SUBMISSION

Submission to APRA — Discussion Paper - Strategic planning and member outcomes: proposed enhancements

11 November 2022

The Association of Superannuation Funds of Australia Limited
Level 11, 77 Castlereagh Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 2001

T +61 2 9264 9300
1800 812 798 (outside Sydney)
F 1300 926 484
W www.superannuation.asn.au

ABN 29 002 786 290 CAN 002 786 290

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General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: superannuation.policy@apra.gov.au

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Dear Sir/Madam,

Discussion Paper: Strategic planning and member outcomes: Proposed enhancements

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to your Discussion Paper on *Strategic planning and member outcomes: Proposed enhancements* (**Discussion Paper**).

ABOUT ASFA

ASFA is a nonprofit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3.3 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 17 million Australians with superannuation.

GENERAL COMMENTS

ASFA supports the objective of ensuring the good governance of superannuation funds and continuously improving trustees' strategic planning to ensure good outcomes for members.

ASFA and our member organisations support the intention and approach of the SPS 515 framework. It is important, however, that an appropriate balance is struck between the benefits delivered through, and the resources expended on, strategic planning, to ensure that the performance of this activity is in the best financial interests of superannuation fund members.

Trustees have only completed two planning cycles since SPS 515 was introduced and, while there are opportunities for improvement, amendments will create complexity and make planning more difficult and implementation less efficient, thereby creating additional costs. Further, we note APRA's objective to modernise the prudential architecture, however, the Discussion Paper proposes additional and more prescriptive obligations on trustees that would appear to work against this objective.

SPECIFIC COMMENTS

Specific feedback from member organisations with respect to the Discussion Paper is contained in the body of the submission.

If you have any queries or comments in relation to the content of our submission, please contact me on [redacted] or by email to [redacted].

Yours sincerely

[redacted]

[redacted]
Director, Policy

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1. Clearly defining outcomes for members

1.1. SPS 515 implementation

ASFA supports mandating strategic objectives that support the achievement of member outcomes – potentially, as it is with respect to the best financial interests duty, this could be an explicit linkage.

Member organisations appreciate the flexibility to establish outcomes for all members or outcomes for particular cohorts or segments of members if the trustee considers this more appropriate. In some circumstances there may be an opportunity to make member outcomes holistic across the fund/product, including investments and insurance.

The recognition that often business planning is detailed across different documents serving different functions, making it preferable for the trustee to be able to tailor its strategy/plans/assessments at different stages in their strategic and planning cycles, is welcomed.

Member organisations expressed concern about the requirement to demonstrate a deeper understanding of members' needs and take action on this understanding. This is problematic as more detailed member needs can be highly individual and generally are only obtained and recorded during the provision of personal financial advice.

Similarly, some expectations with respect to researching the circumstances of members are likely to be considerably resource and cost intensive. For a fund/product that has a significant proportion of members in quite similar circumstances, research such as this would have limited benefit when strategic planning.

One consequence with respect to SPS 515 and expenditure management is with respect to trustees that outsource to related parties and the expectation that they will 'look-through' when assessing value for money, expenses and fees, which imposes an additional burden on these trustees.

1.2. Defining member outcomes

Member organisations indicated that they would appreciate guidance as to the types of outcomes that APRA expects to see considered.

By way of example, the types of outcomes could include retirement balances, retirement adequacy, member confidence etc. It would be very useful to understand APRA's expectations as to how trustees are to go about striking a balance across the range of outcomes that they could be assessing.

Further, it would greatly assist trustees if APRA were able to provide some best practice examples of how to use quantifiable metrics to measure strategic objectives and member outcomes sought.

1.3. Cohort development

Member organisations have identified that there are structural challenges with defining member cohorts.

Within MySuper products the legislative regime requires a single, uniform, approach and a single investment option. Compliance with the MySuper regulatory requirements takes precedence and effectively has created a single cohort of members and a single strategy with respect to these members. Large funds that have a diverse membership within their MySuper product, largely acquired through a default mechanism, may find it especially challenging to define cohorts within their MySuper product.

