structure in place by 1 July this year.

PROPOSED NEW ORGANISATION STRUCTURE FOR APRA

FUNCTIONS

1. **Policy, Research and Consulting**
   - Prudential policy development, legislative review
   - Research, financial system analysis
   - Supervision methods
   - Consulting services:
     - risk analysis – credit,operational, liability, market etc.
     - compliance rulings & approvals (complex matters)
   - Statistical collections and publications
   - APRA's international relations (coordination)

2. **Diversified Institutions**
   - Front-line supervision (including licensing) of complex groups and institutions and others which are part of international organizations, and representative offices:
     - banks (majors, foreign banks, other banks which are part of complex groups, representative offices)
     - insurers (large companies, parts of bank groups and parts of foreign groups)
     - superannuation funds (public offer funds connected with life insurers or banks, associated staff funds)
   - Coordination of interpretations and rulings

3. **Specialised Institutions**
   - Front-line supervision (including licensing) of specialised, stand-alone institutions:
     - small domestic deposit-takers)
     - insurers) other than in 'Diversified'
     - friendly societies)
     - superannuation funds etc)
   - Enforcement and rehabilitation services
   - Coordination of interpretations and rulings

4. **Corporate Services**
   - Information technology
   - Human resources policy
   - Finance
   - General Counsel's Office
   - Administration
   - Internal audit (accountable to the Risk Management and Audit Committee)

5. **Company Secretary/Public Affairs**

Focus on public sector superannuation

The public sector has a long tradition of providing superannuation benefits to its employees. In this article we profile the public sector superannuation market, including comparing the level of unfunded government superannuation liabilities to existing asset stocks.

Public sector superannuation funds are those sponsored by a government employer or government business enterprise. In this context, any superannuation fund associated with a partially privatised government enterprise is considered to be a public sector fund until more than fifty per cent of the enterprise has been privatised.

Unlike other sectors in the superannuation industry, not all public sector superannuation is prudentially regulated by APRA under the Superannuation Industry (Supervision) (SIS) legislation. In fact, many public sector defined benefit superannuation schemes are at least partially 'unfunded'; that is, benefits are paid on an emerging basis at least partially from government consolidated revenue rather than being explicitly funded in a superannuation fund. These schemes would not satisfy the solvency requirements of the legislation. To address this issue, an agreement was reached by the Council of Australian Governments (COAG) under which the respective governments have guaranteed their superannuation commitments and have undertaken to manage the superannuation funds or schemes under their responsibility as closely as practicable to the requirements of the SIS Act. These superannuation arrangements are known as Exempt Public Sector Superannuation Schemes, or EPSSSs. While these schemes are not required to lodge annual returns (which include certificates as to compliance with the SIS requirements) with APRA, the major ones are included in the APRA quarterly survey of superannuation for statistical purposes.

Funds and schemes

Following from this is the important distinction between a public sector superannuation scheme and any associated superannuation fund. Some unfunded public sector superannuation schemes have an associated fund into which actual employee and award productivity contributions are paid. These contributions are then invested in the financial markets to earn income, with the accumulated amounts used to pay future benefits. In many ways these funds are essentially accumulation funds and in some cases they are regulated by APRA under SIS. However, the amounts in the fund are usually insufficient to finance a member's entire benefits under the scheme and additional funding is required. The scheme, which can be considered to be the entire superannuation arrangement, also includes the unfunded defined benefit component of members' benefits in addition to any associated superannuation fund. Where additional money is required by the fund to meet any shortfall in a member's entitlements, the scheme draws the additional money from government consolidated revenue.

These additional payments to the scheme from government may be thought of as accumulated notional employer contributions, that is, contributions would have been made if the scheme was fully funded. These accumulated notional employer contributions are paid on an emerging basis, ie, as the need arises. It is possible to gauge the level of notional funding of public sector funds by assessing the proportional level of employer contributions to both public and private sector defined benefit superannuation arrangements. On this basis, preliminary APRA estimates suggest that the level of notional funding in public sector schemes may have been around $1.5 billion during 1997-98. This is significantly lower than previously published ISC estimates of around $2 billion in notional employer contributions for 1995-96. This result most likely reflects the efforts that governments have been making in recent times to bring their superannuation commitments onto a more fully funded basis. Some of these efforts have included changing scheme arrangements by closing older defined benefit schemes and introducing SG based accumulation schemes in their place, a consequential reduction in the membership of older defined benefit schemes due to redundancy programs and increasing levels of privatisation. Additionally the result may

partially reflect recent favorable investment market conditions that have led to lower contribution requirements for private sector defined benefit funds.

Notwithstanding the reduction in the current level of notional employer contributions, the level of unfunded public sector superannuation liabilities remains significantly greater than the level of ' funded' public sector superannuation assets. In simple terms the unfunded superannuation liability can be considered to be the equivalent of the accumulated value of all past notional employer contributions, including notional investment earnings. For example, as at September 1998, while APRA estimates that public sector superannuation assets amounted to $78.5 billion, the ABS estimates that the level of unfunded superannuation liabilities was an additional $128.7 billion. However, in the three years from June 1995 to June 1998 public sector assets have been growing at an average annual rate of 11.7 per cent while unfunded liabilities have been growing at an average annual rate of only 4.8 per cent during the same period. See figure 1.

Public sector fund profile

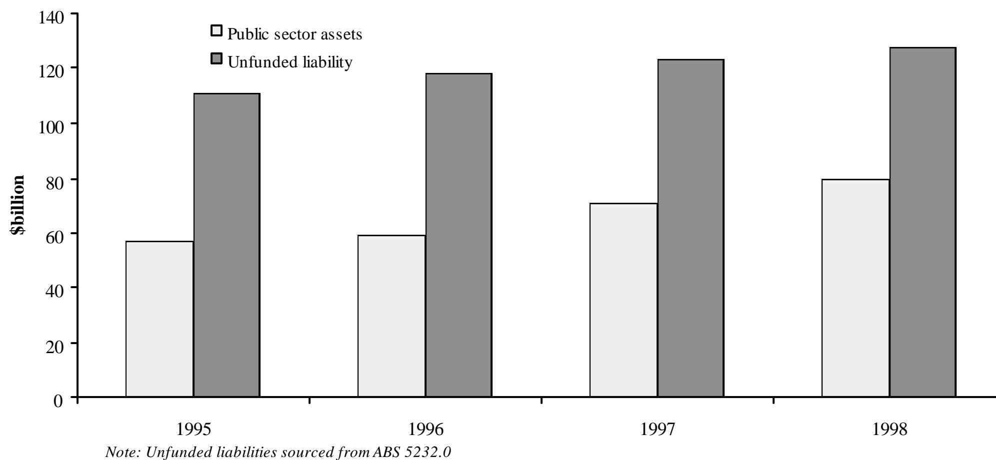
Public sector funds are the smallest category of non-excluded funds, with around 60 funds and schemes (or around 1.5 per cent of all non-excluded funds) in operation as at June 1998. At June 1998 public sector fund assets amounted to more than $79 billion, or 22 per cent of all superannuation assets. These funds represent around 2.8 million accounts, or around 14 per cent of all superannuation accounts.

The following profiles are based upon the 1997-98 APRA annual return information where available, or else the APRA quarterly survey of superannuation returns.

The public sector superannuation assets published by APRA are the explicit superannuation assets residing in public sector funds regulated under SIS as well as those recognised in EPSSSs, with the latter accounting for the majority of these assets. For example, at June 1998 EPSSSs accounted for $44.6 billion (or 56 per cent) of public sector assets with the SIS regulated funds accounting for the remaining $34.7 billion (or 44 per cent) of assets. The distinction is greater with regard to member accounts. For example, the EPSSSs managed 2.1 million (or 75 per cent) of member accounts as at June 1998, with the SIS regulated funds managing the remaining 700 thousand (or 25 per cent) of accounts. The lower average assets per account value in EPSSSs reflects the significant level of unfunded liabilities in those schemes.

Concentration is not as marked in public sector funds and schemes as in other parts of the superannuation industry, with the largest 10 per cent of funds by asset size accounting for around 60 per cent of all public sector assets. In fact, at June 1998 19 public sector funds and schemes (or nearly one third of all public sector funds and schemes) managed more than $1 billion in assets.

Figure 1: Public sector assets and unfunded liabilities



Note: Unfunded liabilities sourced from ABS 5232.0

Most likely reflecting the diverse arrangements that can be found consolidated into the larger schemes, particularly the State EPSSSs, the predominant benefit structure for public sector funds and schemes is a combination of accumulation and defined benefit, rather than being solely accumulation or defined benefit in nature. For example, combination benefit funds and schemes represent around 50 per cent of public sector funds, 73 per cent of assets and 68 per cent of member accounts. In contrast, solely accumulation funds represent around 20 per cent of funds, four per cent of assets and 16 per cent of member accounts. Solely defined benefit funds represent the remaining 30 per cent of funds, 24 per cent of assets and 16 per cent of member accounts.

Reflecting the large workforce that many public sector funds and schemes cover, the majority of public sector funds (at around two thirds of all funds and schemes) have more than 500 member accounts. These large funds represent the vast majority of public sector assets, member accounts and contributions. Public sector funds experience the second highest level of member contributions after retail funds, most likely due to the requirement on members to make some level of contribution that applies in many public sector funds and schemes, particularly the defined benefit schemes. See table 1.

Moreover, while public sector workers make up around 21 per cent of all workers with superannuation, they represent only around 14 per cent of all superannuation accounts. This result indicates that public sector workers have a significantly lower average number of accounts per person, at 1.8, than do private sector workers, at 2.9. This most likely reflects the general propensity of public sector workers to remain with the same employer when changing jobs as compared to private sector workers who are more likely to change employer when changing jobs.

Public sector schemes and funds are also much more likely than private sector funds to pay their benefits as pensions rather than lump sums. For example in 1997-98 pension payments accounted for more than 40 per cent of all public sector scheme and fund benefit payments, compared to nine per cent for the private sector. In fact, public sector pensions accounted for around 71 per cent of all pension benefit payments made during 1997-98.

At June 1998 around $50.2 billion (or 63 per cent) of public sector assets were placed with external investment managers while around $28.8 billion (or 37 per cent) of assets were directly invested by the fund or scheme. These directly invested assets included around $10 billion (or 13 per cent of all assets) invested overseas. Public sector funds and schemes invested around $330 million (or less than half of one per cent of assets) in life office policies. These results are in keeping with the larger size of most public sector funds and schemes, enabling them to establish the necessary infrastructure for self-

Table 1: Public sector funds and schemes, 1997-98

Member range	Funds and schemes	Assets ($m)	Member accounts (000s)	Employer contributions ($m)	Employee contributions ($m)
5 to 500	22	587	4	45	11
More than 500	40	78,754	2,825	6,486	2,274
Overall	*62*	*79,340*	*2,829*	*6,531*	*2,274*

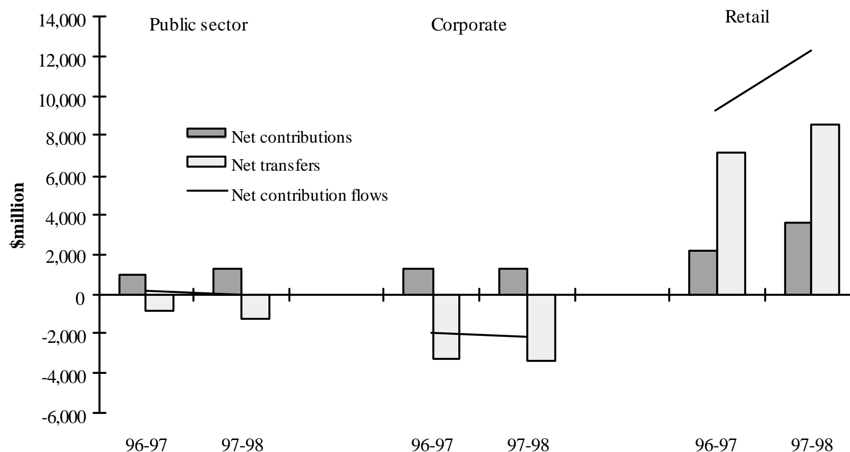
investment as well as enabling them in most cases to readily access wholesale rather than retail investment markets.

Consolidation trends

From 1995-96 to 1997-98 the number of public sector funds and schemes declined by around 15 per cent per annum, to stand at 62 as at June 1998. This result reflects consolidation of associated funds and schemes into a single scheme (similarly to the consolidation in the retail sector) and also government restructuring such as outsourcing and privatisation. This latter trend has resulted in increasing outflows from the public sector, similar to those experienced in the corporate sector. In fact, net outward transfers from the public sector increased by 48 per cent during 1997-98, resulting in a net contribution outflow for the year. In contrast, net outward transfers from the corporate sector increased by only four per cent during 1997-98, notwithstanding that they are around three times greater than for the public sector. The retail sector exhibits large net inward transfers, strongly suggesting that, similar to the corporate sector, a significant proportion of public sector outflows are entering the retail sector; see figure 2. Moreover, consistent with these outflows the number of member accounts in the public sector increased by less than one and a half per cent during 1997-98, the smallest increase over all sectors of the industry.

Notwithstanding the commitment given by governments to support their EPSSSs it is highly likely that continued restructuring and outsourcing pressures will impact upon public sector superannuation. For example, the Federal Government has indicated that it intends to close the Commonwealth superannuation schemes to new members, with future new public servants being given a choice of funds from other sectors of the industry. Conversely, as governments move towards more fully funding their superannuation commitments there may be an increased flow of funds into public sector superannuation. This, combined with the large existing asset base, suggests that public sector superannuation will continue to grow at or slightly below the industry average.

