



# PRUDENTIAL PRACTICE GUIDE

## SPG 516 - Business Performance Review

November 2019

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## About this guide

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Prudential practice guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss legal requirements from legislation, regulations, or APRA's prudential standards, but do not themselves create enforceable requirements.

*Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515) sets out APRA's requirements for a registrable superannuation entity (RSE) licensee (RSE licensee) to annually assess its performance in achieving its strategic objectives, incorporating monitoring of its business plan, the outcomes delivered to different cohorts of members and the annual outcomes assessment under section 52 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).<sup>1</sup>

An RSE licensee that identifies, under the business performance review, opportunities to improve its performance is required to consider what changes should be made to its operations, as part of its business planning process. Accordingly, APRA expects *Prudential Practice Guide SPG 516 Business Performance Review* would be read in conjunction with *Prudential Practice Guide SPG 515 Strategic and Business Planning*.

An RSE licensee must ensure that its RSEs are maintained solely for the purposes set out in section 62 of the SIS Act and that it complies, at all times, with the trustee covenants.

Subject to the requirements of RSE licensee law<sup>2</sup>, an RSE licensee has the flexibility to structure its business operations in the way most suited to achieving its strategic objectives. Not all practices outlined in this PPG will be relevant for every RSE licensee and some aspects may vary depending upon the size, business mix and complexity of the RSE licensee's business operations.

<sup>1</sup> For the purposes of this guide, and consistent with the application of SPS 515, 'RSE licensee' has the same meaning given in section 10 of the SIS Act

<sup>2</sup> Refer to section 10 of the SIS Act for the definition of 'RSE licensee law'.

# Introduction

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1. *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515) requires an RSE licensee to undertake an annual business performance review to assess its performance in achieving its strategic objectives and to determine what action it might take to improve performance. The business performance review incorporates the annual outcomes assessment under section 52(9) – 52(11) of the SIS Act. SPS 515 sets additional specific prudential requirements in respect of the outcomes assessment.
2. The business performance review requirement in SPS 515 requires an RSE licensee to undertake a holistic assessment of its performance across its business operations, services and product offerings. It prompts an RSE licensee to determine whether its decisions support achievement of its strategic objectives. Critically, an RSE licensee is required to take a forward-looking approach in assessing whether it expects to continue to deliver quality outcomes to its members.
3. As a result of undertaking the review, an RSE licensee may conclude that making certain changes to aspects of its products, services, or business operations would be of benefit to members. This may include, for example, changes to the design of individual products, the number of products offered, the number of investment options under a product or the fees charged. In considering whether to implement such changes, an RSE licensee would consider the costs likely to be incurred, relative to the benefits of making the change.
4. An RSE licensee is encouraged to view both the business performance review and the outcomes assessment as a process of continual improvement. An RSE licensee is expected to put in place a robust and objective approach for undertaking the business performance review, using appropriate metrics and analysis, and to incorporate the results of the review into its strategic and business planning processes. The business performance review process will evolve over time. Importantly, a ‘set and forget’, or wholly compliance-focused approach is not sufficient to support the consistent provision of quality outcomes for members.

## Undertaking the business performance review

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For the business performance review to be a valuable tool in driving improvements in its business operations, an RSE licensee must take a rigorous approach to the design and implementation of the business performance review, including establishing cohorts and selecting objective internal and external benchmarks. An RSE licensee is expected to regularly assess where improvements can be made to the design of the business performance review.

5. SPS 515 provides an RSE licensee with discretion in how it designs the business performance review. An RSE licensee can design its business performance review in a manner that reflects the structure of its business operations, including the range of

products, investment options, sub-plans and retirement products offered to members. The RSE licensee's understanding of its membership base is important when designing the methodology and conducting the business performance review.

6. The Board has responsibility for the business performance review, including consideration of the results of the review and decisions on actions to improve performance. The Board can delegate responsibility for designing and undertaking the business performance review to senior management.
7. An RSE licensee should generally conduct the business performance review at a pre-determined time each year. The RSE licensee would be expected to align or sequence the timing of the outcomes assessment and business performance review to enable them to be incorporated into the annual business planning process.
8. An RSE licensee should regularly consider how the design and process for undertaking the business performance review can be improved, to ensure it reflects changes in the RSE licensee's business operations, and RSE membership, products and services. For example, the business performance review might develop over time to incorporate more targeted membership cohorts or additional benchmarks and sources of data.
9. In certain circumstances it may be appropriate for an RSE licensee to engage an external expert to assist with the review. An external expert may be used to obtain specialist expertise and associated data or to provide an independent view of the delivery of outcomes by the RSE licensee. Where an external expert or service provider contributes to the business performance review, this should be clearly documented, including a summary of the review or validation activity undertaken by the RSE licensee.
10. In undertaking the business performance review, an RSE licensee should consider availability of reliable data from internal and external sources for cohort analysis, benchmarking, and the annual outcomes assessment. An RSE licensee could utilise its service providers as a data source, such as an insurance provider as a source of information on insurance outcomes. An RSE licensee would be expected to take reasonable steps to ensure the quality and accuracy of the data used.

## Analysing performance

11. As set out in SPS 515, the business performance review would involve an RSE licensee analysing its performance in achieving its strategic objectives, including:
  - a) the results of its monitoring of performance against the business plan;
  - b) the outcomes achieved for different cohorts of members against objective internal and external benchmarks; and
  - c) the results and underlying analysis from the annual outcomes assessment.

