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Superannuation Data Transformation – Publications and Confidentiality

The Financial Services Council (FSC) welcomes the opportunity to provide comments on the proposed data publications and data confidentiality proposals as part of phase 1 of the Superannuation Data Transformation Project.

Overall, the FSC believes that the proposals for new superannuation publications are reasonable. Providing additional detail at the investment option or plan level makes sense, as there are limitations in examining data at an RSE level and comparing across funds. Our submission flags concerns around the potential for insurance data and therefore the true value of insurance to be misinterpreted, and as such we would submit that it remains confidential. APRA could consider undertaking further consultation with industry on the insurance related data, so that it can be published in a way that is not misleading and provides accurate context and comparability.

We note that the Superannuation Data Transformation Project has represented a significant impost on funds, resulting in higher operating costs because of requirements to recruit data specialists, the creation of new governance and controls on data and report compilation, and increased internal and external audit scopes to review the data and reports. We note that data reporting has now created significant operational overhead with some organisations having in excess of 100 staff enterprise wide involved in data provision. With the additional breadth and depth of data to be reported (and likely requirements to emerge under the Consumer Data Right), there is also an increasing demand for technology solutions. All are placing upward pressure on costs. This should be kept in mind as the Superannuation Data Transformation Project continues, and any new obligations should only be imposed on industry where there is compelling public benefit.

In Section 1, we outline some general comments about APRA's proposals for new superannuation publications. In Section 2, we provide feedback on data points we believe should be confidential. In Section 3, we respond to the feedback questions from the Discussion Paper.

If you wish to follow up on this submission or have any questions, please contact [redacted]

Yours sincerely,

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Section 1 - General Comments

Best endeavours basis
We submit that some of the data may not be of sufficient accuracy at this stage and therefore too premature to publish. First year data provision has been a big learning process for APRA and industry in relation to the APRA Data Transformation. We understand that APRA is currently still working with the industry to improve the reporting for Expenses Reporting SRS 332 and Asset Allocation SRS 550. The data requirements, or industry wide understanding of the data requirements, could change for expenses and asset allocation reporting.

Given that industry and APRA are still working through data reporting and common understanding, the FSC recommends that publication of Expenses Reporting SRS 332 and Asset Allocation reporting SRS 550 be postponed until there is consistency of understanding and data provision to APRA before publication is made. This is key to ensuring accuracy of comparisons.

Standard definitions
There is a need to ensure that APRA has standard definitions and that APRA is explicit about the definitions for each data field to ensure consistency of reporting and subsequent comparability. For instance, there are investment options which had similar labels, but where the underlying investments and asset allocations can vary substantially. There are also differences between how funds report data such as whether it is net of tax or gross of tax.

Insurance
Insurance is a complex area and the complexity and granularity of the data to be released may be misinterpreted by end users. We submit that the risk of the data presented at the product and fund level being misleading, particularly to consumers, means it should remain confidential. As explained below, consumers may be misled about the value of the life insurance benefits they are receiving. Alternatively, we submit that APRA should further consult on whether the data that is published is capable of appropriate contextualisation. For instance, better contextualisation could take the form of APRA's data publication including a structured release where the data is summarised and can be easily digested by the public. A similar approach has been adopted by APRA and ASIC for existing LRS 750 data publications.

In particular, we note the following potential issues with data publication:

- Metrics that provide claims loss ratios
  We have concerns that the claims data published on premiums collected and paid can be used to calculate claims loss ratios which may be misrepresented. This is more evident if it is published at the product or policy level. The metrics would be based on a cash flow basis rather than an accrual basis. The nature of life insurance dictates that premiums collected in one year may see claims materialize years into the future for an event that occurred in that one year. For instance, disability claims involve notification delays that can run into years. A cash flow basis would grossly underestimate the true value and may inaccurately suggest that insurance is generating super profits and is of little value. We submit that the risk of misleading consumers about the value of insurance should lead to the data remaining confidential, or alternatively well

contextualized. We would encourage APRA to consult further on how these could be better contextualised, including considering whether additional data is needed.

