Cuffelinks
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Super funds must balance leadership and consensus

Melinda Howes

When should leaders show leadership, and when should they try to gain consensus? At what point is it imperative to act in the face of opposition? When should time be taken to ensure that hearts and minds have been won before proceeding? Many leaders wrestle with these dilemmas.

In business, such predicaments usually arise where the organisation recognises the need to undergo change. If a leadership group gets too far ahead of the rest of the organisation, the change programme won't be successful. However, if the leaders wait for consensus then it may become too late to act. So where does one draw the line?

We see this in politics as well. How much of what government does should be leading the way, and how much should be done from looking at focus group results and trying to work out how to keep the voters happy? Let's pick a contentious example. Many economists and policymakers over the years have pointed out the downside of having a capital gains tax exemption on the family home (perverse incentives to own a massive house for two people, skewed property prices in certain market segments, difficulty in accessing capital to fund retirement, etc). It would be a brave government which would remove this tax exemption. They would have to be way out on the 'leadership' side of the equation and be willing to forego consensus – that is, take the consequence of being voted out at the next election.

The personality types of the leaders involved can play a big part in where the balance between leadership and consensus is struck. If you have ever been exposed to the DISC personality programming system, you will remember that some personality types prefer to gain consensus before acting (the S type). Others like to quantify things and prefer to have concrete proof before proceeding (the C type). Some (the I type) are likely to influence and persuade people to follow them. And some (the D type) are likely to just do it and ask forgiveness not permission.

There is also the question of training and past experience. Leadership teams at businesses who have lived through a 'near death' experience for the organisation may be much more conservative than their competitors. In my experience, some people who are trained to manage risk focus overly on downside risk and miss upside opportunities. The bottom line for any business or organisation is that you can't succeed without taking risks. Those practicing traditional risk management, as opposed to Enterprise Risk Management (which looks holistically at risks that impact the whole organisation and is a key input into business strategy) may be focused on risks from a bottom-up and miss the big 'black swan' risks.

The type of organisation also has an influence on how the dilemma of leadership versus consensus is handled. In a military situation, the leadership has ultimate control. In a corporate environment, a leadership team (board and senior management) also has a high level of control over the direction the business takes. By contrast, in a political party where the leaders are representing their constituents, there needs to be recognition that there may need to be more consensus, or at least the message needs to be carefully sold.

What about a super fund? It's a membership organisation and the management and trustee board are there to act in the best interest of members. Does this change the balance of how far leaders can go out on a limb? I believe it does, and should make leaders place more emphasis on getting hearts and minds aligned with what they are doing.

Industry and corporate superannuation funds have always dealt with the unions that represent their members and the employers of their members. They have been used to gaining consensus amongst these powerful groups before proceeding with a course of action. In fact, due to equal representation rules, these groups have been directly represented on the super fund boards, and many such super fund board members see themselves as being there to lobby for the views of the union or of the employer sponsor. This view of being there to represent a constituency could in many situations be in conflict with the trustee's core duty to act in the best interest of all members of the fund. In future the regulator APRA will take a much closer interest in how trustees demonstrate that they are making decisions in the members' best interests.

However, it's clear that individual members have remained largely disengaged. As a result, superannuation fund leadership has not had to worry about gaining consensus amongst the members themselves. Having gained consensus with the representative groups, they have then leant towards the 'leadership' end of the scale and made the call on what's in the members' best interests without any real input from those members (as the members are disengaged).

It will be interesting to see how this dynamic changes if fund members become more engaged in future as superannuation balances grow and consumers become more aware and want more of a voice. There have been predictions for many years now of this happening, but there is little evidence so far that Jane or Joe Average Employee is at all engaged with their superannuation. A surprising proportion don't even know what fund it's in and how it's invested!

There are two possibilities. If members become more engaged, super funds will find themselves dealing with a more vocal group of members who are exerting their own rights. There may be many and disparate views as to the right course of action for the fund. How will the style of leadership and decision-making in superannuation need to change? How will management and trustees engage with these members in their decision making? How far will they swing towards a

management style that seeks to gain consensus with individual members? It will certainly become harder for the trustees to demonstrate that they are acting in members' best interests where there is a wide range of member views being forcefully expressed.