## Monitoring the business plan

12. SPS 515 requires that the business performance review take into account the results of the monitoring by an RSE licensee of performance against its business plan. *Prudential*

*Practice Guide SPG 515 Strategic and Business Planning* details APRA's expectations for this monitoring, including a non-exhaustive list of relevant metrics.

13. The business plan details how an RSE licensee will seek to achieve its strategic objectives, and in the business performance review the RSE licensee assesses its performance in delivering on the business plan. An RSE licensee that is achieving its business plan key performance indicators is more likely to be able to demonstrate that it is making good progress towards achieving its strategic objectives, and to therefore conclude that it expects to continue to do so into the future.
14. Effective monitoring of performance against the business plan enables an RSE licensee to identify when its actions and decisions are not achieving the expected outcomes, or when the assumptions upon which the strategic objectives or business plan are based are no longer appropriate.

## Cohort analysis

15. SPS 515 provides an RSE licensee with the discretion to determine cohorts of members for analysis of outcomes in a manner that best reflects its membership, as long as all members are covered in at least one cohort. Appropriately segmenting members into meaningful cohorts will assist an RSE licensee to demonstrate that the business performance review is comprehensive and appropriately reflects the membership base and that the RSE licensee is focused on delivering quality outcomes for all cohorts of members.
16. The results of the annual outcomes assessment will provide the RSE licensee, APRA and the public with valuable insight into the performance of the product overall; however, the results could also mask certain issues or factors impacting different member cohorts. Assessing the RSE licensee's performance at a cohort level is intended to complement the annual outcomes assessment, which requires a point-in-time reflection on how the product has performed for the members that hold the product. Establishing meaningful cohorts will enhance the RSE licensee's ability to appropriately benchmark its performance, to identify underlying trends and emerging issues, and to take continuous steps to improve the outcomes delivered to members, including the development and refinement of the RSE licensee's strategic objectives.
17. In APRA's view, it would be appropriate for an RSE licensee to consider setting MySuper cohorts based on demographic data (e.g. age, gender), balance size or occupation-type, to gain a richer understanding of the outcomes delivered to these members. For MySuper lifecycle products, the starting point for cohort construction could be the different lifecycle stages. Lifecycle stages represent age-based cohorts and APRA data on lifecycle-stage performance could provide a useful starting point for undertaking comparisons and benchmarking.
18. In relation to choice products and options, many RSE licensees offer a pre-determined or pre-mixed asset class allocation based on a particular investment strategy, while others provide members with the ability to select their own investment options via a platform. In many cases it would be appropriate to apply a similar approach to identifying cohorts for pre-mixed products as might be taken in respect of MySuper

products. For platform-type choice products however, it might be appropriate for the RSE licensee to group a number of investment options to form a choice member cohort. For example, the grouping may be based on asset class, investment strategy, life stages, and/or how fees are set and charged.

19. While it is accepted that the starting point for setting cohorts is likely to be at the product level, for the business performance review to provide valuable insight into achievement of strategic objectives, an RSE licensee would generally need to go beyond a product-based cohort analysis. For example, an RSE licensee utilising different advisor and/or dealer group channels may use these as the basis for establishing cohorts to undertake additional analysis for relevant products.
20. Individual members may be included within multiple different cohorts across an RSE based on their particular attributes. For example, a member may be included in a cohort based on an accumulation product balance size and also in a cohort based on a demographic attribute such as age.
21. Understanding outcomes for low account balance and retained members through establishing separate cohorts for these members is likely to be another appropriate consideration for an RSE licensee. This would facilitate enhanced understanding of the impact on the outcomes for these members of different product features, including assessment of the erosion of member benefits due to fees or potential cross-subsidisation in fees and costs across the membership base.
22. To assist an RSE licensee understand APRA's expectations with establishing cohorts two examples are provided at Attachment A.

## Benchmarking

23. SPS 515 requires an RSE licensee to assess the outcomes achieved for cohorts of members against objective internal and external benchmarks. Selecting benchmarks objectively ensures that the business performance review delivers an unbiased assessment of how an RSE licensee has performed in respect of different cohorts. An RSE licensee should develop and document a methodology for undertaking benchmarking that enables it to demonstrate how the approach results in objective and rigorous analysis of the outcomes achieved.
24. An RSE licensee should ensure alignment with the articulation of the outcomes sought under the strategic objectives in undertaking the benchmarking process. SPG 515 provides guidance on how an RSE licensee might articulate the outcomes sought for members.
25. An RSE licensee may utilise the metrics and/or benchmarks required under the outcomes assessment for the business performance review. While the metrics prescribed under the outcomes assessment facilitate a product-based comparison, they will also be relevant to assessing the outcomes delivered to different cohorts that are invested in the relevant products.
26. APRA expects an RSE licensee to benchmark the various elements that impact outcomes for members, including net returns, fees and insurance. Investment



performance and fees and costs should be separately benchmarked in assessing net returns to members. Where an RSE licensee uses retirement income as an outcome for members (e.g. MySuper lifecycle strategies, retirement products), this may be benchmarked against industry standards or replacement rates (e.g. two thirds of a member's final salary).

27. For many RSE licensees, internal benchmarks will be an important reference point. Internal benchmarks include the performance or outcomes delivered by alternative products or options that a member could access within the same RSE or across the RSE licensee. For example:
  - a) Where the RSE licensee is trustee to multiple RSEs with separate MySuper products, a comparison of the performance and outcomes associated with each MySuper product should be incorporated into the business performance review.
  - b) Where the RSE licensee, via multiple RSEs, has various similar choice products or options, it may be appropriate to compare the performance and outcomes delivered to the different member cohorts that are invested in these products or options.
  - c) An RSE licensee could also compare, for its choice products or options, the outcomes for members under different fee arrangements, or the performance of similar investment options across the different advisor and dealer group channels.