Figure 2: Superannuation financial flows, 1996-97 to 1997-98



Eligible Rollover Funds

A major solution available to superannuation funds for dealing efficiently with small inactive accounts is to transfer them into Eligible Rollover Funds. In this article we update the development of the ERF market.

If a superannuation fund has low value accounts with less than $1 000 in equity, it has the option of ‘member protecting’ the account or transferring the full account to an Eligible Rollover Fund (ERF). Where the fund does not wish to offer member protection and no suitable ERF can be found, the fund may transfer small accounts into the Superannuation Holding Account Reserve (SHAR) operated by the Australian Tax Office (ATO). If a fund has ‘lost member’ accounts it may also transfer those accounts into an ERF. All funds are required to notify the ATO on a half-yearly basis of their lost member accounts. The ATO then consolidates this information into the Lost Members Register.

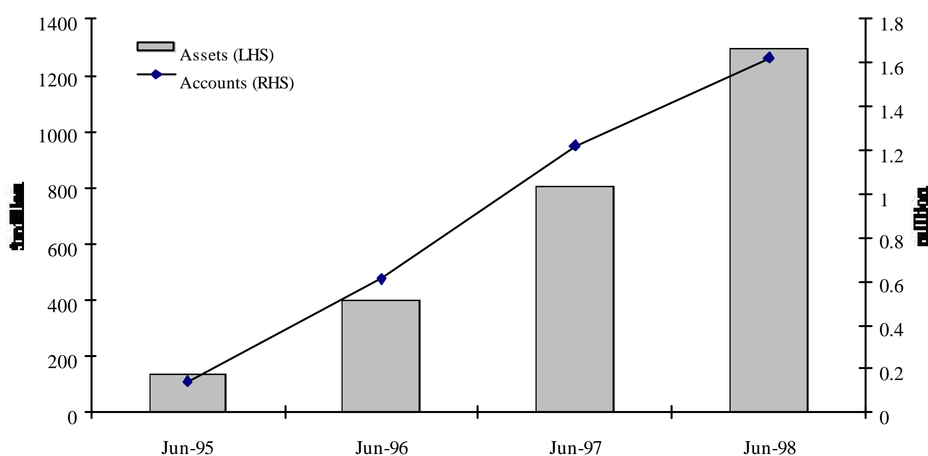
Fund members are considered to be lost when they are either uncontactable or inactive (no contributions or rollovers have been received in the last two years of membership when some would have been expected). Lost member accounts must be protected regardless of size.

Member Protection applies to member accounts with a balance of less than $1 000, and requires that the account balance cannot be reduced by fees or charges. In practice this means that fees and charges on the account cannot exceed its earnings, except in the event of negative investment returns. In practice, member protection occurs by the fund rebating the account for the value of the fees and charges in excess of the earnings accrued in the period. Since these arrangements can be administratively complex, many funds adopt the alternate strategy of transferring the full account into an ERF. Also, ERFs are required to offer member protection to all accounts and therefore they act to preserve the value of relatively small inactive accounts. In addition to member protection, many ERFs are also capital guaranteed, reflecting their low risk nature.

ERF Profile

This article updates the analysis presented in the June 1997 ISC Bulletin. The strong growth demonstrated by ERFs then has continued, and although not maintaining earlier levels, ERF growth continues to be the strongest in the superannuation industry. Assets under management (AUM) have increased on average

Figure 1: ERF growth 1995-98



111 per cent annually from $137 million at June 1995 to $1 294 million at June 1998. The growth rate in the number of member accounts has been even more pronounced at an average of 125 per cent annually, from 142 thousand at June 1995 to more than 1.6 million at June 1998. See figure 1.

In contrast, corresponding annual growth rates for the superannuation industry as a whole have been 17 per cent for assets under management and seven per cent for the number of accounts.

Regulation has clearly been the driving force underlying the consistent strong growth of ERFs. However it is likely that the high rate of labour force mobility in Australia has also contributed to their growth. For example, according to the Australian Bureau of Statistics, around 22 per cent of workers changed or started jobs in 1997. This high mobility particularly impacts superannuation funds dealing with casual and part time workers, especially as many of these workers quickly move on to new employers and new funds, often without arranging for their superannuation entitlements to be consolidated into a single fund. The introduction in 1997 of Retirement Savings Accounts (RSAs) was intended to be a mitigating factor against this trend and they may gain popularity amongst these types of workers. It is estimated that there were around 250 000 RSA account holders at June 1998 with an average account balance of around $2 200.

There are currently around 143 000 accounts in the SHAR fund administered by the ATO, worth a total of some $24 million (an average of $168 per account). At January 1999 the Lost Members Register contained some 2.5 million accounts worth $1.8 billion (an average of $720 per account). This represents around thirteen per cent of total superannuation member accounts. Given the comparative growth rates of ERF member accounts and total accounts, this proportion is likely to increase in the short term. Reflecting the composition of ERFs as being generally small, inactive or lost accounts, the average balance of an ERF account at June 1998 was $798 (an increase from $663 at June 1997).

ERF Characteristics

When accounts are transferred into an ERF there is usually no additional deposit on behalf of that account. ERFs therefore are not required to handle transactions other than the initial inward transfer and possibly an outward transfer if the member eventually claims their equity. This low transaction level allows ERFs to be extremely low cost superannuation funds. Reflecting this, ERFs in 1997-98 reported operating costs equating to an average of only 25 cents per account per week, or representing an average MER of slightly over one per cent. This is a far lower cost that experienced by mainstream superannuation funds. However, due to the member protection requirements these small costs cannot be passed onto members directly and are at least partially reflected in the investment returns provided by these funds.

Following this, ERF operators predominantly administer their funds using an ‘investment account’ approach rather than the more administratively expensive approach of assigning units and unit values.

Consistent with ERFs being essentially parking funds for very low value accounts and in line with their low risk nature, they usually also have extremely conservative investment strategies. For example, the assets of ERFs are overwhelmingly invested in cash and capital guaranteed life policies. Investment performance for ERFs is therefore comparatively low, averaging between seven and eight per cent annually since 1995-96. Given that most ERF members would most likely have little awareness of their ERF investment, ERFs are under much lower market competitive pressure from members than other forms of retail superannuation funds.

An important consequence of the very conservative investment returns achieved by ERFs is that their rapid growth is overwhelmingly due to inward deposits rather than earnings, in sharp contrast to the superannuation industry as a whole where investment earnings usually comprise the greater component of growth.

ERFs play a valuable role in maintaining the value of small, inactive and often lost accounts. They have many similarities to RSAs and may in fact be an alternative to an RSA, where a member ‘finds’ previously lost entitlements, as a vehicle to consolidate numerous small superannuation holdings.

Superannuation coverage update

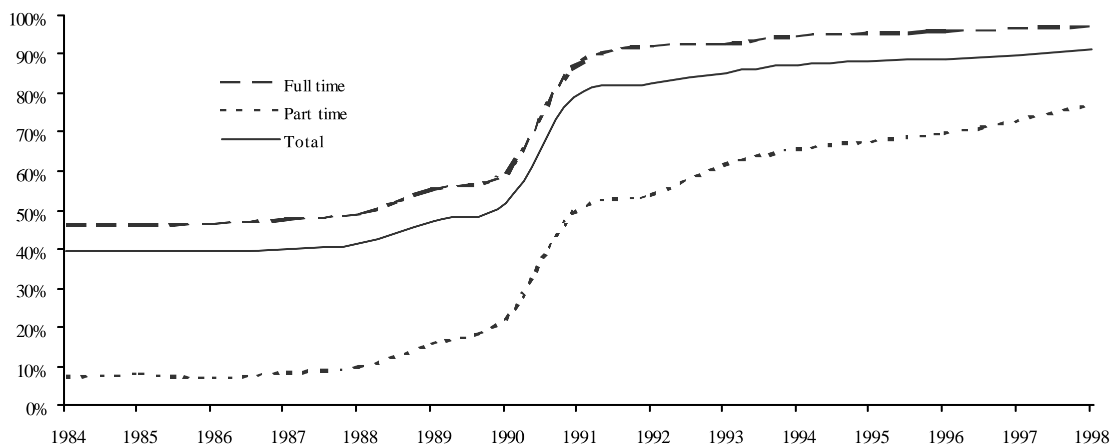
The Australian Bureau of Statistics has just released their latest figures for superannuation coverage in Australia. In this article we review these new figures and summarise the coverage trends.

As at August 1998 around 6.6 million employees were covered by superannuation[1]. This represents an overall coverage for all employees of 91.3 per cent, up marginally from 88.7 per cent two years ago. While coverage for full-time employees has essentially plateaued (at August 1998 being 96.9 per cent compared to 95.7 per cent two years previous) there are still significant increases occurring in the coverage of part-time employees. For example, at August 1998 part-time coverage was at 76.8 per cent, up from 69.7 per cent in August 1996. See figure 1.

The coverage rate for employees is now more than double the rate of the late 1980's, when only 40 per cent of employees were covered by superannuation. The greatest growth in coverage occurred with the establishment of Award superannuation (introduced during the late 1980' s and early 1990's). For example, the coverage rate for all employees increased from 41.4 per cent to 78.9 per cent in the period from 1988 to 1991. This was underpinned and expanded upon by the introduction of the Superannuation Guarantee, which has seen the coverage rate increase by a further 12.4 per cent. The Superannuation Guarantee regime worked primarily at covering any gaps in award coverage for workers and to specify minimum levels of entitlement to superannuation rather than coverage per se.

While recent figures are not available for the superannuation coverage of the self-employed, it remains likely that their coverage rate is significantly lower than that for employees. For example, in November 1995 superannuation coverage for employers (including the self-employed) was only 36 per cent. This may have been a reflection of small business conditions forcing them to divert any discretionary savings into their businesses rather than into their superannuation arrangements. Anecdotal evidence suggests that since 1995 there has not been any large increase in coverage of the self-employed. One reason for this may be the recently announced capital gains tax relief on rollover of the proceeds from the sale of small business for retirement income purposes may lessen the perceived need by small business owners to have separate superannuation accounts. However, the definition of self-employed

Figure 1: Employee superannuation coverage 1984-1998



in the ABS statistics does not include those individuals who may be employees of their own privately owned company. The growth in excluded fund numbers suggests that there may be increasing coverage in this sector of the industry. Individuals in this situation can be considered intuitively to be ' self-employed' .

Sex differences

There is a 20 percentage point difference between superannuation coverage for full and part time employees. However, there is a gap of only three percentage points between superannuation coverage for male and female employees.

This demonstrates that the primary reason for differences in superannuation coverage between the sexes is due most likely to their differing working patterns rather than gender differences per se. For example, while males make up 65.5 per cent of full-time employees, females make up 73.4 per cent of part-time employees.

Reflecting the greater proportion of females that work part-time as compared to males the overall superannuation coverage for males (at 92.5 per cent) is slightly higher than for females (at 89.7 per cent). Nonetheless, growth in female employment accompanied by increases in female superannuation coverage has seen the gender gap in superannuation coverage reduce from 14 percentage points in 1990 to under three percentage points in August 1998.

It is interesting to note, however, that superannuation coverage for female full-time employees is now slightly higher than that of male full-time employees at 97.3 per cent and 96.7 per cent respectively. Additionally, the level of superannuation coverage for male part-time employees is considerably lower than is the case for female part-time employees at 66.2 per cent and 80.6 per cent respectively.

Full-time and part-time employees

There remains a significant difference between the coverage for full-time employees and the coverage for part-time employees. The overall coverage rate for full-time employees is 96.9 per cent, while the coverage rate for part-time employees is much lower at only 76.8 per cent. This difference is most likely due to the seasonal or cyclical nature of much part-time work and the increased likelihood of the income received by a part-time worker being below the threshold requiring superannuation contributions to be made on their behalf.

As previously mentioned, part-time male employees have a coverage rate of only 66.2 per cent compared to the part-time coverage rate for females of 80.6 per cent. The industries that have low coverage for part-time males include retail, recreational and personal services industries, which historically have demonstrated particularly seasonal or cyclical employment patterns. Notwithstanding this however, all industries have shown increases in superannuation coverage since August 1996 for part-time employees.

The coverage rate for part-time employees is increasing in importance as the work force moves towards more part-time employment arrangements. For example, as at August 1998 28 per cent of employees were considered to be part-time, up from 18.1 per cent in November 1988.

Multiple accounts

The Australian Bureau of Statistics results suggest that in August 1998 there were around 7 million people in Australia covered by superannuation (including both employees and the self-employed). In contrast, APRA analysis published elsewhere in this Bulletin reveals that in September 1998 there were more than 19 million separate superannuation accounts in Australia. This suggests each person with superannuation has on average 2.7 accounts, up from 2.5 in August 1996, and 2.4 in November 1995. Put another way, while the number of people covered by superannuation has increased by 10.0 per cent since November 1995, the number of superannuation accounts has increased by 22.1 per cent over the same period.

This could partially be a result of the increasing growth in part-time employment. For example, as part-time and casual workers change jobs they may leave superannuation savings in the separate accounts established for them by each employer, rather than consolidate these into a single superannuation arrangement. The limited transportability of some superannuation funds, for example defined benefit schemes or public sector workers moving into the private sector, may also have contributed to this result.

Viewed overall the result indicates that on average individuals are becoming members of more superannuation funds, rather than establishing a single

superannuation account that they can use throughout their working lives. The potential impact of this is a significantly lower level of retirement income than may otherwise have been the case, along with an increased risk of superannuation money becoming ‘lost’. The latest Australian Taxation Office figures indicate that the member account figures include 2.5 million lost accounts, representing assets of $1.8 billion.

