



Institute of Actuaries of Australia

4th Financial Services Forum

Innovation in Financial Markets

19 and 20 May 2008 – Melbourne

Principles & Practice of Product Rationalisation

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Background





Current Mechanisms

Superannuation

- Equivalence of Rights
- Members' Interests
- Trustee Decision
- Disclosure
- Complaints Mechanism

Friendly Society

- Expert advice
(Appointed Actuary) on
unfairness to members
- Member vote
- Disclosure
- APRA Registration



Principles

- Who wins?
- What is it applied it to?
- Who decides?
- How to decide
- Protection
- Implementation



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Who wins?

- Is it a case of Investors v Product Providers?



- Everyone has to win, otherwise no one will win



What is it applied to?

- Objective
 - Protect Investors
- Solution
 - Apply only to products offered by providers where the provider has a legal responsibility to protect investors.



Who decides?

Investors, Board, Arbitrator, Regulator or Court?

Board

- Rely on responsibility to investors
- Strengthen investor protection by:
 - Independent professional review
 - Regulator oversight

Arbitrator or Court

- Legal responsibility?
- Expertise?
- Would have to rely on statements by provider
- Add cost, depending on role
- May be selected for reasons of form or substance

An Arbitrator is only a form of investor protection



Protection

- **The Test!**
- Independent professional advice
- Mitigation where minority impacted adversely
- Pre & post transfer communication
- Monitoring of response to communication
- Regulatory oversight that due process (more explicit tests) is followed
- Complaints mechanism
- Post implementation review



How to decide

Principle

- Equivalent package of rights and benefits enjoyed by beneficiaries before and after the transfer

Detailed Tests

- Legal rights
- Value of benefits
- Investments
- Access
- Fees/Premiums

With great power comes great responsibility



Implementation

Aim Lower, think smaller, give up, have a cup of coffee

Initial Planning:

- Investors
- Assess Risk
- Business Case

Review:

- Ind. Advice
- Decision

Pre Transfer:

- Governance
- Risk Mgt
- Asset Mgt
- Communicate

Post Transfer:

- Reconcile
- Communicate
- Archive
- Wind Up