## Investment benchmarking

28. APRA expects that the methodology set by the RSE licensee for the cohort analysis would include benchmarks designed to take into consideration the different return objectives, risk profiles and liquidity requirements of the range of products and investment options offered by the RSE licensee in both accumulation and retirement phases.
29. When benchmarking investment outcomes, an RSE licensee is expected to appropriately take into account the risk associated with the underlying investments as well as the investment fees and costs incurred to generate the investment returns. See *SPG 530 Investment Governance* for further guidance on investment risk assessment.
30. In addition to existing benchmarks or indices, RSE licensees should consider whether designing new benchmarks would provide valuable insight into investment performance. For example, benchmarking of investment performance against reference portfolios may be an appropriate approach for some RSE licensees. APRA expects that an RSE licensee would adopt a rigorous approach to constructing reference portfolios through ensuring that asset class benchmarks (e.g. market capitalisation indexes) and weightings ascribed to these benchmarks are appropriate, given the nature of the investment strategy and underlying investments.
31. Where an RSE licensee utilises active investment strategies and invests in more complex assets, for example private market assets, APRA expects that the RSE licensee is able to demonstrate the value added (net of all fees, costs and taxes) over time. Reference portfolios are likely to be a suitable benchmark to use for conducting this assessment.

32. For choice products, it may also be appropriate for an RSE licensee to use products outside of superannuation as the comparator, such as those that cover the performance of certain asset classes. For example, the net returns realised by a member cohort invested in investment option(s) substantially made up of Australian property securities could be benchmarked against other vehicles utilising a similar investment strategy, for example an index fund comprising of Australian property securities.

## **Fees and costs benchmarking**

33. Fees and costs benchmarking should assess the impact of the fee and cost structures of products and options for different member cohorts, including the split between flat and variable fees. For example, for a MySuper product, an RSE licensee could assess the impact of fees on different account balances, inactive accounts or retained members.
34. Fees and costs benchmarking could draw on APRA data on the fees charged by other RSE licensees for MySuper products, as well as other available comparative fee data. For example, an RSE licensee may benchmark product fees and costs against other similar products in superannuation as well as equivalent offerings available outside of superannuation, where appropriate.
35. Where an RSE licensee offers a range of MySuper and choice products, the RSE licensee could compare the fees and costs charged in these products. For example, the administration fees charged in a MySuper product, as a default product, could be a suitable internal benchmark for comparing the administration fees for choice products. The RSE licensee would then be able to determine whether any fee differentials between products are justified based on additional options, benefits, and facilities provided.

## **Insurance benchmarking**

36. There may be challenges in developing benchmarks for outcomes related to insurance, due to the unique nature of many products. Nonetheless, there is information available on insurance, such as PDS information on the structure and level of insurance, which would enable an RSE licensee to assess the delivery of outcomes in respect of insurance. Additionally, while a tender process for new or revised insurance arrangements may only occur every few years, tenders do provide a comprehensive source of information through which to compare available insurance offerings.
37. An RSE licensee could consider premium costs relative to industry code benchmarks for assessing the erosion of retirement benefits, as a proportion of the superannuation guarantee contribution or the balance of a member's account. Product design considerations would include the extent to which the terms of the product, such as definitions, exclusions and restrictions, are likely to meet the needs of members holding the product and how they compare to the design of products offered by other RSE licensees with similar membership demographics. An RSE licensee might also consider metrics that are based on how members engage with and claim on their insurance, such as opt-out and opt-in rates for default members, claims pay-out ratios, claims handling procedures and processing times, claim withdrawal rates, the number of insurance-related disputes, the time taken to resolve disputes, and policy lapsing rates.

These metrics, in conjunction with product design and premium costs, would assist an RSE licensee in forming a view as to whether changes to the insurance offering would improve outcomes for certain cohorts of members or the membership overall.

## Retirement offering benchmarking

38. An RSE licensee should assess the retirement products offered to its members in retirement against products offered by other RSE licensees or external providers. The assessment should consider the extent to which the products would address the needs of these cohorts of members such as the adequacy and stability of retirement income streams. APRA expects the cohort analysis would encompass the absolute performance of a retirement product as assessed under the outcomes assessment, and also in the context of members' expectations in taking up the product, based on product disclosures, such as the estimated income streams or target returns to be provided. Further, the analysis would draw from the annual outcomes assessment any comparison or benchmarking against the performance of products offered by other RSE licensees or external providers.
39. Where an RSE licensee offers longevity products such as annuities or other risk pooling products, the metrics might reasonably include (as well as those referred to in paragraph 38) measures of the long-term sustainability of the products, including trends in the pool of members holding the product. These measures will assist the RSE licensee to plan and take action if, for example, its analysis indicates that the projected pool would likely be insufficient to meet members' expectations, including returns or fee levels, at the time of taking up the product.

