



23 July 2020

TO: RSE LICENSEES

LOOKING AHEAD: FOCUS ON STRATEGIC PLANNING AND MEMBER OUTCOMES

The start to 2020 has been extraordinarily challenging, with bushfires, floods and now the COVID-19 pandemic causing immense disruption. The superannuation sector has needed to adjust rapidly to these events, however RSE licensees have generally risen to the challenge.

Nevertheless, it is important that RSE licensees not lose sight of the need for an ongoing focus on improving outcomes for superannuation members, including through implementation of *SPS 515 Strategic Planning and Member Outcomes* (SPS 515). The decision to include strategic planning and business performance as a component of APRA's governance series of prudential standards is deliberate, and reflects APRA's view that it is essential for RSE licensees to have consideration of member outcomes central to the development of effective strategies and business plans.

A timely reminder – two new key obligations

As we reach the halfway point of the calendar year, it is therefore appropriate to remind RSE licensees of two new key obligations that are designed to prompt robust and in-depth consideration of the outcomes being delivered to members – the **Business Performance Review**¹ (BPR) and the **outcomes assessment**². The timeframes for completing these are provided in Attachment A.

Over the past 12 months, APRA has consistently encouraged RSE licensees to engage early with APRA on the design of their BPR and the outcomes assessment, given the level of complexity involved in complying with these requirements. Despite this, APRA has seen a low take-up of this offer and is concerned that the lack of trial outcomes assessments being shared with APRA may be indicative of a lack of preparedness by the industry.

There are numerous considerations that RSE licensees need to work-through in order to fulfil these obligations, and the complexity in doing so will be commensurate with the complexity of RSE licensees' operating models and diversity of their product offerings.

APRA reiterates the imperative to prepare early for these assessments. APRA will support the effective implementation of the outcomes assessment and the BPR by providing clarity on issues raised through publishing responses to frequently asked questions, where appropriate.

Business Performance Review

The first BPR is to be completed by 31 December 2020 and requires each RSE licensee to assess its performance in achieving its strategic objectives across its business operations, taking into account the results of the legislated outcomes assessment, and to use the BPR as

¹ Refer Prudential Standard SPS 515 Strategic Planning and Member Outcomes.

² Refer s 52(9) Supervision Industry (Supervision) Act 1993.

the basis for taking action to improve performance. To satisfy the requirements, RSE licensees will need to consider the design of their products, based on analysis using cohorts and objective benchmarks determined by the RSE licensee, and determine whether the business is being operated in a way that supports delivery of appropriate member outcomes.

The actions of RSE licensees in response to the COVID-19 pandemic during the past few months, and their future actions, are something that APRA will continue to focus on. RSE licensees must be able to demonstrate, as part of their review of strategic objectives and business planning, how they will respond to recent changes in policy settings and the impacts arising from the pandemic on, for example, future revenue streams and financial projections for their business operations. Declining returns, reductions in asset values and the number of member accounts, and pressures on costs will challenge many funds' ability to continue to provide value to members. The impacts flowing from COVID-19 will be significant for some funds, accelerating sustainability challenges that otherwise would have emerged over a slightly longer timeframe.

APRA's recent article on industry consolidation³ is a reminder that RSE licensees must continue to challenge themselves and robustly assess their ability to promote the financial interests of members into the future. The role of an RSE licensee is a privilege and not a right, and for many funds in the superannuation industry today, the best path forward to secure the future of their members for the long-term may be to merge or exit.

Outcomes assessment

The first annual outcomes assessment is to be completed by the end of February 2021, with the results published within 28 days. The assessment requires the RSE licensee to conclude whether members' financial interests are being promoted in the product they hold. Under the legislation, the RSE licensee is required to consider how its MySuper product compares with other MySuper products, and its choice products with other like products.

Whilst the methodology is largely prescribed for MySuper products, the approach for choice products is largely at the discretion of the RSE licensee. APRA will seek to understand the RSE licensee's methodology for undertaking the assessment, including the RSE licensee's selection of peer groups for comparison purposes for choice products, and the benchmarks used in undertaking its outcomes assessment.

As RSE licensees reflect on the design of their products, APRA asks that RSE licensees particularly consider the following aspects:

MySuper products – does your MySuper product meet the brief?

MySuper products play a critical role in the industry, as they are default products to which superannuation guarantee contributions are directed in the absence of employee choice. Consistent with the Government's intent, MySuper products are expected to be simple, cost-effective and well-designed products that contain the basic features required by most members. Members should not be paying for services and benefits beyond the basics, which are more suited to choice members.

Choice products – where can you simplify and consolidate?

The plethora and diversity of choice products and options across the industry, coupled with the different fee structures across platforms and other arrangements, introduces significant

³ <https://www.apra.gov.au/news-and-publications/apra-insight-issue-two-2020>

challenge and complexity in assessing performance. In an environment in which RSE licensees are increasingly being held more accountable for the performance of their products, there is a real opportunity to streamline the products and options that are made available. Despite the continuing trend of consolidation in the superannuation industry, there are still over 40,000 investment options. This level of choice arguably works against competition, with members so overwhelmed by options that they struggle to separate the good from the bad. Failure to act now to simplify and consolidate available products and options is likely to make the new BPR and outcomes assessment obligations very challenging for many RSE licensees and raises questions as to the value of such expansive product sets.

Data quality and capabilities

The quality of the BPR and the outcomes assessment produced by an RSE licensee is dependent on the breadth and accuracy of data held and the capacity and capability to use it. These are essential foundations to the RSE licensee's operations and APRA will continue its strong focus on lifting data quality and capabilities across the industry.

Similarly, APRA remains committed to collecting and publishing more granular, reliable and accessible superannuation data across the industry, particularly for the choice sector, through its multi-year Superannuation Data Transformation.⁴ The subsequent uplift in the breadth, depth and quality of the data APRA collects will significantly strengthen its – and other stakeholders' – visibility and understanding of outcomes being delivered across the industry, and is expected to facilitate further improvements.

Conclusion

APRA acknowledges the significant efforts of the superannuation industry to protect members' interests during what has been a volatile and uncertain period.

In this challenging environment, risks will continue to evolve, potentially rapidly, and all industry stakeholders will have to continue to respond and adapt accordingly. APRA will be engaging closely with RSE licensees as they navigate the period that lies ahead, with a continuing focus on strengthening outcomes for superannuation members.

Yours sincerely,

Helen Rowell
Deputy Chair

⁴ <https://www.apra.gov.au/consultation-on-apras-superannuation-data-transformation>

ATTACHMENT A - Timeframes for key obligations