The other (more likely) possibility is that the majority of fund members will continue to be disengaged. As corporate funds decline, and many industry funds are now public offer and increasingly have memberships made up of a large range of industry and employer groups, there will be a dilution of the influence the previous groups who were 'looking after' the members – unions and employers. Will super funds move to a more 'leadership' style of decision-making and away from the current consensus basis? Will this be a good or bad thing for the super industry? Will the quality of decision-making improve or worsen? It's hard to know. And it may be equally difficult for trustees in this situation to demonstrate that they are acting in the members' best interests.

Melinda Howes is CEO of the Actuaries Institute. The opinions expressed in this article are her own.

Is gold broken?

Dominic McCormick

The poor recent performance of gold has resulted in claims that it is now a 'broken' investment vehicle. Broken as a commodity, an alternative currency and even as a portfolio diversifier. (This article focuses on gold itself, not gold stocks, which is a more complex story for another article).

Given the 25% fall this year to a recent low of USD1179, it's hard not to have some sympathy with this view. However, when one considers that gold rose in US dollar terms every year for 11 years to 2012 and outperformed every major asset class over that period, a major correction should be expected. But should investors be writing gold off at this point?

In my view there have been two key drivers for why investors have recently come to see gold as 'broken'. How these drivers play out in coming months should be the major determinants of the future path of gold prices.

Firstly, there was a massive influx of 'new' gold investors after the GFC and leading up to 2011, which helped to produce a USD500 spike in that year to a September peak of over USD1900. Gold bullion Exchange Traded Funds (ETF) grew strongly and major investment banks became chief cheerleaders during this phase, predicting prices well over USD2000 - driven by 'fear' related to major macro risks, such as the possible collapse in the Euro.

Confounding these new investors, gold prices have since fallen more than 35% from the peak as some of these specific macroeconomic risks have subsided, and downward momentum in the gold price has accelerated. It is irrelevant to these investors that gold is up almost five times in nominal terms since its 2001 low. For them gold has failed and many are now abandoning it (often by selling their ETF holdings) and in doing so are contributing to the fall, spurred on by the newly bearish views of the major investment banks. Meanwhile trend followers everywhere have jumped on the 'short gold' bandwagon. Within two years, the consensus seems to have changed from predicting prices will move well above USD2000 to now heading to USD1000 and below.

Secondly, despite extraordinary levels of monetary policy accommodation leading to record low real and nominal interest rates, ongoing expansion in central bank balance sheets and the potential for this to translate into broad money growth and eventually inflation, gold failed to benefit from these developments through this two year period. Part of this disappointment could relate to some 'front loading' of these developments in the 2011 gold price surge. However, I suspect a more important factor is that many investors have been attracted to a range of other beneficiaries of accommodative central bank policies - with resulting strong performance from these areas

reinforcing this confidence. This includes high yielding equities, REITs, listed infrastructure, corporate and high yield debt. If these areas can benefit from easy money and also pay a reasonable yield why would I need gold, the thinking goes.

If one accepts the above thesis as to why gold is now seen as 'broken', the question becomes what would have to alter for this view to change and gold to regain some much-lacking investor support?

Firstly, we need to reach a point where the majority of the 'new' gold investors from 2009-2011, both retail and institutional, have abandoned their gold investments. Only then is gold likely to be held in much stronger hands and better placed to perform. Many of these newer, weak-handed investors probably should never have invested in the first place - buying for short term, fickle reasons into an accelerating uptrend that was increasingly vulnerable to a major reversal. The evidence suggests we are well down this path as investor revulsion to poor performance has driven gold bullion ETF redemptions of more than 500 million tonnes so far in 2013. In addition, small and large speculators have dramatically decreased long positions and moved to record gross short positions in Comex gold futures. Investor sentiment towards gold has never been lower. Historically, when pessimism becomes this extreme and futures participants are positioned short, a significant rally is likely. In contrast, physical buyers of gold, who tend to take a much longer term view, have been aggressively buying into recent weakness. Much of this buying has come from China and India, while central banks remain net buyers.

Secondly, we need to see the other asset classes that have benefited from extremely loose monetary policy cease to perform well or for there to be growing scepticism that they will perform well in the future. Only then is gold likely to stand out as a major long-term beneficiary of the current unique monetary environment.

Until recently, strong market rallies in many mainstream asset areas have fed investors complacency and justified their avoidance of gold. However, the more recent volatility in late May and June across many financial markets could mark the beginning of a new phase. At the very least this recent volatility across many 'yield' asset areas is demonstrating to investors how elevated valuations have become and how dependent they are on easy money. Perhaps more worrying is the lack of evidence that this easy money is actually spurring economic growth and earnings, another essential pillar for the valuation support of some of these asset classes. One must also note however, that at least to this point, gold too has suffered badly in this recent market volatility although this could change quite quickly.