## Defined benefit and legacy products

40. As the outcomes assessment does not apply to defined benefit products the cohort analysis under SPS 515 is the key mechanism for an RSE licensee to assess the delivery of outcomes to defined benefit members.
41. For defined benefit cohorts, the requirements under *Prudential Standard SPS 160 Defined Benefit Matters* would be central to an RSE licensee's analysis under the business performance review. An RSE licensee should be able to demonstrate, on the basis of actuarial advice, that the future benefits of members are expected to be fully funded by the time they become due and payable.
42. For legacy products, a central consideration in designing and undertaking the business performance review will be any decision by an RSE licensee on closure and transition of the product(s). Any RSE licensee that opts to retain legacy products should ensure it has a reasonable basis for maintaining the product given alternative products available within the RSE licensee, or offered by other RSE licensees, that may provide improved outcomes for these members.
43. An RSE licensee that has an appropriate Board-approved transition plan for a legacy product would be able to rely upon this in assessing performance. A best practice transition plan would ensure the closure of the product within as short a timeframe as possible and the transition of affected members to an appropriate alternate product that will deliver improved outcomes.

## Consideration of the outcomes assessment

44. SPS 515 requires an RSE licensee to consider the outcomes assessment for its MySuper and choice products under section 52(9) of the SIS Act as a component of the business performance review.
45. In most circumstances the annual period for the outcomes assessment will be the financial year preceding that covered by the business performance review. However, APRA expects that despite this misalignment in time periods the results of the comparison and analysis under sections 52(10), 52(10A) and 52(11) would still provide a rich source of data, including on underlying trends, that would be relevant to the assessment of performance in achieving the strategic objectives.
46. Simply listing the outcomes assessment determination for each product would not be sufficient for the purposes of the business performance review. APRA expects the underlying analysis should be utilised and cited where appropriate. In circumstances where sections of the outcomes assessment analysis has been superseded by more current data, APRA expects that an RSE licensee would highlight this in its business performance review.

## Factors affecting the results

47. SPS 515 requires the RSE licensee to identify the key factors that have affected the results of the performance analysis in the business performance review. The relevance of a factor to the components of the performance analysis (i.e. business plan monitoring, cohort analysis and the outcomes assessments) will vary. For instance, the impact of scale is likely to be relevant to all components whereas a change in investment strategy may be relevant to only the cohort analysis and the outcomes assessment.
48. Factors that APRA regards as relevant to this analysis include, but are not limited to:
  - a) the investment strategy set under *Prudential Standard SPS 530 Investment Governance*;
  - b) insurance arrangements;
  - c) options, benefits and facilities provided to members, including the availability of employer subsidised fees to certain member cohorts;
  - d) the fee structures adopted by the RSE licensee;
  - e) the scale of the RSE licensee's business operations; and
  - f) the costs incurred by the RSE licensee to operate and manage its business operations.
49. APRA expects that an RSE licensee would detail a factor's impact on the results of the performance analysis, including quantifying the impact where possible.

## Forward looking analysis

50. Central to meeting the business performance review requirements under SPS 515 is the RSE licensee's assessment of whether it expects to continue to deliver the outcomes it seeks for members and to maintain the sound and prudent management of its business into the future. This will necessitate the RSE licensee determining a set of realistic assumptions and projections to model future scenarios for the RSE licensee's business operations. An assessment of current scale and future scale projections will be a key component of this analysis.
51. Forward-looking metrics will be a key component of an RSE licensee's analysis of its ability to provide the outcomes it seeks for members, and will be relevant to the future stability or growth of an RSE licensee's business operations. The following non-exhaustive list of metrics may assist an RSE licensee to undertake this analysis:
  - a) net cash flows as a percentage of average net assets (net cash flow ratio);
  - b) net member benefit outflow ratio;
  - c) net rollovers as a percentage of average net assets (net rollover ratio);
  - d) trends in membership base (such as number of members and accounts, and account balance size); and
  - e) active member ratio.

## Business performance review results

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The business performance review should provide the Board with a detailed understanding of the performance of its business operations in achieving its strategic objectives and the future direction of the business, and is an important tool to identify areas for improvement.

### Determining the results of the review and taking action

52. The results of the business performance review must be reported to the Board. The results, conclusions and supporting analysis of the review should be comprehensively documented, and include an assessment of actions that have been identified as potentially improving outcomes for members or the sound and prudent management of the RSE licensee's business operations.
53. An RSE licensee should go through a rigorous decision making process, including considering results from a cost/benefit analysis, prior to the Board approving the actions to improve performance. Consistent with the business planning requirements under SPS 515, the business plan initiatives resulting from the actions would be subject to detailed and appropriate monitoring and review mechanisms. Where an initiative has associated expenditure it would be subject to the significant expenditure requirements under SPS 515.
54. Examples of the various options that would be expected to be considered, as relevant, include:
  - a) closing or merging inefficient or under-used products or options;

- b) re-tendering for services, including insurance products;
- c) simplifying, standardising or removing particular services;
- d) exploring a scale-related discount associated with key service provision to reflect the RSE's size, membership or assets; and
- e) reducing a particular fee, cost or other charge.

## Linking the review with strategic objectives

55. The strategic objectives approved by the Board under SPS 515 are typically approved at the start of a rolling multi-year business plan and hence cover a relatively long timeframe. APRA does not generally expect that the strategic objectives would be amended based on each business performance review that is undertaken in the intervening period. However, where the business performance review, or a series of business performance reviews, reveal significant issues with the performance of the RSE licensee and in response action is to be taken this is likely to warrant review and amendment to the strategic objectives.
56. In circumstances where an RSE licensee's business performance review demonstrates a consistent pattern of underperformance in either absolute or relative terms, an RSE licensee would be expected to consider whether it is meeting, and will continue to meet, its obligations to act in the best interests of members and promote the financial interests of members.
57. Where an RSE licensee decides to undertake a merger or wind-up of its RSE(s), APRA expects the RSE licensee to implement a timely exit strategy that complies with the relevant legal obligations, including *Corporations Act 2001* obligations. The strategy would also reflect the guidance provided in *Prudential Practice Guide SPG 227 Superannuation Transfers, Mergers and Wind-ups* and, where applicable, *ASIC Information Sheet 90 Notifying members about superannuation transfers without consent*.