Member organisations have also identified that the introduction of stapling to a member's initial fund/product (unless choice is exercised) is having an effect on the demographics of member accounts, including tenure, that is likely to affect the profile of cohorts over the next few years.

Importantly, the trustee's ability to develop cohorts is limited by the data that it is able to collect.

Usually the data collected by the trustee is confined to some basic demographic, financial and geographic information, such as a member's age, gender, balance, contributions, income stream payments, commutations and place of residence/employment.

In addition, it may be possible for the trustee to derive some information from the data and/or use member activity as a proxy, to estimate matters such as level of income, occupation, family status and level of engagement, although often this will involve the making of one or more assumptions.

Other than the data necessary to administer member's accounts, generally there is little additional data available to trustees to be able to create meaningful cohorts of members. In this context access to data held by the Australian Taxation Office and Services Australia, in aggregated form, may be helpful.

Given the level of engagement of the majority of members, it is likely to prove difficult to obtain information about the members of the fund/product without undertaking considerable research. This is likely to be quite expensive and may not produce any valuable insights that would materially affect the trustee's strategic or business planning.

Further, trustees that do not operate their products' financial statements through member cohorts will find it more difficult to define and report on cohorts. Cohort reporting could have a significant effect on financial/management reporting, depending on the criteria used and assumptions made, and organisations have indicated that generally they do not have the management information systems to report on cohorts.

Member organisations indicated they would appreciate greater guidance from APRA with respect to its expectations as to how trustees could better define, identify and implement cohorts, including the provision of concrete and realistic examples of different types of cohorts.

This guidance could include:

- what cohorts would look like for different types of funds and products
- the types and availability of data, from both internal and external sources, that APRA believes would be required
- relevant considerations to inform the development and use of member cohorts including, for example, costs, expected member benefit and availability of data
- the impediments and risks that may arise from the sourcing and use of member data
- whether acting on more granular cohorts may trigger the trustee providing personal advice
- APRA's expectations in relation to the timing for development of more granular cohorts.

In particular, collecting data in addition to that necessary to administer the members' superannuation benefits could pose a risk to members in the event of a cyber breach/hack.

Further, it may not be in members' best financial interests to develop more complex and granular cohorts where the costs of monitoring and analysing data, and in developing tailored approaches to service members based on these cohorts, will outweigh any expected benefits to members that may result. Too many member cohorts would create complexity when monitoring, analysing, oversighting and reporting on cohorts, including a significantly increased demand on the trustee's data and analytics capabilities.

Finally, the requirement for a trustee to demonstrate a deeper understanding of members' needs, and take action on this understanding, is highly problematic.

There is a risk that requesting additional information from a member may cause a member to form a reasonable expectation, when the trustee gives the member information, advice or a recommendation, that the trustee has taken that information into account and, accordingly, the trustee will be considered to have provided personal financial advice.[1] Trustees would not be able to recommend a particular product or investment option to a member without it being personal financial advice, which significantly limits the actions a trustee can take with respect to different cohorts.

Given the above, member organisations have asked APRA to consider the need for cohort reporting.

As an alternative to requiring more granular cohorts it has been suggested that emphasis could be placed on trustees identifying specific potential detrimental member outcomes within a product/investment option and monitoring for that outcome.

[1] *Westpac Securities Administration Ltd v Australian Securities and Investments Commission [2021] HCA 3 (3 February 2021)*

2. Soundly run business

2.1. Managing financial resources

Member organisations have identified that there are both conceptual and practical difficulties in aligning long term (30 years plus) outcomes with financial decisions that can be made by the trustee on an annual, or even more frequent, basis.

It is particularly challenging effectively having to guarantee that a short-term decision made today necessarily will lead to a particular, or improved, long term outcome. This is the reason why funds - like the majority of other businesses - establish strategic plans on a rolling three to five year basis but the framework does not appear to recognise this medium term planning.