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1. Source for coverage figures quoted in this article ABS Cat No’s 6334.0, 6319.0, 6310.0 and 5325.0

Guide to the Australian retirement income system

The Government is committed to a retirement income policy that provides encouragement for individuals to achieve a higher standard of living in retirement. In this article we provide a comprehensive guide to the current Australian retirement income system.

Rationale

Demographic trends towards an ageing population, and the need for fiscal restraint, have shaped the federal Government's policy of encouraging greater self provision of retirement income through private superannuation.

Australia's population aged 65 years and over is projected to rise from 2.2 million in 1995 to around 4 million in 2021 and around 6 million in 2051 (or some 23 per cent of the projected total population). The expected growth in the aged population will exert pressure on government outlays, and present a challenge for the realisation and delivery of adequate retirement incomes.

In addition, Australia must increase its national savings to reduce its reliance on borrowing from overseas with its cost and attendant risks. The Government has recognised the useful role superannuation could play in boosting national savings, thus reducing Australia's traditionally heavy dependence on foreign capital to finance investment and generate economic growth.

The Government is committed to a retirement income policy that provides encouragement for individuals to achieve a higher standard of living in retirement than would be possible from the Age Pension alone, but also ensures that all Australians have security and dignity in retirement. This is achieved by:

- encouraging people who are able to save for their retirement to do so, particularly through concessionally taxed superannuation;
- ensuring the provision of an adequate public safety net in the form of an Age Pension for Australians who are unable to support themselves in their retirement years;
- ensuring the system is predictable, but facilitates choice and is equitable; and ensuring the system is fiscally sustainable and delivers an increase in national saving.

Framework

The retirement income system in Australia consists of:

- a means-tested public pension system;
- the occupational superannuation system made up of two broad elements:
- compulsory superannuation arrangements; and
- voluntary superannuation arrangements.

The Age Pension

The age pension system is paid from Australian federal government general revenues (non-contributory payment). The age pension system is administered by the federal Department of Family and Community Services and the Commonwealth Services Delivery Agency (Centrelink). The age pension is available on a means-tested basis (see below) to men aged 65 or over and women aged 61 years or over (from 1 July 1997) and to some wives of age pensioners who are not eligible for a pension in their own right. The payment structure consists of a basic rate which varies with marital status. The single or unpartnered rate is 60 per cent of the combined partnered rate. To this may be added a range of subsidiary payments depending on the circumstances of the recipient.

The rate of payment is subject to an income and assets test (means-test) to target the age pension at those in most financial need. The pension is calculated under the two separate tests and the test which results in the lower rate of pension is the one which applies. Each test has an allowable limit of income or assets before the maximum rate of pension is reduced on a tapered basis.

Since 1990, the single rate of pension has been maintained at 25 per cent of Male Total Average Weekly Earnings (MTAWE). In addition to the

underlying rate of payment, federal Government expenditure on the age pension depends on the number of persons receiving payments, means testing arrangements, and the assets and or savings people have when they retire.

The major issue facing the program is the expected increase in the aged population into the first half of the next century as explained above. The challenge of an ageing population is heightened by changing patterns of employment, including a trend toward early retirement. The above factors could lead to a narrower taxpayer base supporting a larger age pension population.

The age pension system is one of the largest federal Government expenditure programs, with some 1.6 million (or 73%) of age pension recipients out of 2.5 million of Australia's population aged 65 years and over (male) and 61 years and over (female) in 1997. In 1997/98, the universal pension outlay was A$13 billion representing 9.5 per cent of the federal Budget total of A$137 billion and 31 per cent of federal Budget social security outlays of A$42 billion.

Major trends which are having a moderating effect on outlays growth include a higher level of savings for retirement and increasing levels of workforce participation by older women. As part of the Government's response to the pressure of an ageing population, and in recognition of increasing labour force participation by women, their eligibility for the age pension is being gradually aligned with that for men. The first increase in eligibility for women, to 60 years and 6 months, took place in July 1995. This was followed by an increase to 61 in July 1997, and further six-monthly increases every two years until it reaches 65 in July 2013.

The encouragement of greater self-provision in retirement, particularly in the last decade, through occupational superannuation, has contributed to larger numbers retiring with increased assets and or savings. Superannuation coverage has increased considerably. For example, in November 1991, 79 per cent of full-time workers and 44 per cent of part-time workers were covered by superannuation schemes. In August 1998, this had expanded so that 97 per cent of full-time workers and 77 per cent of part-time workers were covered by superannuation schemes.

Despite such improvements in superannuation coverage, for most Australians superannuation will merely supplement rather than replace the age pension in retirement. The age pension will therefore continue to be a central pillar of the Government's retirement income system. Furthermore, a trend toward early retirement, especially amongst men, could further reduce the contribution of superannuation towards retirement incomes, and counter the projected benefits of superannuation in reducing the growth in Age Pension outlays.

The design of means-testing arrangements is critical to containing costs, while at the same time it should not act as an impediment to self-provision in retirement. The interactions between the social security, taxation and superannuation systems are such that changes in one system have the potential to have a significant impact on the others.

Compulsory Superannuation Arrangements

Under the compulsory arrangements there are two types of superannuation contributions: those required to be paid under industrial agreements and awards and those made in lieu of the Government-legislated Superannuation Guarantee Charge.

- Industrial agreements and awards

  Many industrial agreements and awards provide that employers must contribute certain amounts of money, in general, equivalent to about 3 per cent of the employee's wages or salary to a superannuation fund prescribed under the particular industrial agreement or award. However, there were deficiencies in these arrangements resulting in many employees not being covered by award superannuation. The realisation of these deficiencies, together with broader social policy considerations such as the prospect of an increasing fiscal burden in respect of the age pension arrangements due to an ageing population, contributed to the previous Australian Government's decision to establish the Superannuation Guarantee Charge arrangements from 1992.

- Government legislated Superannuation Guarantee Charge (SGC).

  The SGC arrangements, on the other hand, provide that all employers must provide minimum superannuation support for

employees earning over A$450 per month, with a few minor exceptions, if employers want to avoid paying a superannuation guarantee charge to the Australian Taxation Office (ATO). The Charge, if paid, will then be distributed in the form of a voucher by the ATO to the relevant employees as directed. The employee can present the voucher to any complying superannuation fund which will redeem it for an amount equal to the value of the voucher.

The actual level of employer support required to avoid the SGC is measured differently depending on whether the superannuation fund which receives the employer support is a defined contribution (accumulation) fund or a defined benefit fund. The support can be made to any regulated complying superannuation fund or Retirement Savings Accounts (RSAs) (see later section on Superannuation Industry Structure). With an accumulation fund, the employer contributes at a defined rate of salary and an employee's benefits are based on these accumulated contributions plus earnings. With a defined benefit fund, the employer makes whatever contribution rate is required to provide an employee with a defined benefit. The defined benefit may be a multiple of an employee's final salary, or a specified amount, or both. In this case, the employer support needs to be determined by actuarial calculation and the employer needs to obtain and produce a certificate showing the notional employer contribution rate.

The minimum level of support is prescribed in legislation commencing on 1 July 1992 at 3 per cent of an employee's earnings and increasing gradually to 9 per cent by the year 2002/03. The level is 7 per cent for the year 1998/99.

In practice, the support under the SGC has now effectively supplanted the superannuation contribution under industrial awards. Award superannuation contributions made to a complying superannuation fund will count toward the minimum level of superannuation support under the SGC arrangements.

Voluntary Superannuation Arrangements

- Employer superannuation benefits

  Many employers, especially large companies and most public sector employers, provide superannuation support over and above that which is required under the SGC or awards. However, the conditions of this benefit vary between employers, usually depending on length of service and human resource management considerations.

- Personal contributions

  Subject to some legislated conditions, generally concerning a 'gainful employment' and age test, and any restrictions in a fund's trust deed, individuals can make personal contributions to a superannuation fund, either by personal remittance or through salary deductions. Often, the person can make contributions to the same fund to which his or her employer contributes. Also, some employees are able, with the consent of their employer, to make contributions out of pre-tax salary. These contributions, commonly referred to as 'salary sacrifice' are treated as employer contributions for taxation purposes (see below).

  An alternative is to contribute to a personal superannuation fund or policy which the person can arrange with a financial institution or a life insurance company or a retirement savings account operated by a bank, building society, credit union or life company.

  Under the 'gainful employment' and age test, a superannuation fund can accept contributions in respect of a member up to the age of 70 only if the contributions are mandated employer contributions, or the member is gainfully employed on a part-time or full-time basis for at least ten hours per week; the 'age test' generally precludes contributions by persons over age 70 years in order to prevent superannuation being used as an estate planning vehicle. An exception to the gainful employment test is for contributions after 1 July 1998 to a spouse.

At present, benefits arising under compulsory superannuation arrangements and benefits from contributions that led to a taxation deduction or rebate must be preserved in the fund until the preservation age, currently 55 for people born before 1 July 1960. That is, except in certain limited circumstances, funds cannot pay retirement or resignation benefits to members until they attain the preservation age, unless the benefit is taken in the form of a lifetime pension or annuity. The circumstances under which early access to preserved benefits is permitted are death, total and permanent disability, and severe financial hardship and compassionate grounds (as statutorily defined).

The preservation age is being increased gradually to 60 by the year 2025 and the preservation rules are bring tightened so that from 1 July 1999 all contributions (member and employer) and earnings will be required to be preserved.

Taxation Treatment of Superannuation

- Contributions

  Employer superannuation contributions made for the benefit of employees to a fund complying with the superannuation supervisory legislation are tax deductible. However, there are limits to the levels of deductible contributions, up to the Maximum Deductible Contributions prescribed in the Income Tax Assessment Act 1936. The Maximum Deductible Contributions for the year 1998/99 are as follows:

Age of member	Max Deductible Contribution
under 35	A$10 600
35 to 49	A$29 443
50 and over	A$73 019

  Self-employed persons and employees who do not receive any employer superannuation support are allowed a tax deduction for their personal contributions to a complying superannuation fund or RSA. The limits are a deduction up to A$3 000 per annum plus 75% of the amount by which personal contributions exceed A$3 000, but not more than the Maximum Deductible Contributions above.

  Lower income earning employees are allowed a tax rebate of 10 % of up to A$1 000 of personal contributions. The maximum rebatable contribution reduces by 25 cents for each dollar of assessable income over A$27 000 - reducing to zero where assessable income is A$31 000 or more.

  From 1 July 1998, persons who make personal undeducted (after tax) superannuation contributions will be eligible for a tax rebate on contributions up to $3 000 per annum. The rebate is at a rate of 7.5 % of the contributions from 1 July 1998 (a maximum rebate of $225).

  From 1 July 1997, a person who makes superannuation contributions for a low income or non-working spouse would be eligible for an 18 % income tax rebate for contributions up to A$3 000 per annum.

  Superannuation contributions by or on behalf of persons with an annual indexed income in 1998/99 of over A$75 856 are subject to a surcharge payable by the relevant superannuation funds to the ATO. Annual income is defined for this purpose as taxable income plus any employer/self-employed deductible superannuation contributions for the year of income. The surcharge varying from 1 % to 15 % is phased in over the annual income range of A$75 856 to A$92 111.

- Superannuation fund income

  A complying superannuation fund is subject to tax at a concessional rate of 15 % on its income - including certain contributions received by the fund, investment income and realised capital gains of the fund. (This compares with the company tax rate of 36 %). A fund which does not comply with the conditions for concessional tax treatment (ie, the operating standards set out in the Superannuation Industry (Supervision) Act 1993 - see below) is taxed at the rate of 47 % on its income.

- Benefits

  Taxation of superannuation has been designed to encourage the taking of occupational superannuation benefits in the form of an income stream (ie, pension or annuity) rather than a lump sum. This encouragement takes the form of a higher limit on the maximum amount of concessionally taxed superannuation benefits a person can receive during his or her lifetime (Reasonable Benefit Limit) for pensions and annuities (A$942 175 in 1998/99) than for lump sums (A$471 088 in 1998/99).

  Lump sum benefits are taxed as follows:

  For lump sum amounts within the prescribed reasonable benefits limit of A$471 088 in 1998/99.

Age of beneficiary	Taxed *	Untaxed *
Up to 55	20%	30%
55 and over:		
Up to A$93 731	Nil	15%
Excess over A$93 731	15%	30%

* Taxed or untaxed means whether the fund has been taxed while the benefit has been accumulating or is provided.

  Amounts of lump sum benefits above the reasonable benefit limit are included in the person's assessable income and taxed at his or her marginal rate of tax which can be up to 47%, not counting the Medicare levy, amounting to 1.5 % and for certain individual taxpayers without private health insurance, 2.5% in 1998/99.

  Annuity and Pension

  The amount of the periodic pension or annuity is taxed in the recipient's hands as ordinary income in the year of receipt. However, the pensioner or annuitant receives a deduction for the amount of the pension or annuity which represents the return of the undeducted purchase price (UPP) divided by the number of years the pension or annuity is expected to be payable. The UPP is generally an amount contributed to a pension fund or a life company to secure the payment of the pension or annuity and for which no tax deduction was available or made to the contributor.

  In addition, a flat annual 15% rebate is available in respect of all rebatable superannuation pensions and annuities paid from taxed superannuation funds or life companies.

Superannuation Industry Structure

In general, superannuation is provided by the following six broad types:

- Corporate funds:

  sponsored by a single non-government employer, or group of employers.

- Industry funds:

  established under an agreement between the parties to an industrial award.

- Public sector funds:

  sponsored by a government employer (at Federal, State or Territory level) or government controlled business enterprise.

- Excluded funds

  those that have less than 5 members (ie, 'mum and dad' funds set up by small business proprietors, professional persons, farmers etc.).