Much of the discussion driving this most recent gold weakness has focused on possible tapering of Quantitative Easing (QE) in the US. However, even if QE ceases by mid-2014, (something quite questionable given the fragile nature of the US and global economic recovery) short term interest rates are likely to remain at very low levels compared to history for a number of years yet. Further, neither QE nor high inflation was necessary for gold to rise almost 250% between 2001 and 2007 so those arguing that cessation of QE alone (but with little shrinkage of bloated central bank balance sheets) and the current absence of high inflation will cause gold prices to fall further have little historical support for this position. Having said this, it is likely that current monetary and fiscal policies will result in higher inflation in a number of countries at some point in the future - although the last decade clearly shows that such inflation does not need to be current or imminent for gold prices to rise strongly.

Those who have recently abandoned or written gold off as 'broken' may yet come to regret this view. Indeed this could occur at a time when - and partly because – many other investments are performing poorly. In the midst of its last secular bull market in the 1970s, gold fell 45% over 18 months between the end of 1974 and mid 1976 (at a time when sharemarkets did well) before rising over 800% over the following four years (as many sharemarkets struggled, particularly in real terms).

History may not repeat but given the aggressive short positioning of many participants and the extreme pessimism inbuilt into prices, the rally in gold when the current weakness ends could be quite dramatic. However, given the painful experience of the last two years and the perception of gold as 'broken', few traditional financial asset investors are likely to participate.

Dominic McCormick is Chief Investment Officer and Executive Director at Select Asset Management.

Technology advances key to improving delivery of intra-fund advice

Jeroen Buwalda and Maree Pallisco

Intensive regulatory reform has been a fact of life for providers of personal financial advice for more than a decade, since the introduction of Financial Services Reform (FSR) in 2002. So what do we have to show for it? If the results of ASIC's shadow shopping exercises are anything to go by, the quality of financial advice certainly hasn't improved during this time and the proportion of people accessing personal financial advice remains low.

The introduction of the Future of Financial Advice (FOFA) reforms should go some way towards lifting the overall quality of financial advice, but only if licensees make considerable additional investment in the training, accreditation, supervision and monitoring of their financial advisers to ensure that 'best interests' are implemented accurately and consistently. Unfortunately, this investment is likely to push up the cost of financial advice, which already represents a significant barrier to access. The average holistic advice fee of $2,550 represents nearly 6% of an Australian's average annual earnings after tax. Funding an expense of this magnitude out of an already tight household budget is a difficult decision, further complicated by behavioural biases that tend to undervalue the future benefits.

Much has been made of recent experience in the United Kingdom following the introduction of similar reforms, where banks replaced their low-end financial planning networks with information, education and execution-only services. High-end independent and boutique advisers have flourished, serving clients who are willing and able to pay for the best possible advice.

This is not to say that the industry hasn't attempted to make financial advice more accessible to their broader client group. Paraplanning, better use of technology and new delivery channels, including telephone, video and email, have all contributed to improvements in financial adviser productivity. Industry funds, in particular, have made impressive inroads with the delivery of financial advice to their members. While specific regulatory provisions for intra-fund advice may have been the catalyst, industry funds see financial advice as a way to improve member engagement and fill the increasing void left by upscale advisers.

Of course, intra-fund advice has its limits. It doesn't address the consolidation of multiple super accounts or consider whether the member might be better off with another super fund. However the alternative of spending thousands of dollars on comprehensive financial advice, the quality of which will be highly dependent on the individual adviser, simply does not make sense for the vast majority of Australians.

Many advisers would argue that there isn't much more they can do in the absence of specific regulatory provisions that delineate between the different 'flavours' of personal financial advice – intra-fund, specific and holistic. Their reticence is probably somewhat justified given the wooden stick ASIC has generally applied to past efforts by the industry to move beyond comprehensive advice. However, the introduction of FOFA does provide a limited window of opportunity for the industry to work collaboratively with ASIC to deliver the next generation of personal financial advice tools.

Many of the innovative technology concepts successfully applied in other industries could potentially be leveraged to deliver guided financial advice journeys that engage clients as their financial needs evolve. Importantly, such technology could also underpin the delivery of a more consistent and compliant financial advice experience.

