

Comparing apples

By SHENÉE MORGAN

The introduction of a new breed of ratings services for superannuation funds is the first step towards enabling employers and members to compare apples to apples across the industry's sectors.

The demystification of superannuation has been given a boost by a new breed of ratings agencies that cover multi-employer and public offer superannuation funds. They will eventually cover public sector and corporate funds also.

Historically, research houses such as Assirt, Morningstar, Lonsdale, InvestorSource, Standard & Poor's, and van Eyk Research have rated retail superannuation funds. Now Rainmaker Information's SelectingSuper and Jeff Bresnahan's SuperRatings are filling the gap in the wholesale market.

According to ASFA Research Centre's principal researcher, Ross Clare, some trustees of corporate, industry and public sector funds have shirked such ratings services in the past as unnecessary and of little value.

SelectingSuper and SuperRatings aim to breakdown this perception. They plan to assist employers and fund members by improving disclosure and transparency in the industry.

Clare hopes the provision of objective information from independent sources may eventually lead to more informed buying.

The agencies specialise in the assessment of all parts of a superannuation fund's offering. SuperRatings researches funds' investments, administration, pricing, insurance, member ancillary services and trustee governance, while SelectingSuper looks at organisational strength, administration, communications, investment performance, insurance and member services.

The services facilitate the comparison of all funds on a like for like basis, irrespective of sector.

Bringing more transparency

According to SuperRatings' managing director, Jeff Bresnahan, the catalyst for the launch of SuperRatings was a drive to get information into the public domain.

"SuperRatings is seeking to create a greater level of transparency in the industry so fund members and employers can feel a degree of security and express a higher level of understanding in their chosen fund's offering," he says.

There are five SuperRatings levels, ranging from Blue at the lower end of the scale to Bronze, Silver, Gold and Platinum.

The 30 funds SuperRatings has so far rated sit on a bell-shaped curve. The majority of funds (30%) are rated Silver, while 20% are rated Gold and 20% Bronze, with just 15% reaching the highest echelon of Platinum, and 15% the Blue level.

"SuperRatings promotes the need for continuous improvement by funds to ensure participants are receiving value for money," Bresnahan says. "The ultimate aim is to create a 'value for money' measurement."

Whilst different organisations have different needs, he feels SuperRatings provides employers with the information to assess the best fit for their organisation.

An alphabetic approach

Rainmaker's director of research, Alex Dunning, says funds began demanding an independent ratings service around five years ago. The information provider had been collecting data to facilitate this, but until now, had not developed an effective ratings process.

SelectingSuper's Fund Quality Ratings develop a rating for each criterion researched. This allows a fund to dissect its rating and highlight just one aspect, such as insurance. The separate ratings are then integrated into an overall fund rating, which reflects the position of the fund's total offering.

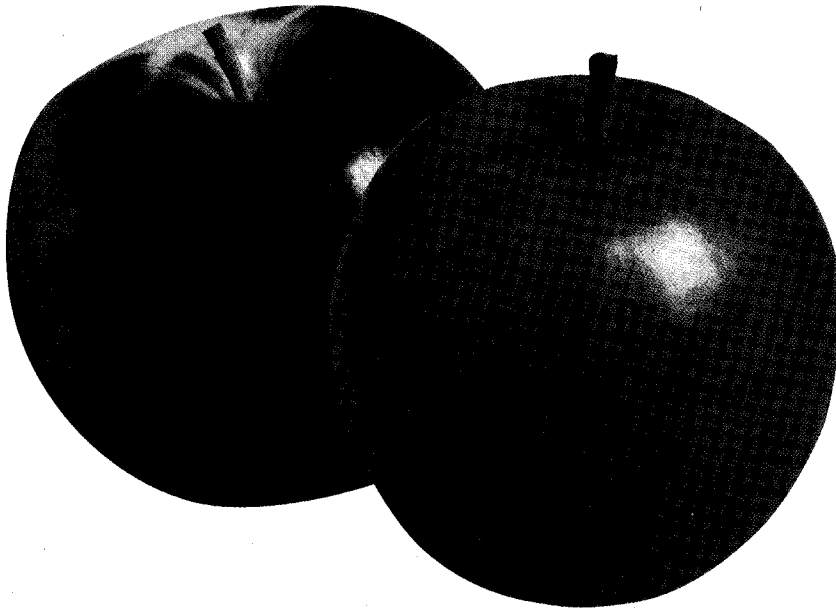
SelectingSuper's ratings range from AAA, which indicates an exceptional quality fund, to B, which indicates a below standard quality fund.