- Retail funds

  pooled superannuation products sold commercially through intermediaries (ie, marketed to the general public). Retail funds include master trusts and personal superannuation products offered by life insurance companies and other financial institutions.

- Retirement Savings Accounts (RSAs)

  are simple, capital guaranteed superannuation products offered by banks, building societies, credit unions and life insurance companies directly off their balance sheets. They are owned and controlled by the superannuation members holding the accounts.

Life insurance companies distribute superannuation and related products through their own personal superannuation plans and master trusts, and provide life insurance, investment, consulting and administration services to other superannuation funds. Generally speaking, to be eligible for superannuation concessional taxation treatment, a life insurance product offered by life insurance companies must be structured as a superannuation product. A superannuation product must comply with the requirements of the superannuation supervisory legislation.

Superannuation Supervision Standards

Superannuation funds

Superannuation funds are supervised by APRA under the *Superannuation Industry (Supervision) Act 1993* (SIS Act) in respect of prudential and retirement income policy requirements. APRA also monitors the compliance of institutions providing the RSAs with certain retirement income standards under the *Retirement Savings Accounts Act 1997* (RSA Act).

The SIS Act imposes obligations on superannuation fund trustees, auditors and actuaries. Responsibility for the viability and prudent operation of funds ultimately rests with fund trustees. The Act also empowers APRA to take action against trustees, actuaries and auditors who have breached certain operating standards.

Most funds must elect to be regulated under the SIS Act to be eligible for concessional taxation treatment. Funds must then comply with a range of standards designed to ensure that the fund's assets are managed prudently and used for genuine retirement income purposes (**sole purpose test**). These include:

- codification of the main fiduciary duties of trustees, including a requirement to formulate and give effect to an **investment strategy** which has regard to risk, return, the need for liquidity, the benefits of diversification and current and prospective liabilities;
- extensive member reporting rules (when members join the fund, annually and on exit) - administered not by APRA, but by ASIC;
- requirements for equal numbers of employer and employee representatives on the trustee boards of large employer-sponsored funds;
- APRA-trustee approval processes for public offer superannuation funds;
- the lodgement of annual returns with the APRA including certification that the fund's accounts have been audited by an external 'approved auditor';
- internal inquiry and complaints handling mechanisms and compliance with any determination of the external, statutory-based Superannuation Complaints Tribunal - administered not by APRA, but by ASIC; and
- certain investment restrictions, such as borrowing, lending to members and limits on loans to or investments in an employer-sponsor of the fund.

In general, the approach adopted in Australia for financial supervision of superannuation funds is market oriented, with an emphasis on minimising commercial and regulatory interference, except for prudential and retirement income purposes. Direct investment controls are eschewed on the basis that trustees should be given wide investment freedom to maximise returns for members, subject to an appropriate regard to risk. There is no legislative requirement for investment in 'government' or other securities by public and private superannuation funds.

The SIS Act and Regulations also prescribe a number of retirement income standards which funds must observe. These aim to ensure that the superannuation taxation concessions are used for genuine retirement income purposes. The standards include:

- the general preservation of benefits, that is non-payment of benefits out of a fund to a member until retirement on or after age 55 years, except in the event of death, total and permanent disablement, severe financial hardship or on compassionate grounds (as statutorily defined);
- the compulsory payment of benefits out of a fund when the member reaches a certain age, generally 65 at present; and
- prohibition on fees and charges exceeding earnings in respect of account balances less than $1 000, except where the fund suffers negative investment returns.

Retirement Savings Accounts (RSAs)

The major difference between RSAs and traditional superannuation products is the absence of a trust structure. In essence, RSAs are deposits or life policies provided directly from a deposit taker's balance sheet or a life company's statutory fund. The distinguishing feature of such deposits or life policies, however, is that the product must meet the retirement income standards set out in the SIS Act.

Prudential supervision for institutional soundness is carried out under the existing regulatory frameworks, that is under the Banking Act 1959 administered by APRA in the case of bank RSA providers, the Life Insurance Act 1995 administered by APRA in the case of life companies or the Australian Financial Institutions Commission and State Supervisory Authorities in the case of building society and credit union RSA providers.

RSA providers are subject to a separate approval and annual reporting process, and must comply with retirement income and other superannuation standards, as set out in the RSA Act administered by APRA.

To ensure competitive neutrality between RSAs and 'capital guaranteed' products offered by traditional trust-based superannuation entities, the SIS regime permits public offer funds that offer products with an equivalent and suitably backed capital guarantee to RSAs to use similar reduced disclosure requirements and to market those products as 'RSAs'.

Choice of funds

Legislation has been introduced into Parliament to provide employees with greater choice as to which fund receives compulsory employer superannuation contributions made on their behalf. Under the legislation, employers will be required to offer new employees from 1 July 1999 a choice of four (or more) complying superannuation funds or RSAs to which such contributions could be paid. Alternatively, employers can provide unlimited choice (with the employee nominating the fund) or superannuation arrangements can be provided for in a certified agreement, Australian Workplace Agreement or informal agreement. Employers will be required to give employees 28 days in which to make their choice. Where the employee does not nominate a fund or RSA within the required time, contributions will be made to the fund or RSA nominated by the employer.

For existing employees, employers must provide a similar choice within two years of the date of effect of the legislation (ie, 1 July 2000).

ASIC information release

Issued on Wednesday 13 January 1999 this Information Release explains in detail the functions transferred to the Australian Securities and Investments Commission (ASIC) from the Insurance and Superannuation Commission (ISC).

On 1 July 1998 the Australian Securities and Investments Commission (ASIC) assumed the consumer-protection responsibilities of the former Insurance and Superannuation Commission (ISC) while the ISC's prudential regulation functions were transferred to the Australian Prudential Regulation Authority (APRA).

This Information Release will provide information on these consumer-protection related functions assumed by ASIC from the ISC. Specifically, it provides information about:

- the legislative provisions, regulations, ISC Instruments and ISC Circulars and other published statements of policy which are now administered by ASIC; and
- how references to the 'ISC' or 'Commissioner' are to be read.

Refer to our Website (http://www.asic.gov.au) for more detailed information about whether ASIC or APRA is the regulator in relation to various regulations, ISC Instruments and ISC policies as at 1 July 1998.

An attached table summarises this information release.

Legislation

ASIC performs all the functions previously carried out by the ISC under :

i. The Insurance (Agents and Brokers) Act 1984;

ii. The Insurance Contracts Act 1984;

iii. The Superannuation (Resolution of Complaints) Act 1993.

In addition, ASIC performs functions under the following (previously carried out by the ISC):

i. The following provisions of the Superannuation Industry (Supervision) Act (SIS):

- Parts 18-20 and 22;
- Sections 64A, 101, 103 and 140;
- Parts 3 and 6 and section 105 for some purposes (essentially disclosure-related);
- Parts 1, 25 (other than Division 3) and 26-31 for the purposes of ASIC' s administration of the provisions it administers (refer to Schedule 16 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998; Section 6 of SIS).

ii. The following provisions of the Retirement Savings Accounts Act:

- Part 5 (other than section 49);
- Parts 7 and 8;
- Section 184;
- Sections 37-39 and 49 for some purposes (essentially disclosure-related);
- Parts 1, 2, 10, 12-15 and 16 (other than sections 183, 184, 193 and 194) for the purposes of ASIC's administration of the provisions it administers (refer to) Schedule 15 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998; section 3 of the RSA Act).

iii. The following provisions of the Life Insurance Act:

- Part 10 other than sections 206 to 210;
- Parts 1, 2, 7 and 11 for the purposes of ASIC's administration of the provisions it administers. (refer to Schedule 13 to the Financial Sector Reform (Amendments and

Transitional Provisions) Act 1998; section 7 of the Life Insurance Act)

iv. Section 113 of the Insurance Act. (refer to Schedule 9 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998).

Other functions under the Acts referred to above are now performed by APRA.

Regulations

ASIC has assumed responsibility for the administration of those Regulations made for the purpose of legislative provisions for which ASIC now has administrative responsibility. For example, those Regulations which are Operating Standards under Part 3 of SIS fall within ASIC's responsibility where they relate to those (disclosure-related) matters set out in section 6(1)(d) of SIS.

ASIC is also responsible for exercising those powers now expressly conferred (by recent amendments to Regulations) on 'ASIC' in substitution for 'ISC' or 'Commissioner' (eg the power in SIS Reg. 2.19(3)).

Refer to our Website for more detailed information: http://www.asic.gov.au

ISC Instruments made under statutory powers

ASIC is responsible for those ISC Instruments which could have been made by ASIC had they been actually executed on or after 1 July 1998.

For example, ASIC is responsible for the Determination made by the ISC under section 153 of SIS because the relevant power is now vested in ASIC.

Instruments for which ASIC is responsible are deemed to have been made by ASIC immediately after the commencement of the new regime (refer to items 35 and 36 of Schedule 19 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998).

Accordingly, instruments previously executed by the ISC under the following legislation are deemed to be instruments executed by ASIC:

- The Insurance (Agents and Brokers) Act;
- The Insurance Contracts Act;
- The Superannuation (Resolution of Complaints) Act.

Instruments executed by the ISC under the following legislation are deemed to be instruments executed by ASIC *to the extent to which they could, after 1 July 1998, have been executed by ASIC*:

- The Superannuation Industry (Supervision) Act;
- The Retirement Savings Account Act;
- The Life Insurance Act;
- The Insurance Act.

Refer to our Website for more detailed information: http://www.asic.gov.au

References to "ISC" or "Commissioner" in ISC Instruments should be construed as references to "ASIC" where the reference relates to a legislative provision or function for which ASIC now has administrative responsibility.

For example, clause 44 of the Determination under Section 153 of SIS contains a reference to the "Insurance and Superannuation Commissioner". This reference to ISC should be construed as a reference to ASIC thereby requiring Key Features Statements issued on or after 1 July 1998 to refer to ASIC.

(*Note*: Any current disclosure documentation which refers to the ISC rather than ASIC need not be withdrawn, but may be corrected by way of a sticker or insert pursuant to clause 29 of the Determination. The need for such a change is underpinned by the overriding requirement to prevent any misleading or confusing effect from any literal compliance with the Determination (clause 32). Clause 32 should be borne in mind whenever a requirement of the Determination becomes outdated due to, for example, legislative change).

Over time ASIC will review and, where appropriate, modify or revoke these ISC Instruments in conjunction with a review of the underlying policy rationale behind the instrument, in light of our new financial-sector wide consumer role and in harmony with ongoing legislative processes (in particular, the CLERP law reform process).

ASIC is currently reviewing ISC Modification Declaration No. 13. This Modification has the effect of inserting a definition of 'Commissioner' in section 224 of SIS for the purposes of the unclaimed money provisions contained in Part 22 of SIS. This reference

to "Commissioner" should be construed as a reference to ASIC. This is because the expression "Commissioner" could have no sensible meaning other than "ASIC" in an instrument deemed to be made by ASIC where the reference relates to a legislative provision or function for which ASIC now has administrative responsibility (such as superannuation unclaimed monies).

This approach to ISC Modification Declaration No. 13 preserves the intended effect of the instrument, ie to transfer responsibility for the payment of superannuation unclaimed monies and the lost member's register to the Australian Taxation Office. However, in order to remove any doubt and/or confusion in this area, ASIC will modify or replace Modification Declaration No. 13 in the near future.

ISC Circulars and other published policy

ASIC is responsible for all ISC Circulars and other published policy which relate to those functions which ASIC assumed from the ISC on 1 July 1998.

To determine whether ASIC is responsible for a given ISC policy (ie Circular or other public document, other than a formal instrument) it is necessary to:

- first, determine the legislative provision (or provision of regulations) or function to which it relates; and
- then, determine whether that identified provision or function is within ASIC's responsibilities.

For example, ASIC is responsible for ISC Circular G.I.1 given that it relates to disclosure in the life insurance sector, which is an ASIC responsibility.

Refer to our Website for more detailed information: http://www.asic.gov.au

In administering ISC Circulars and other published policy, ASIC will construe references to "ISC" or "Commissioner" contained in such policies as references to "ASIC" where the reference relates to a legislative provision or function for which ASIC now has administrative responsibility. For example, where an ISC Circular or other policy requires information to be given to the ISC, that information should now be given to ASIC.

Initially, we will generally administer those ISC policies for which we are responsible without significant modification. Over time we will review these policies in light of our new financial-sector wide consumer role and in harmony with ongoing legislative processes (in particular, the CLERP law reform process).

Transitional Matters

Any act done (eg lodging a document) under the following legislation prior to 1 July 1998 is deemed to be an act done in relation to ASIC:

- The Insurance (Agents and Brokers) Act;
- The Insurance Contracts Act;
- The Superannuation (Resolution of Complaints) Act.

(Refer to Item 36 of Schedule 19 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998).

Any act done under a provision of the following legislation prior to 1 July 1998 is deemed to be an act done in relation to ASIC to the extent to which that provision is administered by ASIC after 1 July 1998:

- The Superannuation Industry (Supervision) Act;
- The Retirement Savings Account Act;
- The Life Insurance Act;
- The Insurance Act.

(Refer to Item 35 of Schedule 19 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998).

ASIC is substituted for the ISC in any legal proceedings relating to a function of ASIC (refer to Item 36 of Schedule 19 to the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998).

Queries

For general queries regarding ASIC's new functions assumed from the ISC: Call our Infoline on 1300 300 630 during business hours.