To be successful, the next generation of personal advice tools will need to be seamlessly embedded within existing client-facing applications, including online banking, online broking, superannuation and SMSF administration. This integration offers several benefits, including a reduction in data entry (your bank already knows your income and home loan balance) and seamless online support for recommended financial products. Clients could choose to access these tools either directly (online or through a mobile device), with guidance or support from front-line staff (face to face or over the telephone), or in a more traditional advice context.

Filling in lengthy questionnaires is a daunting prospect and is likely to elicit high rates of non-completion or drop-out from clients. This problem can be managed in two ways. The first is to limit the extent of data entry to only essential areas and pre-populate fields with existing data where possible. The second approach involves the use of Census data and other survey information to build a composite picture of the user based on information such as their income, age and where they live. This composite picture can then be used to populate remaining questionnaire fields, providing the user with a starting point from which they can refine their responses as required. The next generation of financial advice technologies will also frame user choices in a way that guides them to outcomes consistent with their best interests. This form of nudge theory is based on behavioural economics and has been successfully employed in the United Kingdom to deliver a 15% uplift in the timely tax lodgement response rate following communications from the tax office.

Existing technologies do not readily support the structured and systematic capture of financial advice data – such as client circumstances, needs and recommendations – in a useable manner. As a result, the systems cannot currently apply a series of business rules that allow funds to evaluate the advice, understand which strategies have proven most successful with client groups, or identify trends or potential biases in the advice being provided. The next generation of advice tools will need to make better use of all client data to help drive improved financial advice strategies, monitor compliance, evaluate risks and support the continuous evolution of business and decision support rules.

Revolution in the application of technology to the delivery of financial advice, in all its different forms, is critical if the issues around quality and access are to be meaningfully addressed. A generation of consumers has grown up accustomed to sophisticated and integrated online experiences enabled by the likes of Facebook, Google and Apple. Why should they have to settle for an abacus when it comes to financial advice?

Jeroen Buwalda is a financial services partner for Ernst & Young Australia. Maree Pallisco is the national superannuation leader for Ernst & Young Australia.

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A short history lesson on banks and government debt

Ashley Owen

The current European government debt crisis has seen the media full of stories about the 'unprecedented' government defaults and 'unimaginable' bank failures. The big banks have been designated 'too big to fail' as governments rush in to prop them up using taxpayers' money, and the bankers keep their jobs and their bonuses.

Fascinating though the current events are, they are hardly new. Not much changes - even across thousands of years. For example in the year 1345 AD, defaults on government debts caused the collapse of the Italian banking industry which financed trade and commerce across the whole of Europe.

Wind the clock back a further 1,000 years to the collapse of the Roman Empire in the 4th century AD, the result of a combination of factors including imperial over-stretch and a breakdown in the monetary system and society following rampant inflation from excessive money printing to finance wars and the expanding government. The collapse of the empire, and the monetary system that supported it, plunged Europe into the Dark Ages - a thousand years of barter and feudalism, without an effective financial system to oil the wheels of trade and commerce.

After 1,000 years of economic stagnation following the collapse of the Roman Empire, the Italian city states led the re-birth of the European Renaissance, and Florence emerged as the centre of European trade and commerce, underpinned by its widely trusted gold coin, the florin, first minted in 1252. By the early 1300s two great banking groups in Northern Italy, the *Bardi* and the *Peruzzi*, had come to dominate the European banking industry, lending to businesses and governments all over Europe.

One of the biggest borrowers was England, which needed funds to finance its wars against France. The debt pile kept mounting up until finally in 1345 the English government finances collapsed under the weight of debt. The English Crown (Edward III) defaulted on its loans of 600,000 gold florins from the *Bardi* and 900,000 florins from the *Peruzzi*. As these debts were in a hard currency backed by gold and not England's soft paper money, England could not simply print more currency to repay the loans. The English default bankrupted both the *Bardi* and the *Peruzzi* banking groups, triggering the collapse of the whole of the Florentine banking system due to counterparty holdings with all of the other banks.

The bankruptcy of the Italian and European banking system was a painful but necessary process – debts were written off, shareholders were wiped out, depositors lost their savings, bankers lost their jobs, their fortunes and their standing in society, and businesses across Europe were starved of capital and failed. But lessons were learned, and it cleared the way for a new breed of much stronger, better managed banks, led by the *Medici*, that went on to prosper and underpin the tremendous economic, social, political and cultural revival of Europe in the centuries that followed.