There is also an issue when these 'claims loss ratios' are split by years of arrangement or into smaller cohorts, as there may be significant volatility in claims volumes, particularly in early years. A high claims decline rate could be a function of a low sample size and not due to a particular fund having a high declinature rate. This situation could be mitigated by not reporting claims data where the number of claims falls below a minimum threshold. The existing LRS 750 reporting threshold (a minimum of 50 claims within the reporting period) should be applied to future SRS 251 data publications. However, while this would go some way to mitigate the potential misleading nature of published data, the broader issues raised with the data would still apply with bigger claims numbers.

The impact of a fund which changes insurers should also be considered. If these metrics are reported at the policy level, it will see situations where the old policy will still be receiving claims but no longer receiving premiums, and the new policy receiving premiums and having no claims.

- Premiums for default cover
  Under the Annual Product Level Publication, APRA proposes to report the cost of default cover. Again, we submit there is risk of misinterpretation when comparing the relative cost of funds. The concern is where a fund's default benefits are based on a standard category, that is, all members are defaulted to the 'general' category regardless of occupation. This is common with industry funds or the small business products offered by retail funds where occupation data is not known. A fund that has a skew towards blue collar workers but categorises all members in a standard category will appear to be expensive overall relative to a fund with a white-collar skew that uses a standard occupation category. This skew is more pronounced when comparing costs at a discrete occupation category level between these two funds. In this case the 'average' occupation rating is materially different which explains the price difference, but this is not apparent from the data reported. Due to the risk that misinterpretation of the data may drive sub-optimal decision making, we submit this should remain confidential absent greater contextualization and comparability of insurance benefits.

Fees
Fees are a central metric for members when comparing super funds. However, the proposal to publish all fee arrangements, including custom fees, will lead to commercial issues for some superannuation funds and may also confuse members without context. The standard fee arrangement would be more meaningful for members wishing to compare fees across funds. Custom fees are generally grandfathered or only available to large group plans. We submit that APRA should only publish standard fee arrangements.

Investment performance reporting period
The consultation paper at 2.6.5 indicates that APRA proposes to report 5 and 10 year investment option volatility. We query why these time periods have been chosen and how they will be measured when superannuation is a long term investment. MySuper dashboards, which will also be published, require the publication of the level of investment risk which is measured by estimated number of negative annual returns over 20 years.

Privacy

3.3 of the consultation paper states 'in line with the approach in APRA's current fund-level publications, for superannuation funds with a small cohort of members APRA will continue not to publish fund-level data beyond the name and characteristics for these funds.' We submit that the same principle must be applied to claims. Small cohorts of claims must not be separately identified in either the publications or granular data, to avoid individual claimants being identifiable and to any metrics it publishes.

Proposed publications

Annual Aggregate Publication and Annual Fund Level Publication	Insurance premium rebates are only reported as an amount in the current year. Actual premium rebate payments or clawback are typically a merging of several years of insurance results. There will be mismatched allocation between claims, premiums and premium rebates if treated in this 'cash flow' basis.
Annual Aggregate Publication Table 3 Insurance Claims	This publication should be for entities with four or more members to be consistent with Table 2 Insurance Premiums.
Annual Fund Level Publication Table 1 Insurance	This publication should be for entities with four or more members.
Annual Fund Level Publication Table 2a	Durations should be removed from this table, which is about bundled cover members and premiums (not claims).
Annual Product Level Publication Table 1 Default Design	If there are discounts the highest cost insurance is included in the publication (and only detail the discount in the key metrics / granular data). This provides an incentive for funds not to offer discounts that are not recognised.