We encourage you to direct queries to Infoline in the first instance. However, if you have an urgent question in relation to this information release you may contact the officers below:

Angela Longo or Andrew Serpell
Regulatory Policy Branch

Tel: (03) 9280 3316 or Tel: (03) 9280 3573

Type of document	What former ISC responsibilities are now assumed by ASIC?	How should you read references to the ISC?	Where can documents be obtained?
Legislation	All functions previously carried out by the ISC under: • The Insurance (Agents and Brokers) Act 1984 • The Insurance Contracts Act 1984 • The Superannuation (Resolution of Complaints) Act 1993 Some functions previously carried out by the ISC under: • The Superannuation Industry (Supervision) Act 1993 • The Retirement Savings Account Act 1997 • The Life Insurance Act 1995 • The Insurance Act 1973.	References to 'ISC' or 'Commissioner' in these Acts were changed to ASIC or APRA (as appropriate) by the Financial Sector Reform (Amendments and Transitional Provisions) Act 1998).	Australian Government Printing Service The Treasury's Website: http://www.treasury.gov.au
Regulations	Those Regulations made for the purpose of legislative provisions for which ASIC now has administrative responsibility. Exercising those powers now expressly conferred (by various amendments to Regulations) on 'ASIC' in substitution for 'ISC' or 'Commissioner'.	References to 'ISC' or 'Commissioner' in relevant Regulations were changed to ASIC or APRA (as appropriate) by various amendments to Regulations commencing on 1 July 1998.	Australian Government Printing Service The Treasury's Website: http://www.treasury.gov.au
ISC Instruments made under statutory powers	Those ISC Instruments which could have been made by ASIC had they been actually executed on or after 1 July 1998.	References to 'ISC' or "Commissioner" should now be read as references to 'ASIC' where the reference relates to a legislative provision or function for which ASIC now has administrative responsibility.	ASIC's Infoline: Call 1300 300 630.
ISC Circulars and other published policy	All ISC circulars and other published policy which relate to those ASIC functions assumed from the ISC on 1 July 1998.	References to 'ISC' or "Commissioner" should now be read as references to 'ASIC' where the reference relates to a function for which ASIC now has responsibility.	ASIC's Infoline: Call 1300 300 630.

Superannuation survey highlights - December 1998

Main features

- Total superannuation assets had reached $377.4 billion by the end of December 1998, representing growth of 3.7% during the quarter, or 11.6% during the year ending December 1998.
- The number of member accounts rose 2.5 per cent during the quarter and now stands at around 19.5 million.
- Contributions during the year ending December 1998 were up 18.8% compared to the previous 12 months, increasing from $31.2 billion to $37.1 billion.
- The strongest growth continues to come from member contributions, increasing by 24% over the previous year to $14.4 billion. Employer contributions increased by 16% to $22.7 billion.
  - the SG level increased from 6% to 7% from July 1998.
- Benefit payments (excluding outward transfers) during the year ending December 1998 were up 7.1% compared to the previous 12 months, increasing from $20.5 billion to $21.9 billion.
- Net contributions (that is, contributions less benefits) for the year ending December 1998 were $15.2 billion, up 41% on the previous 12 months.
- Superannuation funds experienced strong overall investment returns during the December quarter, such that net earnings accounted for 76% of all asset growth during the quarter while net deposits accounted for the remaining 24% of asset growth.

Industry structure

The assets managed by small self-managed funds (ie, excluded funds with less than 5 members) grew fastest during the year ending December 1998, increasing by 24% (or $9.2 billion). This was closely followed by industry and retail funds which grew by 21% and 20% respectively (or $4.6 billion and $16.8 billion respectively) during the last year.

Public sector assets grew by 14% ($10.1 billion) during the year. Corporate fund assets grew by 10%, or $6.4 billion.

Retail funds currently hold around 27% ($101.6 billion) of total superannuation assets, public sector funds hold 22% ($83.7 billion), corporate funds 18% ($69.5 billion), excluded funds 12% ($47.1 billion), and industry funds 7% ($26.3 billion).

The public sector fund, industry fund, excluded fund and retail market segments all increased their market shares slightly during the year ending December 1998, while that of the corporate funds declined marginally.

The proportion of the superannuation industry represented by the 'balance of statutory fund' assets (which represents annuity products, fund reserves and unallocated profits of life office statutory funds) was 13% at December 1998.

The assets managed through Retirement Savings Accounts (including existing superannuation funds and sub-funds deemed to be RSA look-alikes) reached $709 million at December 1998. This is a growth of 112% (or $374 million) since December 1997, however it has been mainly due to the reclassification of existing assets as belonging to an RSA look-alike product. The share of superannuation assets in RSAs remains at less than 1%.

Contributions and benefits

During the December quarter, employers contributed $5.5 billion into superannuation, up 12.6% on the 1997 December quarter. This increase is in line with expectations associated with the increase in the level of SG from the beginning of the financial year. In contrast, the $3.7 billion which employees contributed into superannuation during the same period was up 14.9% on the previous December quarter. Overall, December 1998 quarter contributions were up 13.5% on the December 1997 quarter.

Inward transfers remained at their usual levels, accounting for 38% of all money deposited into superannuation funds during the December quarter.

Lump sums, excluding outward transfers, accounted for 78% ($4.6 billion) of the benefits paid during the December quarter. The remaining 22% ($1.3 billion) of benefits were paid as pensions. Outward transfers accounted for 43% of all fund withdrawals during the December quarter, similar in relative importance to inward transfers.

Benefit payments, excluding transfers, during the year ending December 1998 were up by 7.1% compared to the previous 12 months (with lump sum payments increasing by 5% and pensions by 17%). With the higher growth rate in contributions compared to benefit payments, net contributions (ie., contributions less benefits) rose dramatically (40.9%) for the year ending December 1998 compared to the previous year. During this period $15.2 billion in net contributions flowed into superannuation (compared to $10.8 billion in the previous year).

Manner of investment

In a reversal of the previous trend, assets invested through the statutory funds of life offices showed the strongest growth during the quarter, increasing by 5.4%. Assets directly invested by trustees grew by 4.6% and assets placed with an investment manager grew by 1.6%. These results suggest that there may have been some restructuring or acquisitions during the quarter by some life companies.

Investment managers had 38.1% ($143.8 billion) of total superannuation assets at the end of December 1998, down from 38.9% at December 1997, while the share of directly invested superannuation assets increased 1.8% to 27.3% ($103.1 billion). Notwithstanding their higher growth this quarter, statutory funds of life offices continue to steadily lose share and now stand at 34.6% ($130.5 billion) of total assets, down from 35.6% in December 1997.

Asset allocation

The share of superannuation assets invested overseas rose during the quarter to 16.3% ($61.6 billion) at the end of December 1998, up $4.8 billion. The movements of AUD against both the TWI and the US dollar (involving around half of all overseas investment) during the quarter (down 2.8% and up 3.3% respectively) suggests that there was a net outflow of assets from Australia to overseas investment markets during the quarter.

Superannuation investment held in equities and units in trusts increased by 5.9% ($8.6 billion) during the December quarter. Measured against the 10% increase in the ASX accumulation index in the December quarter, this suggests that there may have been some profit taking in equities markets by superannuation funds during the quarter. Superannuation equity and trust holdings overall increased to 38.7% of total superannuation assets (from 37.8%).

Despite a decrease in both short and long term bond yields during the December quarter, holdings of interest bearing securities decreased by 0.1% ($0.1 billion). The proportion of superannuation assets held as interest bearing securities decreased 0.9% to 23.5%.

Holdings of cash, deposits and placements decreased by 0.5% ($0.1 billion) in the December 1998 quarter (the vast majority of the decrease being in loans and placements). They now represent 11.8% of the total value of superannuation assets.

These results suggest that superannuation funds have taken advantage of more favourable equity and overseas markets, with overall allocations to cash and investment bearing securities remaining unchanged.

The value of assets held in direct property dropped marginally in the December quarter to 7.3% of total superannuation assets at the end of the quarter. Other investments account for around 2% of total superannuation savings.

Insurance highlights - December 1998

Main Features

- Total life office statutory fund assets backing Australian policyholders liabilities had reached $160.0 billion by the end of December 1998, representing growth of 4.0% during the quarter, or 5.4% during the year ending December 1998.
- Total private sector general insurers assets had reached $57.5 billion by the end of December 1998, representing growth of 0.6% during the quarter, or 12.4% during the year ending December 1998.
- Life office premiums for the December 1998 quarter reached $10.3 billion, up 36.2% on the December 1997 quarter. During the year to December 1998 life offices received $37.7 billion in premiums.
- Policy payments made by life offices reached $9.4 billion for the December 1998 quarter, up 48.4% on the December 1997 quarter. During the year to December 1998 life offices made $32.4 billion in policy payments.
- Private sector general insurer premium revenue (less reinsurance expense) reached $3.8 billion for the December 1998 quarter, up 2.9% on the December 1997 quarter. Premium revenue for the year to December 1998 amounted to $14.4 billion.
- Private sector general insurer claims expense (less reinsurance and other recoveries revenue) reached $3.3 billion for December 1998 quarter, up 4.1% on the December 1997 quarter. Claims expense for the year to December 1998 amounted to $12.5 billion.
- Life offices experienced an overall net investment increase during the December quarter, partly due to an increase in the Australian equity markets and overseas assets.

Industry structure

Life Insurance

Life office statutory fund superannuation assets increased by 5.4% ($6.7 billion) to $130.5 billion at the end of December 1998. Superannuation assets now represent 81.5% of the total assets in life office statutory funds up from 79.4% in December 1997. In contrast, life office statutory fund ordinary business assets fell by $627 million (or 2.1%) to $29.6 billion at the end of the December 1998 quarter.

Investment linked statutory fund assets rose over the quarter to $94.6 billion, up $5.5 billion (or 6.2%), an increase of 15.3% (or $12.5 billion) for the year ending December 1998. These assets now represent 59.1% of the total assets in life office statutory funds, up from 54.1% in December 1997. Non-investment linked statutory fund assets increased to $65.4 billion, up $602 million (or 0.9%) over the quarter. However, non-investment linked assets fell by 6.2% ($4.3 billion) for the year ending December 1998.

General Insurance

Assets for private sector direct insurers increased by 2.5% ($1.1 billion) to be $45.0 billion at the end of December 1998. These assets now represent 78.2% of the total assets in the private sector general insurance industry, up 1.5% on the September 1998 quarter.

Reinsurers assets have decreased by 5.6% ($745 million) to be $12.6 billion at the end of the quarter.

Premiums and policy payments

Life Insurance

Superannuation premiums received by life offices amounted to $8.9 billion for the quarter, up 36.3% ($2.4 billion) on the December 1997 quarter. Superannuation premiums for the year to December 1998 amounted to $32.2 billion and now represent 86.0% of total life office premiums.

Premiums relating to ordinary business were $1.4 billion for the quarter, up by 35.0% (or $373 million) on the December 1997 quarter, with total ordinary business premiums for the year to December 1998 amounting to $5.5 billion. Ordinary premium business now represents only 14.0% of total life office premiums.

The $37.7 billion received by life offices in premiums and $32.4 billion made in policy payments led to net premiums into life offices (ie. premiums less policy

payments) over the year to December 1998 being $5.3 billion. This result was due solely to superannuation business, with net premiums of $5.4 billion, as ordinary life office business had a negative net premium flow of $49 million for the year.

General Insurance

Net premium flows (ie. Premium revenue less claims expenses) amounted to $507 million during the December 1998 quarter, down $22 million (or 4.2%) on the December 1997 quarter.

The underwriting result for the private sector general insurers increased by 19.9% or $105 million over the quarter, to be -$632 million for the December 1998 quarter.

Asset allocation

Life Insurance

The share of life office statutory fund assets backing Australian policyholders liabilities (life office assets) invested overseas increased during the quarter to be 14.1% ($22.5 billion) at the end of December 1998, up $3.0 billion.

Life office assets held in equities and units in trusts increased by 6.6% ($3.2 billion) during the December quarter. Life office equity and trust holdings overall increased slightly to 31.9% of total life office statutory fund assets (from 31.1%).

Life office holdings of interest bearing securities decreased by 0.5% ($257 million). The proportion of life office assets held as interest bearing securities decreased 1.6% to 35.2%.

Holdings of cash, deposits and placements decreased by 3.7% ($600 million) in the December 1998 quarter (the vast majority of the decrease being in cash and deposits). They now represent 9.9% of the total value of life office assets.

General Insurance

The share of private sector general insurer assets held outside Australia decreased to 11.6% ($6.7 billion) during the quarter, down by 13.4% or $1.0 billion over the previous quarter.

In other asset classes, the proportion of general insurers assets held in equities was 20.1% (or $11.6 billion), up by 5.5% (or $606 million) during the quarter. Holdings in cash, deposits and placements were $6.8 billion (or 11.8% of the total assets), up by 22.6% (or $1.2 billion) for the quarter. Interest bearing securities were $14.4 billion (or 25.0% of all assets), up by $23 million (or 0.2%) during the quarter.

Other assets for the private sector general insurers decreased by 2.4% ($423 million) to be $17.3 billion as at December 1998.

Superannuation survey methodology overview

Results of the APRA Quarterly Survey of Superannuation are combined with estimates of other industry components to provide timely and comprehensive estimates for the total superannuation industry. This paper explains the methodology behind these estimates.

The APRA Quarterly Survey of Superannuation (the Survey), a joint APRA and ABS initiative, was introduced in 1995. Results from the Survey are combined with other APRA estimates to provide total aggregates for the superannuation system. These estimates are publishedquarterly in this Bulletin.

APRA estimates for the superannuation funds and ADFs outside the scope of the Survey fall into the following two categories:

- medium size superannuation funds and ADFs not included in the Survey; and
- small self-managed superannuation funds (excluded funds[1]).