Little has changed in all these years. Governments are still the largest borrowers from banks, and they are still defaulting on their debts. Britain's most recent default (these days quaintly called 'restructure') was its humiliating bailout by the IMF in 1976. Even before Greece's shock default and restructure last year, Greece had been in eight separate debt restructure cycles lasting a total of 92 years out of the 181 years since its independence. Virtually every country (including Australia in 1932) has defaulted on its government debts at one time or another.

In the latest government debt crisis, banks are once again using their power to pressure governments into bailing them out by propping them up with citizens' taxes and future pensions, and again the bankers keep their massive salaries and bonuses.

These days banks are geared at more than 20 to 1 (even the new Basel 3 rules will only require a leverage ratio of 3% equity to total assets, ie 33:1 gearing), meaning that a decline in value of its assets of only a few percent would render a bank insolvent. European banks are grimly clutching onto huge piles of government debt they know are worth significantly less than their face value. Governments are terrified of the idea of banks failing because the widespread loss of public savings could easily trigger public revolt and perhaps revolution that would end the incumbent politicians' privileged lifestyles.

The end game is inevitable in the long term – the end of the current greatly flawed banking system riddled with moral hazard and distorted incentives. But the end of that system will probably require large scale default and collapse of major banks, where shareholders are wiped out, bankers lose their jobs, their fortunes and their reputations, and businesses are starved of capital, but where lessons are learned and the decks are cleared in order for new, stronger, better managed banks to emerge in their place.

In Japan after the 1990 collapse of the debt-fuelled asset bubble, it took seven years for the government to recognise the problem, another five years to start to fix it, and the job is still only half done more than 20 years later.

In China following the 1983 *li gai shui* reforms and the 1984 *bo gai dai* reforms, the five big state-owned banks went on a wild lending binge from 1985 to 1993, lending vast amounts of money to provincial governments and state owned enterprises to fund politically motivated, uneconomic projects. That credit bubble collapsed in 1993 in a mountain of bad debts that rendered all of the major banks insolvent and the government was forced to recapitalise them. The economy collapsed and unemployment soared, but what did the government do to kick start the economy and find people jobs? It forced the same banks to lend to the same loss-making state owned enterprises for even more unprofitable, politically motivated projects. The result was the same - another pile of bad debts, insolvent banks and more recapitalisations in 1998, and then again in 2004. Then since 2009, those same big banks have been at it again, shovelling vast amounts of credit to the same provincial governments and the same state owned enterprises to fund even more politically motivated and uneconomic projects. No lessons learned there.

In the current crisis it looks as if Europe is heading the same way as Japan. Governments are still in denial, trying to prop up the existing system with taxpayers' money. Unlike in China, European taxpayers have votes and so the road to reform is littered with endless cul-de-sacs of compromise and side deals. Progress is being slowed even further by the need to get 17 different countries to agree to every tiny step of the way.

The United States was much quicker to eliminate the bad banks, restructure and recapitalise the survivors, but still same old managers are pocketing massive salaries and bonuses, and the surviving banks are bigger and more complex than ever before. Bankers' lobby groups still have an unhealthy influence in Washington, watering down and delaying any real reforms.

(I was a lending manager at Citibank in the early 1980s when the global Chairman of Citibank, Walt Wriston, declared that "Governments can't go broke!" - right before Mexico and 15 other Latin American countries defaulted on their debts. Citibank was the biggest lender in the great Latin American debt binge but Wriston was able to use his political power and scare tactics to get the US government to use taxpayers' money to bail Citibank out - and not for the first or last time!)

The end game is still many years away it seems. Politicians are still in the pockets of the banks, bowing to their will and bailing them out. The 'too big to fail' banks are now bigger than ever. One day politicians will have the courage to stand up to the banks and allow countries to default, and allow banks to fail. In some countries it may be triggered by popular uprisings that replace the existing governments and political parties, and we are seeing this trend gather pace in southern

Europe. Bepe Grillo came very close in Italy earlier this year. People everywhere are coming to realise that simply replacing the government with the opposition doesn't solve the problem.