Section 2 - Feedback on data fields to be published or to become confidential

Reporting Standard E.g. SRS 605.0	Table E.g. Table 1	Item E.g. Column 1	Dimension classification type E.g. where Column 1 = 'Type1'	Commercial Interest Impact	Member Impact
SRS 251.2	Table 1	Column 4			There is a risk that consumers may interpret the data incorrectly or may be impacted by incorrect media reporting about the data, which will lead to sub-optimal decisions about their choice of superannuation fund.
SRS 251.2	Table 1	Column 5			
SRS 251.2	Table 1	Column 6			
SRS 251.3	Table 2	Column 10			
INS_005					
INS_006					
INS_007					
INS_008					
INS_009					
INS_010					
SRS 332.0				The discussion paper says APRA does not propose to publish individual service provider information, however this position is inconsistent with the granularity of the expense data proposed to be published. Withholding of the service provider's name/s will not protect confidentiality of service provider arrangements where there are only one or	

Reporting Standard E.g. SRS 605.0	Table E.g. Table 1	Item E.g. Column 1	Dimension classification type E.g. where Column 1 = 'Type1'	Commercial Interest Impact	Member Impact
				two service providers for a particularly service, as is often the case for key superannuation fund services. As a result, the commercial and member detriment consequences of publishing individual service provider information would still arise. SRS 332.0 data should not be determined non-confidential. Rather, APRA should publish an alternative analysis of fund expense levels that provides funds with sufficient information to benchmark against but does not reveal individual funds' and service providers' commercial arrangements.	
SRS 605.0	Table 4	Column 9	Where column 3 = custom	This information is commercially sensitive by nature in highly competitive employer plan/dealer group markets. Despite employer names not being published, publication of this data may allow for identification of large employer plans which may in some cases breach confidentiality clauses in employer agreements.	Fee comparisons should be performed by members on standard rates only. Publishing custom fee arrangements could be misunderstood as generally custom fees are grandfathered arrangements for existing members or only available for large group plans. In addition, there is a potential member detriment from the publication of the custom fees/costs arrangements, if super funds elect to remove them (due to their
SRS 605.0	Table 4	Column 10	Where column 3 = custom		
SRS 705.0	Table 1	Column 1	Any row where a custom arrangement is listed in column 1.		

Reporting Standard **E.g. SRS 605.0**	**Table** **E.g. Table 1**	**Item** **E.g. Column 1**	**Dimension classification type** **E.g. where Column 1 = 'Type1'**	**Commercial Interest Impact**	**Member Impact**
SRS 706	Table 1	Column 1	Any row where a custom arrangement is listed in column 1.		commercial sensitivities) and move all members onto standard fees/costs arrangements, which are generally higher than custom rates.

Section 3 – Feedback to the discussion paper questions

Topic	Question	FSC Feedback
General	a) Of the proposed suite of publications (super facts, key metrics publication, key metrics datasets and granular datasets, which, if any, do you intend to use? Please outline any intended use of these publication types.	Reporting is great for transparency but requires a cost / benefit analysis. There are likely many uses for this data, however APRA should consider whether all the data is necessary for effective prudential supervision, rather than creating additional overheads for APRA data teams and funds. Published data sets will likely be used to inform/support product comparisons required for the purposes of annual outcomes assessments, to support benchmarking for BPR and to support additional and richer internal reporting, including reporting provided to the Board
	b) Where more granular data is provided, what information would be most useful to you? Do you intend to use the granular datasets?	Performance, and other data items needed to complete product comparisons for the purposes of annual outcomes assessments and to support regular benchmarking for business planning and business performance review is likely to be most useful.
File Format	a) For downloadable datasets, what file types other than CSV would be desirable?	Data sets may be very large, so members have suggested WinZip CVS could also be appropriate. We also support APRA continuing to explore other options to deliver interactive report-building including data visualisations as noted in section 2.4.1 of the discussion paper. We suggest that presenting the data in an open and accessible visualisation similar to the AFCA Datacube may be useful.
Metrics	a) Are there any additional metrics beyond those in Attachment D that APRA should consider including in its publications?	As noted in our opening comments, APRA should seek to align data and naming conventions before the publishing of additional detail, including reporting information on hard-close or soft close basis, whether fees are net or gross of tax, whether the fund gets the benefit of the tax credit or is this passed onto members, how are growth vs. high growth defined options defined etc.
	b) Of the proposed metrics in Attachment D, should APRA consider changing how any of these are calculated?	