The Survey

The Survey currently collects information from the largest 365 superannuation funds in Australia, representing around 80 per cent of total (excluded and non-excluded) superannuation assets. The cut-off test for inclusion in the Survey, which is reviewed annually, is more than $60 million in assets under management.

A cut-off threshold was selected as the preferred method due to the highly concentrated nature of the superannuation industry. For example, as at June 1997, in addition to covering 89 per cent of superannuation assets in non-excluded funds, the 365 funds in the Survey also accounted for:

- 91 per cent of members;
- 91 per cent of contributions;
- 91 per cent of benefits; and
- 94 per cent of gross transfers.

Medium size super funds and ADFs

There are currently around 4 200 medium sized funds (predominantly small corporate superannuation funds and small approved deposit funds), representing approximately 8 per cent of assets and 8 per cent of members. In terms of overall industry aggregates (e.g. assets), these funds are collectively the smallest industry sector.

Estimates for this sector are obtained by extrapolating the Survey results to obtain a value for total large and medium sized superannuation funds and ADFs. The actual size of the extrapolation varies from variable to variable depending upon the relative concentration of the variable in the Survey funds. These concentration ratios are based on previous APRA annual return data, which covers the entire population of regulated superannuation funds.

The proportion of the directly invested assets of these funds invested overseas is obtained from annual return data. The remainder of their directly invested assets is allocated into asset classes using the proportions they hold of Survey fund assets.

Small self-managed super funds (excluded funds)

Excluded funds are outside the scope of the Survey. Although excluded funds currently comprise 97 per cent of all regulated funds, they account for only one per cent of members and were therefore not considered appropriate for inclusion in the survey.

Data describing the characteristics of excluded funds are sourced from past APRA audited annual return information, the SIS Statistical Questionnaire[2], a survey of excluded funds conducted by the ISC in

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[1] An excluded fund is defined by the Superannuation Industry Supervision (SIS) Act as a superannuation fund with less than five members.

1997 and anecdotal evidence from industry practitioners.

These sources are the basis for identifying three very important defining characteristics of excluded funds that shape the sector's input into total industry aggregates:

- *equity per member* - excluded funds have significantly higher average equity per member than other superannuation funds.
- *propensity to directly invest in the market* - the decision to establish an excluded fund is often based on an intention by individuals to exert increased control over their superannuation investments. This control is illustrated by the fact that 85 per cent of excluded fund assets are directly invested in the market, with only 15 per cent invested through investment managers and life offices. This compares with 26 per cent directly invested for all other superannuation funds. The high degree of direct investment by excluded funds is also consistent with the fact that excluded funds acting individually have limited market power to gain cost effective access to wholesale investment products[3].
- *contributions per member* - excluded funds have extremely high contribution rates per member.

Importantly, analysis of the 1994-95 and 1995-96 ISC annual return information indicates that current excluded funds have essentially the same broad characteristics as excluded funds in the pre-SIS environment. This is also supported by anecdotal evidence from industry practitioners and other industry surveys. While the broad characteristics, such as high equity per member, propensity to directly invest and high contributions per member, have remained the same, there has been some change in emphasis in newly established funds[4]. The ratios for excluded funds will continue to be revised in line with annual return data and other industry information.

Notably, APRA has been conservative in estimation of excluded fund aggregates, recognising the inherent error margins associated with interpolating quarterly data from annual return information. An example is the estimation of the number of excluded funds. The Survey methodology assumes that 10 per cent of excluded funds operating at a certain date either wind-up within a year of that date or are dormant[5]. These assumptions are based on previous ISC excluded fund annual return information and are revised on an annual basis. It is therefore possible that excluded fund aggregates derived using the Survey methodology are lower than the actual totals.

Another conservative assumption concerns the method used to calculate the average investment return for excluded funds. The investment return calculation is a weighted average of index returns (eg ASX Accumulation Index) based on the average asset allocation of excluded funds. One of the results of this method is that 25 per cent of excluded fund assets are assumed to increase only with CPI.

In the presentation of directly invested assets by asset class, previous ISC surveys of excluded funds are used to apportion the directly invested assets of these funds.

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[2] The SIS Act was enacted in 1993. When funds elected to become regulated under the SIS regime they were asked to complete short statistical questionnaire to provide the ISC with selected statistics of the fund as at June 1994.

[3] Some investment managers are however beginning to respond to the developing excluded fund market by tailoring retail investment products that more closely match the fee structures of the larger wholesale investment industry. It is likely that these products may encourage greater indirect investment by excluded funds in the future.

[4] These differences are outlined in the article *"ISC Bulletin and Annual Return comparison,"* ISC Bulletin, June 1996.

[5] A dormant fund is a fund that has been established but has had no income or expenditure and has zero assets

[6] Virtual funds within life offices refer to functionally similar sub-sets of policies within statutory funds that are pooled together to form a single SIS regulated superannuation fund. Legally, the trustee of the SIS regulated fund owns the policies and the fund members have a beneficial interest.

Life Act superannuation

Life Act superannuation refers to superannuation products sold directly from life office statutory funds (eg deferred and immediate annuities) that are regulated solely under the Life Act. The scope of the Survey includes, subject to the Survey threshold criteria, all superannuation and approved deposit funds outside life offices and virtual funds[6] within life offices, but excludes superannuation investment products sold directly from statutory funds. However, the APRA figure for total superannuation assets includes Life Act superannuation, as superannuation assets in life office statutory funds (including Life Act superannuation) is captured by APRA Life Office statutory returns.

The components of the industry are summarised in Figure 1.

Estimation of total assets

The calculation of total superannuation assets is achieved through merging the Survey data and APRA data for life office statutory fund superannuation assets with data from the ABS Survey of Balance Sheet Information (SOBSI), which is a quarterly asset survey of investment managers. The SOBSI survey and Life Office statutory returns together measure superannuation assets invested in pooled investment instruments and products. Data describing the directly invested assets of Survey funds, and the directly invested assets of medium sized funds and excluded funds, is combined with the pooled asset results to produce the estimate for total superannuation assets.

Fund type

The fund type categorisations used reflect the functional or economic (as opposed to legal or regulatory) segmentation of the market.

They include Corporate, Industry, Public Sector, Excluded and Retail.

Corporate funds are sponsored by a single non-government employer, or group of employers.

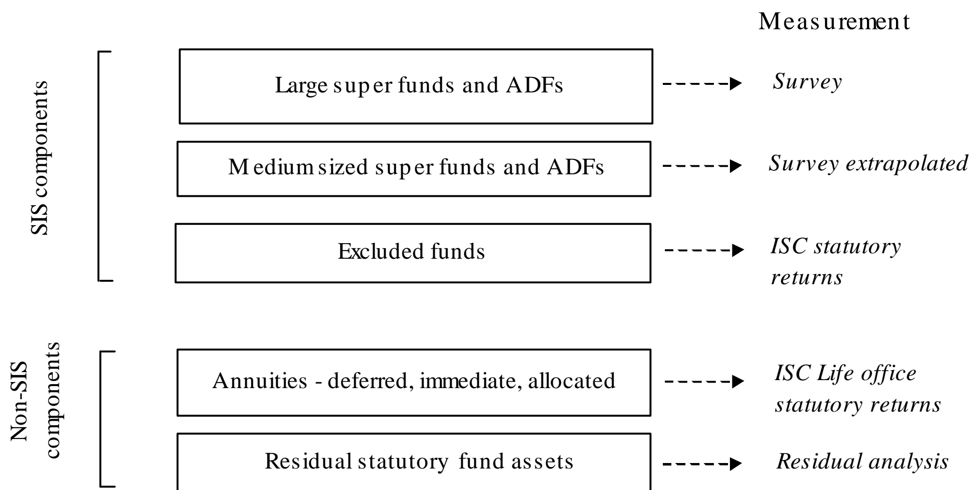
Industry funds are those established under an agreement between the parties to an industrial award.

Public sector funds are sponsored by a government employer or government controlled business enterprise.

Excluded funds are superannuation funds that have less than 5 members (also known as the self-managed, DIY or 'mum and dad' funds) and single member ADFs.

Retail funds are pooled superannuation products sold commercially and competitively through intermediaries, including master trusts and personal superannuation products.

Figure 1 - Components of the Superannuation Industry



*The Balance of statutory funds*is the remaining superannuation assets residing in life office statutory funds, after the assets explicitly known to reside in the other fund types have been allocated.

Retirement Savings Accounts (or RSAs)

As part of APRA's continuing effort to provide a comprehensive understanding of the superannuation industry, figures are now produced for the assets placed with Retirement Savings Accounts (RSAs). These figures include both assets with RSAs established under the RSA Act (or standard RSAs) and those in public offer superannuation funds that have been deemed to be RSAs (RSA look-a-likes). Information on RSAs is sourced where available from existing APRA data collections as well as directly from the provider when necessary.

Reporting basis

Participants in the survey are requested to follow, as far as possible, the Australian Accounting Standard AAS25 and to report assets at net market valuation.

Net market value refers to the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. Respondents to the ABS SOBSI survey are also requested to report assets at their market value.

Data quality

The Survey has been running for nearly three years and the statistics contained in the Bulletin may be considered robust. In consideration of this, APRA has now decided to include operating expenses in the Bulletin, rather than just the net earnings figure as previously was the case. Operating expenses include administration, investment and all other non-tax expenses explicitly paid by the fund. Note that implicit investment expenses, for example, associated with unit price changes and unit trusts, are not included in the operating expenses.

The total superannuation asset figures do not include any provision for the unfunded superannuation liabilities of Australian governments to public sector superannuation funds. However, the total asset figures do include the assets of some public sector superannuation funds that are exempt from direct APRA supervision but are captured by the Survey.

The new survey form introduced in the previous quarter has highlighted some data reporting problems with the survey forms previously used which in turn has necessitated some revisions in this publication to previously published data. While the data collected in the redesigned form is comparable with the previous statistical series, some compositional aspects are currently under investigation and this could lead to revisions to the published data in future editions of the Bulletin.

Revisions

This Bulletin contains revisions to previously published statistics. The Survey is recalibrated each year based on annual return data. As this data is obtained in arrears it will lead to periodical revisions of the back series. Where figures have been rounded, discrepancies may occur between sums of the component items and totals.

Comparability with other superannuation statistics

There are major methodological differences between how directly invested assets are measured by the APRA Quarterly Survey of Superannuation from June 1995 and previously published ISC or ABS superannuation asset data.

However, to assist users of superannuation statistics, the ABS includes estimates for the increased directly invested component of superannuation funds and ADFs for quarters prior to June 1995 in 'Managed Funds' (Cat. 5655.0). These estimates are also included in the directly invested assets and total assets tables in the Bulletin. The estimates have been based upon a historical analysis of ISC superannuation annual return statistics and ABS National Account statistics.

Unpublished statistics

A wide range of information, collected via the APRA Quarterly Survey of Superannuation and APRA Annual Returns is available from APRA on a fee for service basis, subject of course to strict privacy constraints (a data request form may be found at the end of this Bulletin).

More information regarding investment managers is available on request from the ABS.

APRA Speeches

Reinsurance Issues for Supervisors

Speech made by Richard Smith, Chief Manager, General Insurance, Australian Prudential Regulation Authority, to the OECD Conference, Singapore, 1-2 February 1999.

Thank you for the invitation to speak briefly to you today on supervisory issues specific to reinsurance. My comments relate to general (non-life) supervision of reinsurance.

Background

My comments are made in the context of general insurance supervision in Australia. This is not an attempt to recommend the Australian approach to you, or to suggest that it is in any way superior to other approaches. In fact, the approach taken to general insurance supervision in Australia is itself under active review and may change significantly in the next year or so.

Nevertheless, the current approach to general insurance supervision has worked well contributing to the development of a sound and stable industry. Over the last decade the industry has improved in terms of solvency, financial strength generally and market conduct.

The general insurance market in Australia has undergone considerable restructuring, including the withdrawal of a number of weaker players. Some new, stronger players, on the other hand, have come into the market. The market is both open and competitive, with no restriction on the entry of new players who meet supervisory standards.

Supervision of general insurance in Australia is conducted on a federal basis by the Australian Prudential Regulation Authority (APRA). All private sector insurers must obtain an authority from APRA before commencing insurance business. State controls apply only to the two compulsory classes of general insurance, namely workers' compensation and compulsory third party motor insurance. For those two classes of insurance, insurers must meet both Federal and State requirements.

In some States in Australia, workers' compensation and compulsory third party motor insurance are conducted by State monopolies under State laws. To a relatively small degree these State insurers also engage in other classes of insurance business. They are not subject to supervision by APRA.

However, there has been a general trend towards privatisation of State insurance in Australia, with the private sector now being approximately three times the size of the government sector. Thus APRA's supervision applies to all private sector insurers, accounting for some 75 per cent of the industry on a premium revenue basis.

APRA's responsibilities for general insurance supervision do not extend to pricing, design or features of the insurance product. Such aspects are determined by the needs of the market, supply and demand and fair competition laws. As a result, with open entry and some 170 general private sector insurers, Australia has a very competitive general insurance industry. Typically claims and expenses for the private sector exceed premium revenue. With a combined operating ratio, often around the 110 per cent level, the industry relies on investment income for its overall profitability.

Reinsurance is one of the most complex and technical aspects of insurance. In addition to facultative reinsurance (requiring offer and acceptance on each individual risk) there are many different forms of treaty reinsurance (automatically covers the major share of risks in a particular portfolio) which have been developed over the years, including surplus, quota share, working excess of loss, catastrophe excess of loss and stop loss and it would be impossible to describe them properly in the time available today.

Just as any insurance policy is a contract between two parties, the original insurer and the insured, reinsurance is a contract between the original insurer (known as the cedent or ceding company) and its reinsurer(s). However, a risk transfer by way of reinsurance in no way removes primary liability of the original insurer for satisfaction of policyholders claims as they arise, as there is no contractual relationship between policyholder(s) and reinsurer(s).