## Outcomes assessment

A comprehensive, reliable and comparable outcomes assessment provides superannuation members, industry stakeholders and the RSE licensee with a snapshot of the RSE licensee's performance in promoting the financial interests of members in each of its MySuper and choice products. An RSE licensee must rigorously undertake each assessment and publish it, ensuring the assessment is focused on the promotion of the financial interests of members.

58. The annual outcomes assessment required under section 52 of the SIS Act is a key accountability and transparency obligation on all RSE licensees that offer MySuper and choice products. It enables an RSE licensee to publicly demonstrate its performance in promoting the financial interests of the members that hold its MySuper and choice products. The assessment and determination is at the individual product level and not at the RSE licensee or RSE level. For the avoidance of doubt, the outcomes assessment does not apply to defined benefit products.

59. APRA will look at the rigour that is applied by an RSE licensee in undertaking the outcomes assessment and not merely the individual product determinations, in its consideration of whether or not the RSE licensee is promoting the financial interests of its MySuper and choice members. Central to a rigorous outcomes assessment is an RSE licensee being able to demonstrate that methodology focuses on factors directly relevant to the financial interests of members in undertaking the two steps of the assessment.
60. As a key input into the business performance review, the outcomes assessment and the underlying analysis should comprehensively detail product level performance to assist in identifying opportunities for improvement.

## Outcomes assessment methodology

61. SPS 515 requires an RSE licensee to document its outcomes assessment methodology, including how it has performed the comparison using the metrics in sections 52(10) and/or (10A), and how it has considered and applied the factors in section 52(11) of the SIS Act, in reaching each product-based determination. APRA will review each RSE licensee's assessment methodology and each product determination as part of its supervision activities.
62. The outcomes assessment methodology should encompass the selection of the relevant 12 month period, the timing for undertaking the outcomes assessment, the product boundaries or definitions, data sources, the framework or approach to undertaking the comparison and to assessing the relevant factors, and the staff responsible for undertaking the assessment, including the use of external providers, if applicable. An RSE licensee should regularly consider enhancements to its methodology, including to reflect industry better practice based on information published by other RSE licensees.
63. SPS 515 requires an RSE licensee to document how it has balanced the comparative and assessment steps under sections 52(10), 52(10A) and 52(11) of the SIS Act and accounted for any benchmarks in the SIS Regulations in reaching each overall determination. APRA expects that the analytical approach to balancing the steps may change from year to year due to shifts in the relevant assessment factors. An RSE licensee must ensure it has appropriately documented and explained how changes in factors, for example investment strategy, impact the overall product determination.
64. The outcomes assessment requires an RSE licensee to reach a conclusion about the promotion of the financial interests of the members that hold the product. As a consequence, an RSE licensee should ensure that the net returns delivered to members are a primary consideration in reaching the overall determination for each product.

## Timing and sequencing of the assessments

65. Access to publicly available data on product and fund performance is key to meeting the outcomes assessment requirements. This would include relevant statistics published by APRA. To promote comparability and consistency across the industry, APRA encourages an RSE licensee to link the outcomes assessment for each MySuper and choice product to the publication of APRA's *Annual MySuper Statistics*, *Annual Fund-level Superannuation*

*Statistics and Quarterly MySuper Statistics* reports for the period ending 30 June. Linking the assessment to APRA's annual publications will mean that the outcomes assessment will cover the preceding July - June financial year.

66. APRA expects that an RSE licensee would generally endeavour to undertake the outcomes assessments for all MySuper and choice products within two months of the publication of the relevant APRA statistics. For example, where APRA publishes annual statistics in December an RSE licensee would then undertake the outcomes assessment determinations for all MySuper and choice products by February the following year.
67. For most RSE licensees, it would be appropriate for the outcomes assessment determinations to occur immediately prior to completing the business performance review, to enable the results of the assessments and underlying analysis, where appropriate, to be included in the review. This sequencing would allow the business performance review to be central to the business planning process, which for most RSE licensees typically occurs in the first half of the calendar year to allow for a new business plan to commence on 1 July.

## **MySuper lifecycle products**

68. The outcomes assessment under section 52 is at the product level and hence for MySuper lifecycle products an RSE licensee must reach a determination at this level, encompassing all lifecycle stages in the product.
69. Under section 52(10) of the SIS Act, an RSE licensee must undertake the comparison of a MySuper lifecycle product against all other MySuper products. However, there may be limitations in the conclusions that can be drawn from only conducting comparisons of performance of MySuper lifecycle products at the aggregated product level. As such, in addition to the product level comparison, it is likely to be appropriate for an RSE licensee to also undertake the comparison for different lifecycle stages within its product, compared to relevant single strategy MySuper products (for example with a similar asset allocation) or appropriate lifecycle stages of other MySuper lifecycle products. For example, an RSE licensee could compare its lifecycle stage covering members aged 40-45 against other lifecycle stages with the same or similar age bracket based on the APRA *Quarterly MySuper Statistics* publication.
70. Where an RSE licensee compares its lifecycle stages, in addition to the product level comparison, it would be expected to ensure that all lifecycle stages are comprehensively compared and its approach is documented in the methodology required under SPS 515. APRA expects that the determination and summary information published on an RSE licensee's website would include complete information on the lifecycle stage comparisons.