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Segmentation	a) Are there alternative approaches or impediments to the proposed segmentation of products outlined in section 2.8? (i.e segmentation by product phase (accumulation, retirement), product type (MySuper, choice and defined benefit)	Transition to retirement products may be in accumulation or retirement phase depending on whether the member has satisfied a prescribed condition of release. How does APRA propose to treat transition to retirement pensions for the purposes of segmentation? It is not entirely clear based on the information included in section 2.8 of the discussion paper if multi-sector options will form a single segment that is further segmented or whether these will form two separate segments (TDPs and other) that are both further segmented. Section 2.6.1 of the discussion paper seems to suggest that TDPs and other multi-sector options will be separate segments. We submit that multi-sector options should form a single segment which is/can be segmented further by TDP and other, accumulation and pension phase, allocation to growth etc. We suggest that for certain purposes it would be useful to segment Choice product options by wrap and non-wrap. For example, comparing pre-tax returns for wrap options with post-tax returns for non-wrap options will not provide meaningful, like-for-like comparisons.
	b) Are there alternative approaches APRA should consider to the proposed segmentation of multi-sector investment options outlined in section 2.8 (by TDP and other)?	See response to a) above
	c) Is it useful for multi-sector options to be segmented for publication, for example by risk measures such as volatility or by brackets of estimated allocation to growth-asset weights.	We agree this may be useful. It would also be useful to segment options based on whether a passive or active management strategy applies
	d) Are there alternative approaches APRA should consider to segment single-sector investment options?	It would be useful to segment options based on whether a passive or active management strategy applies.
	e) Are there any additional approaches to segmentation APRA should consider?	The proposals for segmentation are good. However, if APRA is reporting at $50k and $100k member representative balances, then this should be reported on a consistent basis in the heatmaps.

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Fees and Costs arrangements	a) Are there impediments to APRA publishing all fees and costs arrangement combinations reported under SRS 705.0 and SRS 706.0 in the Excel publication instead of only the standard fees and costs arrangement?	Reporting all fees and costs arrangement combinations would expose information that in some cases may be subject to confidentiality clauses in agreements between the fund and standard employer-sponsors. While employer names are not visible, other information proposed to be reported is considered commercially sensitive (eg, member count and value) and would likely allow for large employer plans to be identified.
	b) Should a representative member balance be applied to illustrate the fee arrangements, and if so, what balance/s should be applied?	We have no major concerns with the proposal to publish data based on representative balances of $50k and $100k however we note that a representative balance of $250k would likely be more meaningful for investment options offered on wrap platforms. Our members have advised that a higher representative balance of $250k would also be more appropriate for options supporting interests in retirement phase. This is supported by ATO Taxation Statistics 2018-19 which shows that the average super balance for those age 60 or over was above $250k as at June 2019.
Performance	a) What alternatives, if any, should APRA consider to its proposal to publish reported net returns for each investment option in key metrics publications based on the investment pathway with the highest fees and costs charged (taking into account fee caps) for a representative member, noting that APRA proposes to include data for all investment pathways in the granular dataset.	N/A
	b) APRA invites comment on the proposal to publish risk-adjusted returns using the Sharpe Ratio.	The Sharpe index is technical and difficult to explain to the member. The intent should be to make relative measures easier to understand and more be more comparable, and not introduce more jargon and terms which will confuse the members. Members have expressed a preference for what is in the MySuper dashboards which is the number of negative quarters. Alternatively they can apply the methodology in the PDS. What is in

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		the PDS and MySuper dashboards is simple, intended to help the member, and relatively easy to understand. Publishing risk-adjusted returns using the Sharpe Ratio may favour investment options with higher weightings to less frequently valued assets (as portfolio volatility may be lower from fewer data points). There is generally greater liquidity risk that comes from having a greater allocation to less frequently valued assets (particularly for investment options offering daily liquidity) so it would seem appropriate to highlight this for members who may use the Sharpe Ratio to compare investment options. Another key risk to investors that is not captured in the Sharpe Ratio is the risk of loss (drawdown risk). A potential alternate measure could be what % of the investment option the Trustee expects could be liquidated within 30 days.
	c) APRA invites comment on the proposal to publish the return objectives (i.e. return measurement, return objective, return margin and investment horizon) reported under SRF 705.1 Table 1 for TDP investment options.	N/A
	d) APRA does not propose to publish 'Return Objective Target Return' collected in SRF 705.1 Table 2 at this stage. APRA invites feedback on the potential for publication of this data in the future	Trustees often have contracts in place with third party providers who provide them with relevant benchmark data. Whilst some member companies may have discussed the statutory reporting obligations with their benchmark providers, we are concerned if the benchmark data is published or distributed by APRA, then such activity may amount to a potential breach of contract. We would welcome APRA confirming how it intends to use the data, including which fields of data provided in the relevant form, and how it will be published or distributed. We submit that the benchmark data provided by third parties under contract to trustees should not be published or distributed.