In purchasing reinsurance insurers seek to improve their financial performance, security and stability over time. Basically there are five primary functions of reinsurance from the insurer's point of view:

1. Capacity: Reinsurance provides flexibility for insurers in the size and types of risk and the volume of business they can safely underwrite.
2. Expertise: Reinsurers supply assistance to insurers in specialised areas where the insurer may have little or no expertise.
3. Stability: Reinsurance programs properly structured will assist insurers by limiting wide fluctuations in underwriting results.
4. Financial: Assists in the financing of insurance operations, being used as an alternative to increasing an insurer's capitalisation. In this regard, the insurer may have access to the asset backing of many large reinsurers.
5. Protection: Associated with stability, reinsurance provides protection against the potential large, accumulations that can result from catastrophic events eg earthquakes, bushfires and cyclones.

In practice a company normally finds that its reinsurance requirements are best met by a total program, involving different reinsurance arrangements, for particular classes of insurance, which it underwrites and combining in most cases, several of the treaty forms which I mentioned earlier, supplemented perhaps by facultative reinsurance where an occasional unusually large risk is accepted.

Reinsurers would normally retrocede their risks until the risk is spread among a number of reinsurers, none of which would suffer undue financial instability if the experience under the policies were worse than anticipated.

Legislative Approach

With that as background, let me turn to the basic solvency and reinsurance requirements of the general insurance legislation which APRA administers.

Basically the legislation requires all insurers:

- to be registered and supervised by APRA;
- to meet at least a minimum capital requirement (currently $A2 million);
- to meet a minimum solvency margin or requirement (that is maintain an excess of assets over liabilities) which is related to either:
- the level of premium income (net of reinsurance);

<u>or</u>

- the level of outstanding claims (also after or net of reinsurance).

The current solvency margins are:

- 20 per cent net premium income;

<u>or</u>

- 15 per cent of the net outstanding claims provision;

whichever is the greater.

The above is generally referred to as statutory solvency, as opposed to commercial solvency, which simply requires an excess of assets over liabilities.

Solvency, of course, is not a complete measure of a company's viability and ability to meet the future needs of policyholders, but it is a fundamentally important indicator of a company's ability to pay claims. For this reason the assessment of solvency is a key tool for many regulators. Failure by a company to meet minimum capital or solvency requirements is a primary warning indicator for most regulators.

Solvency and Reinsurance

In addition to requiring that all insurers meet the minimum capital or solvency requirements of the legislation, all insurers are required to have reinsurance approved by APRA.

There is a direct connection between the solvency and reinsurance requirements of the legislation.

As explained above, the Australian solvency requirements are net of reinsurance. This means that an insurer can reduce the minimum solvency required by purchasing reinsurance. For example, an insurer which reinsured, say 20 per cent of its primary risk, would reduce its minimum solvency requirement also by approximately 20 per cent (a little more or less depending on the cost of reinsurance cover compared to the price charged for the direct cover).

Thus, by way of reinsurance part of the risk exposure can be transferred from the direct insurer to a reinsurer or reinsurers.

The risk retained by the direct insurer (a smaller risk) is “protected” by the minimum solvency requirement. This transfer of risk to a reinsurer does not create a difficulty for the regulator, PROVIDED the reinsurance so acquired is of sufficient QUALITY to give the necessary degree of protection to the direct insurer.

Accordingly, the regulator also needs to supervise the reinsurance. In basic terms, part of the original risk has been transferred and rather than being “protected” by the insurer’ s solvency margin becomes “protected” by the reinsurer.

For this reason, in Australia the same solvency requirements are applied to both direct insurers and reinsurers.

Quality of Reinsurance

Let me revert to the issue of the QUALITY of reinsurance and how regulators may adequately provide for this. As I said, the quality of reinsurance is important because reinsurance provides “protection” to policyholders for that part of the risk exposure not “protected” by the capital or solvency margin of the direct insurer.

Australian regulatory practice relating to the quality of reinsurance has been based both on the law itself (which requires all insurers to have reinsurance approved by the regulator) and a number of requirements or guidelines, based on industry experience. These guidelines, developed in consultation with the industry, have a practical rather than theoretical base. But part of their strength and the acceptance of them by the general insurance industry itself, lies in the fact that the industry shares their objectives and practical base.

The Guidelines

First, the guidelines are directed at the quality of business underwritten by the direct insurer. The guidelines discourage irresponsible underwriting by direct insurers by requiring the direct insurers to retain a minimum portion of their overall portfolio of business to their own account. They must retain at least 40 per cent of the total, limiting the amount that can be reinsured to 60 per cent.

Australia’s experience has been that this requirement gives reinsurers much greater confidence in the business of direct underwriters than otherwise would be the case. Partly as a consequence the Australian market has been well served by overseas reinsurers. The guideline provides for effective sharing of risk between both direct insurers and reinsurers.

The second guideline limits the original insurer’s retention or exposure to individual risks. Based on industry risk profiles, insurers are required to limit their retained risk per individual policy to no more than 5 per cent of net tangible assets. In other words an insurer could incur 20 maximum losses and still remain commercially solvent. This guideline operates to give both policyholders and reinsurers confidence in the direct insurer’s ability to write the risk.

For reinsurers the guideline is reduced to a maximum retention not exceeding 7.5 per cent of net tangible assets. The rationale for this is that reinsurers would normally be expected to have a more balanced risk portfolio and they are one step removed from policyholders who retain any right to claim against the direct insurer, not the reinsurer.

For captives, basically self insurers or intra-group insurers, the guideline is further relaxed to 10 per cent.

The third guideline relates to a catastrophe situation. Insurers are required to estimate their probable maximum loss from a catastrophe, usually based on statistical studies; having done this, we require them to maintain a sufficient solvency surplus (net assets less the statutory solvency margin) to withstand such a maximum event (catastrophe). In other words the guideline attempts to ensure that any insurer is sufficiently reserved to be able to withstand one catastrophe event (loss) and still be solvent in terms of the legislation. This guideline also operates to give both policyholders and reinsurers confidence in the direct insurer’s capacity.

The fourth guideline relates to off-shore insurance protection. As APRA does not have the resources to monitor the many hundreds of foreign reinsurers, but does not wish to preclude Australian insurers from using them, we use a spread rule. The guideline is that the spread of participants (reinsurers) on proportional and working (non catastrophe) excess of loss treaties should be such that individual unauthorised reinsurers should not hold more than 10 per cent of the risk in the case of a lead reinsurer

and 5 per cent of the risk in the case of other participants.

Where there is little doubt about the quality of overseas reinsurers we may take a flexible approach to this guideline. We would prefer a larger slice of reinsurance to be with reputable overseas reinsurers than to force a company to spread its reinsurance among reinsurers whose financial strength may be questionable or unknown to us.

The quality of cover provided by overseas reinsurers not supervised by a domestic regulator is a long-standing and vexed issue, with different approaches adopted from one jurisdiction to another. Given Australia's open market approach to competition, it has been our objective to give full credit for such reinsurance (rather than only allow partial credit as is done in some jurisdictions), while at the same time maintaining the credibility of the reinsurance and "protection" for the direct insurer.

Let me summarise on reinsurance issues. First, reinsurance is directly related to minimum solvency requirements. Reinsurance is the means by which some risk is transferred from the direct insurer to the reinsurer. This reduces the direct insurer' s required level of solvency. Such transfer is acceptable to regulators, provided the quality of the reinsurance is acceptable. The quality of reinsurance is typically achieved by requiring the regulator's approval of the reinsurance (by detailed analysis); by requiring the direct insurer to retain a sufficient portion of the risk (to encourage responsible underwriting) and to have sufficient capital and reserves to support those risks; and finally by monitoring the quality of overseas reinsurers used by the direct insurer. Such monitoring can be done in a number of ways eg by attention to the ratings and standing of reinsurers, by limiting the credit for reinsurance placed with foreign reinsurers; by adopting a spread rule for foreign reinsurance as in Australia. Regulators should consider using all, or a combination, of these approaches to monitor the quality of foreign reinsurance.

A Specific Issue – Financial Reinsurance

There are many specific reinsurance issues beyond the scope of this paper, but let me address one of them which has been the subject of much debate and controversy in many jurisdictions. The issue is that of finite or financial reinsurance.

The Insurance and Superannuation Commission (an APRA predecessor) developed a circular dealing with this issue. The issue relates to whether certain arrangements between direct insurers and reinsurers constitute reinsurance or are in fact financial arrangements.

In a nutshell the ISC's approach (and now APRA' s approach) is that there must be a genuine transfer of risk for the arrangement to constitute reinsurance. Where after a claim payment to a direct insurer has been made, in a reinsurance situation the reinsurer could normally "walk away" from the arrangement. This is often not the case for financial arrangements where some residual liability would attach to the reinsurer.

In approaching the question of whether these contracts constitute a contract of reinsurance, it is essential that one looks to the substance of the contract and not is apparent form. The fundamental issue is whether these financial instruments are first and foremost reinsurance.

Conclusion

Ladies and gentlemen, I hope that this gives you an appreciation of reinsurance supervision and some of the issues that will arise for most supervisors.

Superannuation 1999

Speech made by Keith Chapman, Manager, Insurance and Superannuation Division, Australian Prudential Regulation Authority, to the Law Council of Australia and the Leo Cussen Institute, Sydney, 26 February 1999.

It appears the superannuation industry still has some way to go to come to grips with some of the practicalities of the new regulatory environment applying since 1 July 1998. Many trustees, including those of some large retail funds, are still uncertain about the respective roles of APRA and ASIC.

I am sure that you will all be relieved that I don't intend to go through the rationale for the Wallis reforms or the respective functional roles of the RBA, APRA, ASIC, Treasury and the ACCC.

Rather I will canvass some of the issues which are relevant to the way in which APRA will be fulfilling its role as the prudential regulator of the superannuation industry.

A previous speaker has already outlined some of the distinctions between the regulatory roles of APRA and ASIC and if you need any further clarification I would refer you to the booklet we have jointly produced. This is a practical guide to the roles and responsibilities of the two regulators. While aimed at trustees of superannuation entities, I am sure that it is equally useful to advisers and other practitioners in the industry such as yourselves.

Incidentally, I must say that I continue to be surprised at the degree to which there is a lack of recognition by industry participants of the responsibilities of ASIC and APRA. I had a partner of a large law firm call me just last week to ask about APRA's views on accounts for application moneys – these provisions are, of course, in Part 19 of SIS for which ASIC has regulatory responsibility.

What is Prudential Regulation?

Prudential regulation, as the name suggests, is about promoting prudent behaviour by insurance companies, superannuation funds, banks and other financial institutions - with the objective of protecting the interests of fund members, policyholders, investors or depositors depending on the financial institution involved.

It is concerned with the quality of an institution's systems for identifying, measuring and managing the various risks in its business and (in many cases) with the adequacy of the capital held as a buffer against unexpected losses.

Clearly the superannuation industry is different from the other industries regulated by APRA as generally there is no capital available to act as a buffer against adverse experience. In superannuation, therefore, much of the focus of prudential regulation is on operational risk – eg administration systems, security of assets and trustees appropriately fulfilling the covenants in S52 of SIS. For particular market segments, of course, certain other issues become relevant such as solvency for defined benefit funds.

The regulation of superannuation also has, of course, the additional 'overlay' of compliance with retirement income standards.

An important role for APRA is resolving the position of funds that become unviable, so that the interests of members are protected to the maximum extent. I believe that we have, as the ISC for four years and APRA for an additional six months, spent sufficient time on basic education and we need to start moving to more of an 'enforcement' regime where trustees just do not demonstrate sufficient diligence.

As you would all know, APRA has extensive formal powers of investigation, intervention and administration for this purpose. While overall APRA's view is that moral suasion in our various regulated industries can be quite effective this is decidedly less relevant to segments of the superannuation industry who take a minimalist approach to compliance with either the letter or the spirit of the legislation.

One prudential regulator

The Wallis Committee saw advantages in having just one prudential regulator instead of the previous diverse arrangements. The Committee said:

"A single regulator:

- offers regulatory neutrality and greater efficiency and responsiveness;
- provides a sounder basis for regulating conglomerates;
- offers the prospect of greater resource flexibility and economies of scale in regulation that should enhance the cost-effectiveness of regulation; and
- provides the flexibility and breadth of vision to cope with changes that seem likely to occur in the financial system in coming years."

The challenge for APRA is to deliver on these potential benefits.

It must be emphasised that, in talking about "regulatory neutrality", there is no suggestion all financial institutions can or should be regulated in exactly the same way. We recognise that there are clear differences among financial institutions in the nature of their core business, and the risks inherent in their activities. Such differences call for distinctive regulatory standards and requirements.

Some of the traditional dividing lines between financial services are, however, becoming less clear and different business lines are increasingly being grouped under common ownership in conglomerates. In addition many financial risks are common across institutional categories and can be supervised in similar ways. Techniques developed in one area could well be suitable in others. There is no good reason, for example, why methods to manage operational risk in superannuation funds cannot be employed in banks, or vice versa.

Within APRA we will, over time, be seeking opportunities to harmonise prudential standards and techniques across the range of activities and institutions we regulate.

We strongly believe that some of the techniques developed in supervising particular institutions can be exported and applied to other institutions regulated by APRA. At present, for instance, different use is made of external auditors by supervisors of different industries. There are various mixes of on-site and off-site surveillance. There are different uses of scoring systems to rate the condition of our supervised entities.

