

28 March 2018

Ms Heidi Richards
General Manager, Policy Development
Policy and advice Division,
Australian Prudential Regulation Authority

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

Dear Ms Richards,

Re: Consultation Paper – Strengthening superannuation member outcomes

AustralianSuper is pleased to take the opportunity to make a submission in response to the consultation paper on strengthening member outcomes. AustralianSuper supports the overarching objectives behind the proposals, particularly the focus on how RSE licensees should prioritize the quality and value of products and services they deliver to members.

About AustralianSuper

As you know, AustralianSuper is Australia's largest superannuation fund and is run only to benefit its members. The fund has over 2.2 million members and manages over \$130 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for our members.

AustralianSuper is responsible for investing the superannuation savings of more than 10% of Australia's workforce, and we take seriously our responsibility to act in the best interests of our members in this process. With this in mind our general comments are as follows:

- The new Prudential Standard SPS 225 will inappropriately dilute the focus on members' *financial* outcomes, at odds with Parliament's original intention.
- Whilst AustralianSuper is one of the most recognised and trusted brands in superannuation, we question whether APRA's focus should be on items such as brand presence in determining member outcomes. The net return to the member after tax and fees is the most important factor for members and the most likely to make a material difference to a members account balance, and therefore future income, in retirement.
- In the interests of consumer choice, and for overall transparency, APRA should consider how it would make aspects of the member outcomes assessment of superannuation funds public – if as a regulator APRA thinks a fund is not providing optimal member outcomes, members of that fund should know.
- APRA should provide further guidance and outline its expectations as to how this test works with current legislative obligations that RSE licensees have, in addition to the expected operation of the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No.1) Bill 2017*.

- Please note that AustralianSuper supports the submissions made by Industry Super Australia and the Australian Institute of Superannuation Trustees and their comments about the operation of these proposed new requirements to choice products, which include retirement products.

The Member Outcomes Test

The existing 'scale' test contained in section 29VN of the Superannuation Industry (Supervision) Act 1993 ('SIS') requires that a trustee of a MySuper product ensures that the product 'promotes the financial interests of the beneficiaries.' The trustee is also required to 'determine on annual basis whether the beneficiaries of the fund who hold the MySuper product are not disadvantaged'.

This test is already subject to proposed amendments contained in the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Bill 2017* (the Bill). The 'member outcomes' test assessments under SPS 225 will be differ from each of these and in our view it inappropriately dilutes the focus on members *financial* outcomes. This is at odds with Parliaments original intention in relation to the scale test, and additionally, is at odds with the current government's intention which continues to focus on the *financial* interests of beneficiaries. We question why APRA would at this stage venture to use their delegated powers in this way.

In any event, AustralianSuper is of the view that the 'financial outcomes' for members should continue to remain the focus of prudential overview not only for MySuper products, but additionally for choice investment options within superannuation. We do not see why some superannuation monies held in MySuper products are subject to tests on promoting financial outcomes for members, and superannuation monies held in choice products and not held to the same standard. Taxpayers in Australia subsidize tax concessions on *both* types of products - we suggest therefore that both MySuper and Choice investment options including retirement products, should be subject to the same test for promoting financial outcomes for members.

From the member's perspective, it is important that there be a specific focus on particular products – for example, lifecycle investment products that have particular 'member outcomes' concerns. We question how it can be demonstrated that some of these products are designed to be in the best interests of members when their fees typically do not reduce when these products de-risk before retirement. This results in members being charged a much higher fee relative to the reduced level of service cost involved in de-risked investing, and clearly does not promote best financial outcomes for members.

Finally, we suggest APRA's focus should be anchored around both the end cost to the member and the net return to the member, as these have the most relevance to 'financial outcomes' of members. Both of these items have currency into a member's retirement as

they affect the size of their account balance at retirement, and what level of income a member can enjoy in retirement accordingly. How often a member gets access to 'education and content,' enjoys the 'brand presence' or other qualitative variables has a less direct connection to their end balance at retirement and should not have equivalence with key elements such as net returns.

The segmentation requirement

The requirement to measure 'outcomes' based on 'segmentation' is imprecise and will lead to results that are not comparable across funds; it will create findings and conclusions that are not able to be replicated across funds. This will adversely affect the cogency of APRA's findings wherever segmentation is relied upon to draw conclusions about member outcomes.

It is proposed under the paper that RSE licensees should have a rationale for segmentation, and that in this context they may use homogenous groups. However, it is essentially left up to RSE licensees to decide *how* they segment - it is open to them to segment in a manner that will demonstrate outcomes that they wish to achieve, rather than demonstrate strong financial outcomes for members. For example, segmentation that gives "*d: nature and quality of benefits and services being provided*" primacy over "*a: returns net of investment fees*" will provide a member outcomes result that is not comparable across funds and will not assure members' best financial outcomes in retirement. APRA needs to be more prescriptive in how RSE licensees segment to meet this member outcomes test in order for it to be effective, and reduce prospects of manipulating results.

Segmentation will fail if it is not appropriately anchored within the 'financial outcome' concept.

The budget process

We note that the budget process requires that business cases be included for project and other 'significant' expenditure, and the relevant fund templates would need to be reviewed to ensure all required elements are included. We request further clarification of what is intended by the term 'significant' in this context. It appears it will not cover expenditures for outsourced operations, which means that material expenditure of a large number of funds would not be covered by this standard.

Data reporting

We wish to discuss data reporting and AASB 1056 in more detail and assume that these issues will be covered in roundtable consultations with the superannuation industry. Our preliminary comments on issues in data reporting are as follows:

- The suggested data reporting requirements are quite specific, and RSE licensees will need to apply judgement as to how such items should be categorised – in some cases items will be allocated to "other" as they do not meet the specific and limiting definitions put forward here.
- AustralianSuper is mindful that APRA wants to be able to compare the expenses of each fund and know the ultimate purpose of the expenditure; however, the

information APRA is requesting will not enable APRA to compare funds on a consistent basis.

- We note that APRA is after very specific information on where the Fund and its service providers are spending money. It does not take into consideration the operating models of the entity concerned, and how they have structured their products and service delivery (how much is insourced and outsourced). Where a related party is two entities removed from the trustee, and performing a service for the trustee, the expenditure data on their activities may not be captured.
- Confidentiality agreements also affect the detail of data to be captured, and the standard is not likely to affect contracts that are currently in place, only future contracts at best.
- The APRA discussion paper does not place a limit on the entities for which a look through expense report is required. Current wording is open ended (which means for example that theoretically, funds could be required to tell APRA where Coles spends their money where a trustee office groceries are purchased from Coles).

Sole Purpose Test

AustralianSuper supports retention of the Sole Purpose test circular as an indication of how APRA intends to administer the sole purpose test. The Circular is however, in need of updating.

Simplifying mechanisms for opting out of insurance

AustralianSuper supports the simplification of mechanisms for opting out of insurance, and urges consumer testing and consultation with ASIC about these measures as they are ultimately a consumer protection mechanism, rather than a prudential measure.

We suggest that there should be multiple ways that consumers should be able to opt out of insurance – by phone, email and by written correspondence, rather than narrow their options.

We would appreciate the opportunity for further consultation on these reform proposals. If you have any further queries please do not hesitate to contact me on 03 8648 3847 or lduprealba@australiansuper.com.

Yours sincerely



Ian Silk

Chief Executive