## **Comparison metrics**

71. The first step of the outcomes assessment is for the RSE licensee to undertake a comparison of the relevant product against other products based on three metrics listed at section 52(10) or section 52(10A) of the SIS Act. For a MySuper product, the



comparison is against all other MySuper products, where comparable data is available, while for a choice product the comparison is against comparable choice products.

72. The results of this comparison would list each absolute metric and the relative placing of the result against the comparison products. For example, the RSE licensee would separately list its placing for its MySuper product in respect of fees and costs, net return and level of investment risk against the other MySuper products. The RSE licensee may in addition also utilise quartile comparison or graphical representations of the results.

## Data sources and calculation – MySuper products

73. SPS 515 requires an RSE licensee to use the methodology set out in *Reporting Standard SRS 702.0 Product Dashboard* (SRS 702.0) and *Reporting Standard SRS 700.0 Product Dashboard* (SRS 700.0) for the metrics for the MySuper product comparison. For the avoidance of doubt the RSE licensee would utilise the following items on SRS 702.0 and SRS 700.0, and the supporting definitions, in calculating the metrics:
  - a) 'fees and costs' - utilise 'representative' member fees and costs at item 4.4 of SRS 702.0;
  - b) 'the return' – utilise 'net return' at item 4.3 of SRS 702.0; and
  - c) 'the level of investment risk – utilise 'level of investment risk' at item 3 of SRS 700.0.
74. As set out in in paragraph 66, APRA expects RSE licensees to undertake the comparison based on data published by APRA in its *Quarterly MySuper Statistics* publication for the period ending 30 June of the relevant year.
75. For the comparison of returns of a MySuper product, an RSE licensee would present representative member investment performance separately for one, three, five and 10 year time periods (where the product has that history) against all other MySuper products with that history.
76. The comparison history would encompass previous iterations of the product where there has been a name or label change. However, in exceptional circumstances, such as where the underlying investment strategy has changed from single strategy to lifecycle or vice versa, the comparison history can commence from the date the strategy change came into effect.
77. For 'fees and costs' and 'the level of investment risk' the time period for comparison is limited to the one year period covered by the outcomes assessment.

## Choice products

78. APRA notes that at the time of issuing SPG 516 the SIS Regulations in respect of the legislated outcomes assessment had not been finalised. As a consequence an RSE licensee is not able to undertake the comparison component of the outcomes assessment under sections 52(9)(a)(ii) and 52(10A) of the SIS Act for each choice product. An RSE licensee is, however, still required to undertake an outcomes

assessment determination for each of its choice products under section 52(9)(a), based on the assessment factors under section 52(11).

79. APRA expects that as a component of undertaking the assessment for a choice product solely based on section 52(11), an RSE licensee would consider appropriate benchmarking and comparison, including the use of appropriate peer groups. This benchmarking and comparison would assist an RSE licensee in assessing the relative performance of its own products based on the assessment factors in section 52(11). For example, a peer group may be formed based on choice product with a similar growth/defensive asset allocation or similar asset class options (e.g. Australian equities, international equities etc.). This analysis would also be expected to be utilised by an RSE licensee in assessing the outcomes delivered to choice product based cohorts under the business performance review.
80. APRA may provide further guidance on undertaking the comparison component of the outcomes assessment for choice products under sections 52(9)(a)(ii) and 52(10A) of the SIS Act following finalisation of the relevant SIS Regulations.

## Assessment factors

81. The second step of the outcomes assessment is for the RSE licensee to assess the appropriateness or impact of a number of factors on promoting the financial interests of members invested in the MySuper or choice product. APRA has set three additional factors in SPS 515 in addition to those listed under section 52(11) of the SIS Act. The guidance on the outcomes assessment factors would also be relevant to how an RSE licensee analyses the relevance of these factors under the business performance review.
82. An RSE licensee will need to reach a conclusion about the appropriateness or impact of each of the factors in promoting the financial interests of members. Inherent to this analysis would be an RSE licensee demonstrating that it has a comprehensive understanding of its membership base. In addition, an RSE licensee should be able to demonstrate consistency with the prudential requirements and guidance relevant to these factors, for example the relevant investment governance and insurance prudential standards.
83. RSE licensees should utilise quantitative information, encompassing a range of reliable internal and external data sources, in assessing each factor under section 52(11) and listed in SPS 515. APRA expects that APRA's *Annual Fund-level Superannuation Statistics* would be one potential comprehensive source of industry wide data to assist in undertaking industry wide comparisons.

## Options, benefits and facilities

84. Members are generally charged for a range of options, benefits and facilities related to the superannuation products they hold. The fees associated with these services may be charged across all members of an RSE regardless of product or may be differentiated based on the products that particular members hold or the services they use. The services in most circumstances relate to investment, administration, education and

communications, as well as the cost of managing the business operations. Services provided to members may include access to call centres, education, intra-fund advice (where made available), online account information and other services that may be provided by an RSE licensee.

85. In assessing the options, benefits and facilities under the outcomes assessment the RSE licensee should not limit the analysis to solely the product specific service or features. The analysis should instead encompass both product based and fund level services the member utilises, or could utilise, by virtue of holding the product. There should also be a clear link to the financial interests of members. For example, education services would be relevant to the options, benefits and facilities, even if the members do not utilise it, as the cost of providing the service is generally incorporated in the fees charged to all members in the product.
86. In forming a view of whether these services are appropriate for the members, an RSE licensee would determine the extent of the impact of the cost of these services on the financial interests of members, as reflected in the fees and the ultimate returns to members. For example, where costs or fees are measured as exceeding a set benchmark (e.g. of a median cost fund), the RSE licensee will be expected to demonstrate the value of additional services or features, such as through evidence of member take up.
87. In general, intangible components of the product offering, such as brand value or brand recognition, would be unlikely to be considered relevant to assessing the appropriateness of the option, benefits and facilities or in reaching the determination under the outcomes assessment more generally.