As part of this harmonisation project, we will be looking to:

- develop common terminology for risks across sectors;
- develop a common understanding of the present differences and similarities in the risk assessment and capital regimes across sectors; and then
- assess the legitimacy of those differences, the potential for arbitrage and the scope for more consistency.

One particular example of the latter is the recent Modification 23 that imposed stronger prudential controls on superannuation funds offering life time or life expectancy pension products. While these requirements are not identical to those imposed under the Life Insurance Act they are along the same principles.

Another key task for APRA is to develop the most cost-effective techniques for overseeing the activities of financial conglomerates - one of the objectives for which we were established.

APRA Structural issues

Since commencing mid-1998, APRA's internal organisation has largely reflected structures inherited from the Insurance and Superannuation Commission and the Reserve Bank. Thus there are currently two 'front line supervision' Divisions.

- Insurance and Superannuation – basically the supervision functions of the former ISC; and
- Authorised Deposit-Taking Institutions – basically the operational part of the RBA's old Bank Supervision Department;

The APRA Board has now endorsed in principle a new structure to assist us in reaching the objectives of being a fully integrated regulator. It is designed to help us achieve fully our Vision for APRA : To be a world-class integrated prudential supervisor recognised for its leadership, professionalism and innovation.

Two operational groups are still planned, but they will not be based on traditional institutional groupings. One will deal with diversified or complex financial institutions, including conglomerates and institutions with international links. The other will be responsible

for the large number of more specialised or straightforward institutions operating within traditional industry boundaries.

The Diversified Institutions Division would be responsible for around 275 licensed entities, corresponding to about 50 groups and another 50 stand-alone institutions with international connections.

Specialised Institutions Division would be responsible for about 500 licensed institutions (including some insurers and banks) and the great majority of superannuation funds

APRA considers this structure will have the advantages of, as far as possible, grouping similar supervisory tasks together and ensuring that conglomerates and other diversified groups are supervised consistently and efficiently. At the same time, having deposit-taking, insurance and superannuation within each Division will promote the cross-fertilisation of staff experience and knowledge.

Clearly, one outcome of this structure will be to spread our interests in the conventional industry groups – deposit-takers, insurers etc – across Divisions. While one of the assumptions behind the structure (and underlying APRA's formation) is that these "industries" are becoming less meaningful, they are still the basis of much legislation and continue as the focus of representation. Consequently, while moving to a more integrated structure, we will introduce a small number of cross-divisional, high-level working groups. These would also tackle questions of APRA-wide supervisory consistency.

What does APRA mean for superannuation trustees?

On the superannuation front, as has been indicated, the regulatory responsibilities in the Superannuation Industry Supervision (SIS) legislation have been divided between APRA and the ASIC according to the Wallis Committee's functional model. Perhaps a simple way of describing the division is that, broadly speaking, APRA is interested in the way members' funds are being managed by trustees, while ASIC is concerned with the quality of information flowing from trustees to members and the handling of member complaints.

These new allocations of responsibilities will no doubt become grey at the edges from time to time, and from issue to issue. For instance, complaints by members about their treatment by super funds often point to issues of prudential concern. We will work closely with ASIC wherever our interests overlap or abut. We have established a bilateral coordinating committee for this purpose, and have signed a Memorandum of Understanding.

We are pushing ahead with the further evolution, already begun in the ISC, of our techniques for regulating superannuation funds. Very broadly, our objective is to streamline and refine our off-site and on-site review processes so that they can identify more effectively those areas of risk or weakness which require APRA's attention. We would devote correspondingly fewer resources than in the past to areas where there are no alarm bells ringing. For strong, well-managed funds this should mean less paperwork and less time spent with our review teams.

The philosophy of concentrating our energy on areas of greatest perceived risk is one which will be applied APRA-wide.

I expect that a more focussed approach, together with the increasing familiarity of industry with the provisions of the SIS legislation, will allow us to reduce the resources currently used to regulate super. This will be consistent with (at least) maintaining the effectiveness of prudential oversight.

Current status of superannuation review work

The superannuation industry has shown a great deal of progress and improvement over the past four to five years since SIS first came into place. The proportion of funds we have reviewed where there are generally acceptable arrangements in place has increased and the level of industry inquiries of APRA about basic legislative questions has fallen. However, there is a considerable amount of additional work which still needs to be done by the industry.

The Superannuation Group of APRA is putting its focus in supervision of the industry on five key aspects of operations.

We will be looking at the way in which trustees have carried out the following duties:

1. Controls: implement and monitor a decision, control and compliance regime which effectively addresses the funds' legislative obligations and other identified risks.
2. Risks: implement a considered risk assessment process which identifies all risks and emerging challenges both in terms of internal decision and control processes and the external environment
3. Investment: develop a properly considered investment strategy which is consistent with, and is being implemented to achieve, the investment objective adopted for the fund
4. Management: meet high standards of competence, integrity and knowledge (either directly or acquired) to properly carry out its responsibilities to members of the fund and, where appropriate, implement corporate governance initiatives such as a 'conflict of interest' policy and a policy in relation to related party transactions and disclosure
5. Planning: implement a strategic plan that places due focus on the long-term nature of member interests.

You will note the meaningful acronym that is produced from these five criteria - ie CRIMP.

According to the Macquarie dictionary there are twelve different meanings to this word. I'm not sure that any of those definitions are particularly apt to the involvement APRA has with trustees although on occasions it may well be argued that we do 'press (trustees) into small regular folds' or 'procure (trustees) for service by inducing them' [I'm not really sure about the morality of the expanded version of this last meaning - ie 'procure seamen, soldiers etc for service by inducing, swindling or coercing them'].

The acronym does, in our view, serve a very useful purpose by being something fairly simple and easy to remember and which highlights what we consider to be the five most important aspects of being a trustee.

These five issues are, we believe, fundamental to the proper operation of superannuation funds by the responsible trustees.

APRA's objectives

APRA's goal is a regulatory approach which strikes a sound balance between the need to minimise risk of loss to the people doing business with regulated financial institutions - which is of course APRA's main purpose - and a recognition that overly intrusive and prescriptive regulation can get in the way of desirable innovation and structural change in the financial system.

To this end perhaps the most important provision in the APRA Act says:

> "In providing this (prudential) regulation and developing this (prudential) policy, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality."

In other words, while safety is very important the community needs a financial system with other qualities as well.

You will see some changes in the way we approach our industry supervision work - this could vary from multi-disciplinary teams if we are looking at a fund in a conglomerate structure to simply a different, and hopefully clearer, focus on key issues. I suggest that you remember the CRIMP criteria - when we come to examine your fund, or that of your clients, these are the aspects we will be putting our focus on and expected trustees to measure up well against.

Index of speeches by APRA

The following speeches and presentations were given by APRA Executives and the Chairman of the Board in recent months.

Copies of selected speeches and presentations may be available by contacting APRA. Requests should be made on the 'Speech Request Form' found in the 'Order Forms' section in this Bulletin. Alternatively, selected speeches may be obtained directly from our internet home page: 'http://www.apra.gov.au'.

Index of Recent Speeches

Chapman, K. *"National Council Conference - 1999"*, presented to the Trustee Corporations Association of Australia, Canberra, 31 March 1999.

Thorburn, C. *"A Ramble through the Demographic Countryside - Affording our future"*, presented to the Australian Superannuation Industry Forum, 11 March 1999.

Chapman, K. *"Superannuation 1999 A national conference for Lawyers"* presented to the Law Council of Australia and the Leo Cussen Institute, Sydney, 26 February 1999 (reprinted in this volume).

Smith, R. *"Reinsurance Issues for Supervisors"* presented at the OECD Conference on Insurance Regulation and Supervision in Asia, Singapore, 1-2 February 1999 (reprinted in this volume).

Carmichael, J. *"Australia's New Regulatory Model"* presented at the Forex 1998, The Asia Pacific Conference - ACI Assembly, Sydney, 27 November 1998.

Thompson, G. *"APRA and the New Era for Credit Unions"* presented to the Annual Creditlink Conference, Melbourne, 20 November 1998.

Thompson, G. *"The Regulatory Challenge"* - An Open Forum with ASIC and APRA, presented to the Securities Institute of Australia, Sydney, 9 November 1998.

Thompson, G. *"APRA in the New World of Financial Regulation"*, presented to the Chartered Institute of Company Secretaries in Australia Ltd, Sydney, 5 November 1998.

Carmichael, J. *"APRA - The New Regime for Prudential Supervision"* presented at the ASFA National Conference, Adelaide, 4 November 1998.

Other APRA publications

APRA produces a range of publications containing important information on various aspects of the superannuation, insurance and banking industries. Below is a list of these publications, a short description of their contents and cost per copy.

For further information, please see APRA's internet homepage at 'http://www.apra.gov.au'.

Superannuation

'Superannuation Trustee Newsletter' *Free*

The newsletter provides commentary on all the latest news and developments in superannuation from a trustee's perspective.

'Approved Trustee Newsletter' *Free*

An information letter sent to approved trustees highlighting key matters of interest as they arise.

'The Trustee Guidebook to Superannuation' *$AUD 10 each*

The guidebook provides a summary of what APRA expects of trustees and the APRA' s approach to the administration of the SIS legislation. The guidebook is aimed primarily at non-excluded fund trustees.

'Good Practice Guide' *$AUD 15 each*

The guidebook provides a practical guide to improving prudent management of a superannuation fund and is based on the APRA' s supervisory findings. The guidebook is aimed primarily at trustees of corporate and industry superannuation funds.

'Super Fraud - How to reduce the risk, A Best Practice Guide' *$AUD 10 each*

This Guide is designed to proved trustees with a practical strategy and approach to fraud detection and prevention with a special focus on electronic commerce. Its accompanying Fraud Checklist should be completed a regular basis by trustees as part of their strategy to minimise the risk of fraud within their fund.

'Small Super Funds Guidebook' *$AUD 10 each*

This is a guidebook for trustees and advisers of superannuation funds with fewer than five members, that is excluded funds. It sets out the rules that apply to these funds and APRA' s approach to the administration of the SIS legislation. It is a companion to the Trustee Guidebook.

'Fraud Video - Is Your Fund at Risk' *$AUD 50 each*

A 40 minute video providing case studies and practical guidance to trustees and service providers on fraud prevention in superannuation funds with a special segment on electronic commerce. The video helps trustees to identify practical ways to assess and reduce the risk of fraud in their superannuation fund. The training video draws on the successful 1998 series of national fraud prevention workshops and comes complete with the Super Fraud Guide and Checklist.

'APRA and ASIC' *Free*

A guide for trustees of Corporate, Public Offer and Industry Superannuation Funds to the roles and responsibilities of the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

'Superannuation Digest'

The Digest includes in one volume of old ISC Superannuation Circulars, other APRA releases such as discussion papers and broad overview statistical information, as well as the text of all superannuation legislation administered by APRA.

The Digest is available by subscription through CCH Australia Ltd - freecall 13 24 47.

'Brochures'

APRA has produced a range of brochures of general interest to trustees:

Introducing APRA
Year 2000 Responsibilities: A Guide for Super Fund Trustees
Managing Superannuation Fund Investments
Early Release of Super Benefits
What a Service Agreement Should Provide

For further information, please see APRA's internet homepage at 'http://www.apra.gov.au' or telephone (02) 6213 5266.

Life Insurance

'Half Yearly Financial Bulletin' *$AUD 50 per copy*

Contains selected financial data of life companies, primarily at aggregate level but also including some company level abstracts, for companies balancing during the year to date.

'Company Financial Returns' *$AUD 500 per copy*

Diskette containing all the returns of life companies collected under Prudential Rules 21 (Financial Statements) for companies balancing during the year to date.

'Company Market Statistics Returns' *$AUD 500 per copy*

Diskette containing all the returns of life companies collected under Prudential Rules 32 (Collection of Statistics), along with selected quarterly asset information collected under Prudential Rules 26.

Note: Contact Daniel Marson-Pidgeon on telephone (02) 6213 5333 for more details.

General insurance

'Selected Statistics on the General Insurance Industry' *$AUD 15 per copy*
$AUD 30 for diskette

Contains statistics and aggregate financial and underwriting information for private sector insurers balancing during the year to date. Published bi-annually. Voluntary information provided by public sector insurers is included annually in the June edition.

Note: *Contact Daniel Marson-Pidgeon on telephone (02) 6213 5333 for more details.*

Banking

'Australian Banking Statistics'

Contains statistics on the assets and liabilities of individual banks, including a breakdown by State.

Annual subscriptions to this publication are available for A$20. Alternatively, copies are available free of charge from the APRA internet homepage at 'http://www.apra.gov.au/abs'.

Australian Government Actuary

'Australian Life Tables 1990-92'

'Deaths in Australia'

These publications can be obtained at any Commonwealth Government Bookshop.

Actuarial valuations for Australian Government Superannuation Plans:

Commonwealth Superannuation Scheme (PSS)
Public Sector Superannuation Scheme (PSS)
Military Superannuation and Benefits Scheme (MSBS)
Defence Force Retirement and Death Benefits Scheme (DFRDBS)
These publications can be obtained at any Commonwealth Government Bookshop.

Research papers

Thorburn, C. *"What the Guarantee Means: A Statement of the Structural Conditions Supporting the Aged Pension in Australia"*, Sixth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1998.

Higgins, T. *"Australian Mortality: Improvement and Uncertainty in an Ageing Population"*, Sixth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1998.

Thorburn, C. *"Where Have all the Children Gone?: Some Current Notes on Australian Fertility"*, Sixth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1998.

Antcliff, S., and Thorburn.C. *"Preservation in the Public Sector Superannuation Scheme"*, Fifth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1997.

Copies of these papers can be obtained by contacting the Office of the Australian Government Actuary (telephone (02) 6247 2299).