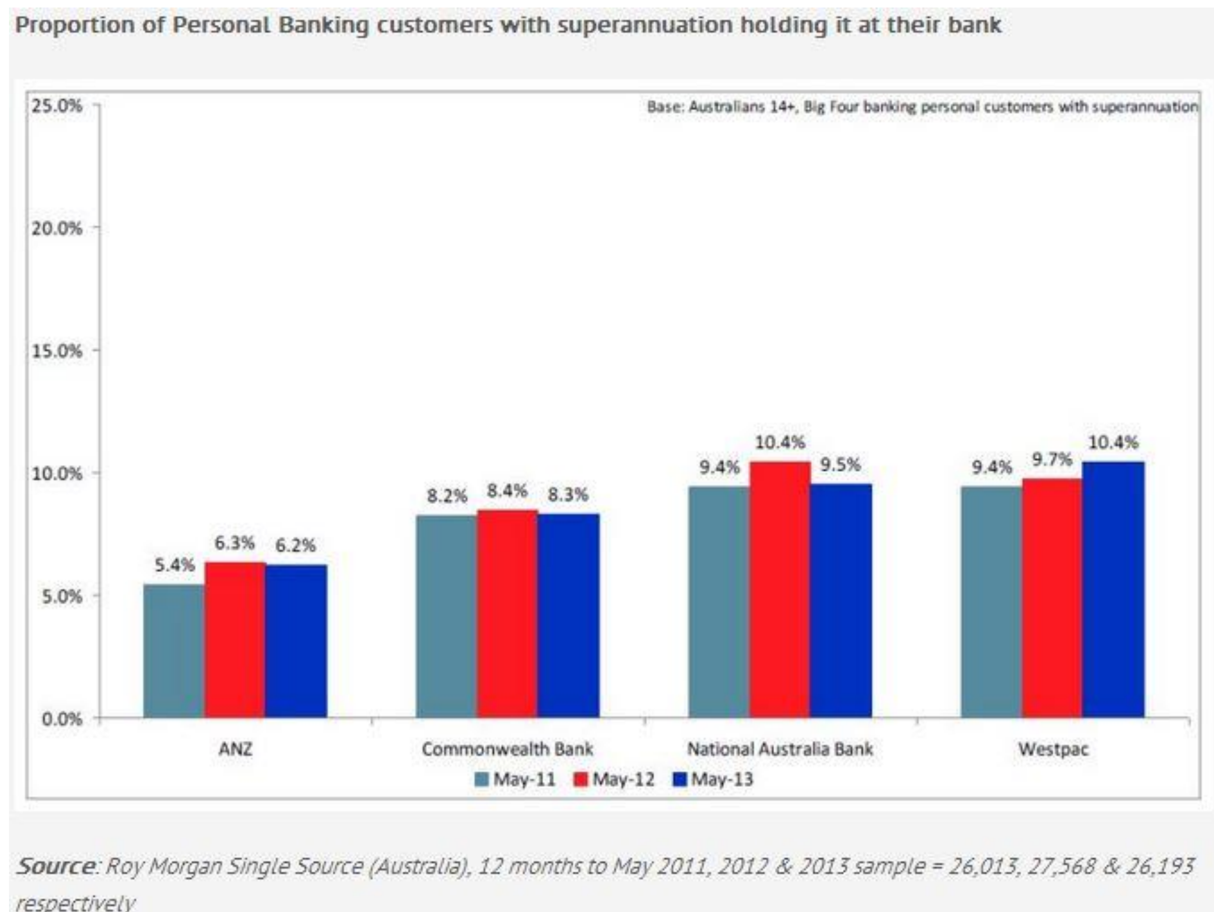
Only with the end of the current flawed system will there be a birth of a new financial system that is strong, flexible and responsive enough to fuel the next great stage of economic growth and prosperity. Just like many hundreds of years ago.

Ashley Owen is Joint Chief Executive Officer of Philo Capital Advisers.

Banks and their low superannuation cross-sell rates

LinkedIn Discussion

Roy Morgan Research recently reported that in the survey period of the 12 months to May 2013, no more than 10.4% of personal customers of any major bank held their super with their bank. Approximately 50% hold their super with an industry fund and 8% with AMP.



The Editor of Cuffelinks, Graham Hand, took part in a lively LinkedIn discussion after the release of this Report, some of which is extracted below:

Mark Redman: Only one in 10 in bank customers have their personal super with their bank, showing that banks are missing a huge cross-selling opportunity.

Alun Stevens: Probably the most sensible thing I can say is, 'Watch this space'. The banks were all aware of the problem and all are in the process of doing something about it.

