

Editorial

Get super out of the IR system

- David Murray goes after union super
- Chanticleer | Exodus to self-managed funds

It should not surprise if the most disruptive recommendations from the Financial System Inquiry being chaired by David Murray relate not to Australia's \$3.4 trillion deposit-taking institutions but to the \$1.9 trillion superannuation system. The banks and the related regulatory structure put in place after the 1997 Wallis review of the financial system held up well through the global financial crisis. Around the world, banks are being required to hold more capital, and Mr Murray's report will almost certainly recommend that for here.

In contrast, Australia's compulsory superannuation system was embryonic when Stan Wallis's committee reported 17 years ago. There have been partial reviews of this system, such as its tax treatment and its adequacy for retirement incomes. But there has been no broad systemic review. And, as the Royal Commission into Trade Union Governance and Corruption has uncovered, there are glaring deficiencies in the governance structure of the industry superannuation funds.

Fundamentally, this is because the industry superannuation is rooted in industrial relations. Compulsory superannuation originated in the early 1990s through industrial awards that allowed trade unions to direct contributions— from both union members and non-members — to newly formed industry superannuation funds dominated by trade unions and employer associations. Through this, Australia's retirement savings system became part of the industrial relations club. That also put management of hundreds of millions of dollars of retirement savings in an arena where the rule of law too often comes second to industrial muscle and where conflicts of interest and horse-trading are rife. That contrasts to listed companies and financial institutions, where much higher standards of probity and governance are expected to apply.

While most industry super funds may operate to high standards of governance, the revelations of the royal commission headed by former High Court judge Dyson Heydon are alarming. Counsel assisting the commission, Jeremy Stoljar, SC, has described a "cultural corruption" stretching to senior management ranks of the \$28 billion construction industry fund, Cbus. And he has detailed examples of workers being forced to join industry funds, notably through the Transport Workers Union's insistence that all its workplace agreements make TWU Super the only fund to receive compulsory superannuation contributions. The reluctance of the TWU to allow exceptions is not surprising, considering that TWU Super paid \$2 million to the TWU over the past two financial years, including directors' fees and payments for superannuation liaison officers.

But the most troubling case remains that of Cbus. Mr Stoljar's submission notes that senior executives at the fund leaked confidential details of fund members to the militant and law-breaking Construction Forestry Mining and Energy Union, so that the union could make trouble for Queensland company Lis-Con as part of an industrial campaign. Then they lied about it to the commission. Mr Stoljar submits that incident reveals that staff loyalties to the CFMEU are stronger than their loyalties to the superannuation fund which employs them to look after Cbus member interests first.

Moreover, three members of the Cbus board are representatives of the CFMEU. Yet the royal commission has revealed repeated instances of law-breaking by parts of the CFMEU and, even more alarmingly, links to organised crime. Such small degrees of separation between

criminality and the custodianship of billions of dollars of other people's money would not be tolerated in the banking system. The industry super lobby will claim that their rates of return vindicate their governance structures. Yet nothing can vindicate the corrosion of governance and vested interests exposed by the royal commission. Mr Murray's review should take this on board and seek to depoliticise Australia's retirement incomes system.