It would be helpful if APRA could provide guidance on the types of measures and metrics APRA expects trustees to monitor, to set expectations and ensure consistency across the industry.

An unintended consequence of the proposed requirements may be that trustees adopt different practices and, accordingly, the requirements will need to set clear expectations and identify what may have changed.

Member organisations have indicated their interest in understanding APRA's proposal to increase the scope of permitted usage of the Operational Risk Financial Requirement (ORFR) and that they would welcome an opportunity to be consulted on SPS 114.

2.2. Financial projections

A financial projection should include explanations of the drivers, including key assumptions and sensitivities. While the trustee is able to challenge and review these, member organisations have identified that they see limited value in the Board assessing the projections methodology, as this really can only be undertaken by a qualified specialist with the requisite expertise and experience, such as an actuary.

2.3. Fee setting principles

Member organisations have asked that SPS 5151 make it clear that the fee setting principles are with respect to the trustee designing and setting the fees that will be levied against members' benefits only and not amounts remitted to the trustee in the form of trustee fees or similar.

Further, when having regard to fee setting, it has been suggested that APRA should take into consideration where the trustee and fund/product are in their strategic cycle.

By way of example, business transformations, transitions and the implementation of new strategies all necessitate upfront capital costs, prior to the benefits beginning to be realised, and this can affect the setting of fees. The principles underlying fee setting must be sufficiently flexible to account for the significant effect the implementation of strategies has on the timing and incurring of costs and the realisation of benefits.

3. Assessment of performance

3.1. The Performance Assessment Cycle

There is an issue with the alignment of the Member Outcomes Assessment (MOA), Business Performance Reviews (BPR), fund reporting and Business Plans and the availability of appropriate data.

In particular, the timing of APRA's releases of the annual MySuper data, required to enable trustees to complete their MOA by the end of calendar year, has proved to be a little challenging.

The BPR is required to incorporate results from the MOA, however, the MOA is unable to be completed until after APRA data is released in December. Given the trustee boards must approve the MOA, the earliest this can occur for many trustees is February, almost eight months after the end of the financial year.

To perform the BPR, the trustee must either utilise the MOA results from the previous period or the BPR is unable to be completed until after the MOA is completed.

Generally the development of a new, rolling, Business Plan occurs between May and July each year and accordingly may utilising results of a BPR and MOA that are some months old, which may not provide the trustee with timely and relevant information.

We believe that APRA is amenable to trustees signing off on the annual MOA and BPR in February/March, which then feeds directly into the planning cycle for following financial year, so the scope of this issue may be limited. Having said that, an earlier release of the annual MySuper data by APRA would facilitate an earlier completion of the MOA.

Another example of difficulties with synchronisation is the obligation to include the MOA with the Annual Member Meeting (AMM) notice. Given that the AMM notices generally are issued around September to November each year, this necessitates their having to refer to the MOA for the previous financial year.

Strategically a BPR should be completed soon after a trustee’s business plan period has closed, generally 30 June, and assess the progress made against objectives and plans during the period.

3.2. Retirement cohorts

Member organisations have suggested that a broadly accepted definition or measure of 'retirement readiness' would be helpful.

Having said that, it would be difficult for trustees to be aware of a member’s ‘retirement readiness’ unless the member is in an ongoing relationship with a financial adviser, which is a small minority of members.

In order for retirement cohorts to be meaningful, trustees would require data that is not held by the fund, including:

- other superannuation balances
- any savings/assets outside of super
- relationship status and the super/savings/wealth/income of any partner
- home ownership status; and
- levels of debt.

Further, if the trustee were to obtain and act on this data then, depending on the action taken, it could be viewed as the provision of personal financial advice.

Due to the heterogenous nature of retirement solutions it is more difficult to perform quantitative benchmarking than it is with respect to accumulation products and so trustee are likely to consider the utilisation of qualitative measures as well as quantitative measures.

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