It has begun progressively rating funds starting from the largest at the 'top end'. As such, of the 30 funds that have been rated, none have received a poor result. Funds that do not provide sufficient information to develop a rating will have the status of 'not rated'.

"SelectingSuper facilitates a mechanism that allows funds to talk directly to their market," Dunning explains. "One concern is that the superannuation industry is good at talking amongst itself, but not with others."

He believes SelectingSuper will eventually create a portal for better communication.

SelectingSuper also enables



employers to indicate what funds they would like rated and places these on a priority list. It provides a consulting service to help employers judge the merits of the funds about which they have requested information.

Payment processes

Another part of the SelectingSuper service is its *SelectingSuper Handbook*, which is now in its second edition. It lists funds' contact details and is sent to around 3,500 employers. Funds do not pay to be included in the handbook, nor to be rated, but they can pay to take out an enhanced listing in the handbook, which provides a detailed profile of the fund.

SuperRatings also prides itself on not receiving any commission or payment from funds to develop a rating. Instead, funds can pay an upfront fee for an ongoing benchmarking service, whereby they receive a detailed report on their strengths and weaknesses.

"It is this ongoing peer comparison that will eventually raise the bar for service standards in the superannuation industry," Bresnahan says.

He feels it is important that ratings services remain unaligned to any superannuation fund, sector, or any other related parties.

There are sceptics, however, that remain cautious about providing information to the ratings agencies.

Both Bresnahan and Dunnin report

that some funds have been reluctant to participate. According to Dunnin, some trustees feel the exercise is pointless given the lack of any legislated fund choice.

Pointless or fearful?

Bresnahan puts the reluctance down to fear. He feels trustees who know their offering is not up to scratch may refuse to participate to avoid receiving a poor rating.

Despite some funds' hesitation to participate voluntarily in the ratings process, SuperRatings has undertaken to rate all funds over time.

"Funds will not be able to bury their heads in the sand," Bresnahan warns.

Having said this, he says funds will be given the opportunity to suppress a poor rating on the condition that they take positive action to correct their shortfall within 12 months.

Bresnahan stresses that no funds have opted to suppress a rating yet, but feels it is an important product feature to prevent funds becoming discouraged from participating.

While there has been little action in this area to date, and the new ratings agencies are taking time to win industry-wide support, Dunnin believes organisations providing these services will proliferate over the next 18 months to two years.

"Superannuation funds should get used to the idea," he cautions. ■

How one fund rates the raters

Australian Retirement Fund's (ARF) national marketing manager, Alison McIvor, is a strong supporter of the ratings concept. She believes it will eventually raise service standards in the superannuation industry.

ARF has participated in both SuperRatings' and SelectingSuper's ratings processes and it has been awarded the highest possible rating from both – Platinum and AAA respectively. The fund uses this information in its marketing material to employers and tender consultants.

"We [ARF] were confident the fund's offering was of the highest standard, nevertheless, it is important to receive third party verification to back up such claims," McIvor admits.

By receiving reports from companies with greater information about its peer funds, ARF is in a good position to continually improve its offering, although McIvor acknowledges that there is no value in being one of a number of good funds.

"It is more meaningful to be at the peak of a range of funds rated from lowest to highest, rather than simply one of a host of 'great' funds," she points out.

While the ratings are an important aspect of the service these agencies offer, McIvor feels it is the in-depth reporting on the fund's offering and its benchmarking against the rest of the market that represents the greatest value.

"SuperRatings' benchmarking process is really comprehensive and is a useful diagnostic tool," McIvor says. "It highlights the fund's strengths and weaknesses both in its own right and against other funds."

Although she admits it is a time-consuming and somewhat costly exercise, McIvor believes the provision of detailed profiles from independent third parties heralds a step towards greater transparency and eventually better servicing of members in the superannuation industry. ■