Graham Hand: Yes, Alun, they are finally focussing on it, but if you take the specific case of SMSFs, the banks have allowed the administration and most of the investments of $500 billion to be controlled elsewhere, and must now play catch up, as discussed in this article.

Alun Stevens: Graham, I agree with you as far as administration and advice are concerned. Given that some 25% of SMSF assets are invested in Cash and Term Deposits, the banks have a fairly good foothold. Another 35% to 40% of assets are invested in listed securities with the bank brokers having a significant share. The bank groups therefore already have a large presence in the assets of the SMSF market. This is quite important when one considers that the majority of these assets by value are not advised (in the sense of financial as opposed to tax advice).

The banks have also been very good at turning limited recourse borrowing into products with packaged loan and trusts. Pretty much all the debt is bank debt.

Eric Taylor: While SMSF Trustees may be using bank services such as brokers and deposits, that is a long way from people investing in bank managed superannuation funds. I suspect many people see banks as high income earning corporations, more focused on selling and profit for shareholders rather that service to clients. I suspect it will be many years before banks can convince "ordinary" people that the banks want their money for the members' benefit. The conglomerates of today are vastly different from the service bodies in which I was employed many decades ago.

This can be highlighted by the offers of Limited Recourse Borrowing Arrangements (LRBA) to people who are getting close to retirement. It appears the goal in such enterprises is more related to the banks' lending money than to help people retire in say 4 to 5 years who need minimal risk.

I suspect it will be many years before the banks become significant controllers of superannuation funds, rather than a tool used by the controllers. The public confidence is not there.

Graham Hand: Alun, while it is correct that much of brokerage business of SMSFs goes through bank brokers, it is invariably the discount online offers where fees are around $20 up to a $10,000 trade, or 0.2%. This is a one-off cost to purchase, say an ETF which the SMSF may hold for 5 years or more. The annual management fee goes to the ETF provider, none of which is a major Aussie bank.

Compare this with the annual fee earned on a traditional managed fund, maybe 1% pa depending on the fund option chosen. As revenue for the bank group, the brokerage is tiny and a fraction of the managed fund recurring annuity stream. So to say the banks already have a large presence in the SMSF market underplays the fact that the revenue has fallen significantly for the banks from meeting the SMSF demand in this way.

Alun Stevens: Graham, I am not saying that the banks can't do a lot better. I am simply saying that they already take a very solid proportion of the gross margin generated from SMSFs and that this shouldn't be overlooked.

Managed funds are a furphy in the context of SMSFs because they are not greatly used. The total margin on cash and term deposits exceeds the total margin on managed funds. We will also see a fall in the use of managed funds as a percentage of assets as advisers increasingly take on the investment management role as a means of maintaining their margins whilst reducing client costs. There is a marked trend in this direction already underway.

The trend within the managed fund segment is also towards ETF type funds which can be executed and traded online like shares. The investment margins for these are much lower than for traditional managed funds.

The bank brokers do make good margins, for brokers, from their online businesses, but this is not why I was referring to them. Their major value to the banks is that these broking businesses provide a powerful client gathering and engagement function. To take Eric's point, they may not 'control' the super funds (comments below), but they do control the interface for the most

significant function for trustees - investment execution, reporting and management. The comments made in the article at the start of this thread grossly underestimate the strategic value that the control of this interface delivers. Well over half of the asset value in this segment is unadvised and the primary source of market access and information for the controllers (that word again) of this money is their online brokerage provider.

I always find the word 'control' rather peculiar in the context of financial services. In my experience it is the clients who control the activities rather than advisers. Having managed an online broking business, I can attest that advisers generally overestimate the extent of their control and vastly underestimate the extent of the market. There is a very large market out there that actively avoids advisers, but they all have broking accounts. And their attitudes to their brokers (bank owned and others) are much more positive than their attitudes to advisers. In fact, attitudes overall are much more positive to brokers than to advisers.

Eric, I agree that it will be some years before bank branded superannuation funds have a significant share, but they are one of the fastest growing segments of the market despite banks like ANZ having only just started to push their product and NAB yet to launch something.

I also agree that there are problems with a good proportion of LRBs, but my question is why the supposedly responsible controllers of these funds (ie the advisers) are proposing these loans? It is hardly the banks' fault given that they are just sitting on the side as untrusted product providers.

Alun Stevens is Principal at Rice Warner Actuaries; Mark Redman is Manager, Wealth Management at Porterallen; and Eric Taylor is a Registered SMSF Auditor and Tax Agent.

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