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		Careful consideration should also be given to the use of this data as these targets can change over time (eg: CPI targets).

Asset Allocation	a) APRA invites comment on the proposed asset class categories in the key metrics publications. Should APRA consider any additional combinations of sector, listing, domicile, international economy type and hedging, noting that all combinations will be included in the granular dataset?	Asset class categorisation for the purposes of PHD is aligned to the categorisation used for APRA reporting. This provides consistency and, to a certain extent, allows for cost savings, however this correlation must be carefully considered when making changes to APRA reporting requirements.
		
		We also note that with respect to 550.0 Actual Asset Allocation, the definition of:
		• Equity Listed Asset Class 1: there are significant challenges in relation to classification of assets between Large, Mid, Small and Micro Caps at the time of acquisition. The requirement to:
		  ○ Classify the stock 'relative to the market' does not provide guidance on what point each international exchange considers a stock to be in a category (eg. Large cap v mid cap etc.) and does not seem to consider that stocks in international markets will be aggregated for APRA reporting purposes and could distort the reporting outcome (eg. Large cap in US is different from a Large Cap in Sweden), but both will be aggregated into the international equity reporting outcome.
		  ○ classify stocks 'at the time of acquisition' points to historical classification of stocks when each individual parcel of a stock has been bought, and not categorising the stock based on the total amount of stock bought at the latest reporting date.
		• Equity Unlisted Asset Class 1 & 2: the definitions here go to the purpose of why a stock has been purchased which generally is not information easily accessed by Industry unless they are the investment manager in question. Where a trustee relies on Investment Manager Agreements with External Fund Managers, the sourcing of this information is likely to be a significant / costly challenge.
		
		Without clarification of the above, there will likely be inconsistencies in reporting between funds and Trustees.

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	b) APRA seeks feedback on any additional asset class characteristics that would be of public interest to publish on an aggregated industry level or fund-level basis?	N/A
	c) APRA invites comment on the proposal to publish the estimated allocation to growth assets and the use of this metric to segment multi-sector investment options into categories (0-40 per cent; 40-60 per cent; 60-75 per cent; 75-90 per cent; and 90-100 per cent).	Need to ensure there is consistency as to how the growth/defensive split is being determined.
Insurance	a) In the draft Insurance publication, APRA is proposing to calculate insurance fees as the difference between premiums collected from members and premiums paid to insurers. Should APRA consider an alternate method of calculating this amount? Please refer to Tables 2 and 2a of the Key metrics Publication mock-up for insurance for more information.	We have not identified concerns with the Insurance Services Fee calculation methodology. This is consistent with SRS251 where both premium amounts are reported, premium collected and premium paid. There is a risk that however that the data could be misleading and of limited comparability. Premiums are a function of occupation mix, historical claims experience, richness of service offering, richness of benefit design and options. To compare cost without normalising for these is misleading and could lead to unintended consequences such as members choosing a fund that appears cheap but have severe terms that limit the ability to claim or include onerous pre-existing condition exclusions. The value of the benefit of any tax rebate that is passed back to members should also be considered when calculating insurance fees
	b) APRA invites comment on the proposal to publish data on default insurance cover design and cost for representative members (male and female non-smoker) in the Key metrics publications.	Use of this data by a third party for a simple comparison across the industry can be misleading, due to other factors that might come into play like age, member demographics, nature of industry, claims experience and sex.