## Investment strategy

88. Under the SIS Act and *Prudential Standard SPS 530 Investment Governance* an RSE licensee is required to have an investment strategy for the whole of the RSE and for each investment option, including each MySuper product. As a consequence, an RSE licensee may not have an investment strategy for the relevant choice product to be assessed under the outcomes assessment (as the strategy is set at the option rather than product level). In these circumstances, an RSE licensee would be expected to consider all the option investment strategies that are relevant to the choice product in forming a view of the appropriateness of these strategies.
89. In assessing the appropriateness of the investment strategy, an RSE licensee should ensure that the asset allocation (including exposure to risk) is consistent with achieving the outcomes sought by the RSE licensee in its strategic objectives. An RSE licensee should ensure the investment strategy, including the underlying asset allocation, aligns with the membership profile of the MySuper product. For example, the analysis would encompass whether the expected investment outcomes are being achieved and additionally whether that investment outcomes remain appropriate for the membership.
90. In addition to the comparison metrics under sections 52(10) and 52(10A), an RSE licensee is expected to undertake sufficient analysis of net returns to understand the drivers of performance and the risk taken to generate the returns, and to identify any emerging trends, including persistent underperformance. This analysis is expected to

form a central part of an RSE licensee's assessment of the appropriateness of the investment strategy.

91. An RSE licensee may utilise metrics and benchmarks that assess returns relative to risk or to a relevant peer group to provide additional insights to the comparison under sections 52(10) and 52(10A) of the SIS Act. However, it would be inappropriate to select benchmarks or peer groups that are overly narrow or likely to bias the assessment in favour of the RSE licensee's product.
92. In respect of MySuper lifecycle products, an RSE licensee should closely examine the glide path design in determining the appropriateness of the investment strategy, including the de-risking approach to asset allocation and the level of growth assets throughout the glide path. Further, an RSE licensee should assess how each of the lifecycle stages is contributing to the investment outcomes of the MySuper product and whether each is performing within expectations given its role in the glide path.
93. *Prudential Practice Guide SPG 530 Investment Governance* (SPG 530) provides comprehensive guidance on APRA's expectations in formulating, implementing and reviewing an investment strategy. APRA expects that an RSE licensee would refer to SPG 530 when forming a view of appropriateness of the investment strategy.

## **Insurance strategy and insurance fees**

94. The appropriateness of the insurance strategy and the impact of insurance fees, including insurance premiums, are separate assessment considerations under sections 52(11)(c)-(d) of the SIS Act in reaching a conclusion about whether it is promoting the financial interests of members that hold the relevant products.
95. Under the SIS Act and *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) an RSE licensee sets an insurance strategy at the RSE level. For the purposes of undertaking the outcomes assessment an RSE licensee should assess the appropriateness of the entity level strategy and corresponding insurance costs, and should also consider their impact on the retirement income of its members. SPS 250 and the supporting guidance in *Prudential Practice Guide SPG 250 Insurance in Superannuation* serve as key starting points in assessing the appropriateness of the insurance strategy.
96. An RSE licensee should closely consider the degree to which the impact of insurance arrangements may vary by product. For example, insurance premiums may differ by superannuation product or insurance risk classification rather than be uniform across the RSEDefault arrangements for insurance products are likely to be a key consideration in assessing the appropriateness of the insurance strategy. An RSE licensee must be able to demonstrate a comprehensive understanding of its membership in designing the default products, including default levels of cover, and consequential insurance premiums. For example, where an RSE licensee includes income protection insurance as default coverage for MySuper members, in addition to life and TPD insurance, an RSE licensee should be able to demonstrate the appropriateness of this strategy for those members.

97. In assessing erosion of retirement income from the impact of insurance premiums under the outcomes assessment, an RSE licensee should examine affordability measures determined by the RSE licensee, including benchmarking with comparable RSEs or other indicators, such as those established in relevant industry codes or guidance. Analysis of affordability should utilise internal data on the unique characteristics of members that hold the MySuper or choice product. For example, if the members of a MySuper product have relatively low balances or contribution rates, general industry guidance on affordability may not be sufficient on its own.

## Scale

98. Assessing whether the scale of the RSE licensee's business operations disadvantage the financial interests of members holding the relevant products is a key component of the outcomes assessment. Key considerations for an RSE licensee in assessing existing scale and its impact on members include but are not limited to:
- a) relationship between number of accounts and the operating costs of the business operations, including trends in cost per member measures;
  - b) impact of size on investment strategy, such as access to investments in certain asset classes;
  - c) degree of bargaining power with service providers and access to any volume related discounts;
  - d) ability to attract and retain key staff; and
  - e) opportunity to pool risk, which is important in the context of certain retirement and insurance products.
99. Whilst scale in and of itself does not guarantee stronger net returns for members, an RSE licensee's management of its scale and related efficiencies are central to the promotion of the financial interests of members.

## Operating costs

100. For the purposes of the outcomes assessment, operating costs are intended to capture the costs incurred by the RSE licensee to operate and manage its business operations and how these costs impact on the financial interests of members that hold the relevant products. Operating costs include administration costs and management costs, such as professional services, marketing services, technology expenses and communication costs.
101. An RSE licensee may operate under a business model that enables a return (e.g. dividend) to be paid to a parent company and this would be expected to be captured under operating costs. In these circumstances, the RSE licensee should be able to demonstrate that the level of return is consistent with the promotion of the financial interests of members.
102. APRA expects that in forming a view on whether the operating costs are inappropriately affecting the financial interests of members that hold a particular product that an RSE licensee would examine trends in its operating cost base, including in comparison to other RSE licensees where appropriate comparable data is available.

103. Operating costs are not limited to the operating expenses item that an RSE licensee would report for an RSE or MySuper product under relevant reporting standards. However, that reported data and the operating expense ratio should be one input into the analysis of whether an RSE licensee's operating costs are inappropriately impacting the financial interests of members. Reported data may also assist an RSE licensee to understand historical trends in operating costs and what the drivers of those trends are.

## Fees

104. The fee structures adopted and the way in which fees are charged to members are a material consideration in assessing the promotion of members' financial interests. The fees incurred by members will differ based on the RSE licensee's business structure and how an RSE licensee decides to attribute various operational costs and product specific costs to products or across products.

105. The assessment of the appropriateness of the basis for setting fees should cover the attribution of costs to different products and product options, the structure of the fees charged (e.g. split between flat and variable fees), any fee caps, the timing of fee charges and any fee discounts or rebates.

106. When assessing the impact of fees on the members invested in the relevant product, an RSE licensee should consider the appropriateness of its fee structures, including the way it splits fees between flat and variable. This analysis is expected to aid in an understanding of the degree of cross-subsidisation across different products and whether this is justifiable.

## Publication

107. An RSE licensee is required to publish the product determination, and a summary of the assessment and comparison on which it is based (product summary), on the relevant RSE website within 28 days. The product summary should accurately detail the analysis supporting the two steps of the outcomes assessment and how the RSE licensee has reached the determination.

108. An RSE licensee should draft and format each product summary in a manner that will enable a reader to understand the determination and supporting product summary. The product summary should use plain language, be concise and accurately detail the determination and supporting assessment. An RSE licensee should consider the visual presentation to ensure the product summary can be quickly and accurately interpreted. It is also open to the RSE licensee to utilise tables, diagrams and graphs in a manner that would promote understanding.

109. There should be two distinct and clearly identifiable sections of the product summary:

- a) the results of each of the comparison matters under section 52(10) of the SIS Act for the MySuper product and section 52(10A) for the choice product; and
- b) the RSE licensee's analysis of each of the assessment factors under section 52(11).

110. An RSE licensee should ensure that the determinations and product summaries are easily accessible on the website of the relevant RSE, for example, being no more than

two clicks from the homepage. The determination and product summary can be contained within one file (e.g. pdf file). Where the RSE licensee has multiple RSEs or white labelled products with separate websites and branding, the RSE licensee should ensure that the determinations and product summaries are located on the website for each relevant RSE or product. In general, APRA expects the logical location for the determinations and summaries would be, for MySuper products, with the MySuper product dashboard and equivalent location of member disclosure information for choice products. The outcomes assessment determinations and summary should be clearly labelled on the relevant page.

111. APRA considers that best practice would be to alert members and other stakeholders via email alert or media release about the publication of the determinations and product summaries.

# Attachment A – Cohort examples

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## Example 1 – Product based cohorts

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In undertaking the business performance review, ADV Super examines its MySuper product members and identifies two sets of cohorts within the product, based on age and account balance.

ADV Super determines the following age-based cohorts:

16 – 25; 26 – 35; 36 – 45; 46 – 55; 56 – 66; 67+

ADV Super uses the age-based cohort analysis to better understand how insurance strategy settings, including the default levels of insurance, and impact on the different cohorts.

ADV Super determines the following account balance-based cohorts:

0 - \$5,999; \$6,000 - \$19,999; \$20,000 - \$99,999; \$100,000 - \$299,999; \$300,000 - \$599,999; \$600,000 - \$999,999; \$1,000,000+

ADV Super uses the account balance-based cohort analysis to better understand how its MySuper fee arrangements, including both flat and percentage-based fees, impact on the different cohorts of members.

A rigorous assessment of the outcomes delivered to the different cohorts within the MySuper product against objective benchmarks provides ADV Super with crucial information about its performance, and prompts the identification and consideration of options to improve performance. Although ADV Super has produced consistently strong net returns in the top quartile at the MySuper product level for the past five years, targeted changes to the fee structure and/or insurance strategy that applies to certain identified cohorts will further improve the outcomes delivered to these cohorts of members.

## Example 2 – Across product/option based cohorts

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FUJ Super's membership is skewed towards members approaching or in the retirement phase. In undertaking the business performance review, FUJ Super would like to understand the outcomes achieved for members holding different products but in the same age bracket. FUJ Super offers a MySuper lifecycle product, a limited menu of pre-mixed investment options and an account based pension and determines the following age-based cohorts across these products, which are based on MySuper lifecycle stages:

16 – 25; 26 – 35; 36 – 45; 46 – 50; 51 – 55; 56 – 60; 61 – 64; 65 – 70; 71 – 80; 81+

FUJ Super uses the age-based cohorts to understand how the investment strategy settings for the various products impact the outcomes delivered for members in the same age cohorts. For instance, FUJ Super compares the outcomes by product for these cohorts, based on various metrics (e.g. net return, fees).





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