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Mr Pat Brennan
General Manager, Policy Development
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Australian Prudential Regulation Authority
GPO Box 9836
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Dear Mr Brennan

CONSULTATION - STRENGTHENING SUPERANNUATION MEMBER OUTCOMES - DECEMBER 2017

We refer to the invitation to comment on the proposals set out in the Discussion Paper and accompanying draft standards and guides.

The Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors.

The Association now represents a total of 23 funds controlling $49 billion in member funds, held in a total of some 275,000 individual accounts. Of these funds, 14 have outsourced trustee services but maintain significant employer interest through policy committees. In general, these funds are sponsored by corporate employers, with membership restricted to employees from the same holding company group, but we also include in our membership two multi-employer funds with similar employer involvement and focus.

A number of our funds have defined benefit divisions.

Size, in terms of funds under management, ranges from $17 billion to $64 million as at 30 June 2016. Some of the smaller funds have their place in the pension fund structures of international groups, hence play an important role in the care and welfare of the worldwide workforces of these groups.

Our review of the Discussion Paper and draft Standards and Guides gives rise to comments as follows.

Commentary on Discussion Paper and Draft Standards and Guides

1. Member Outcomes

Outcomes test in legislation and in APRA standards

We understand from paragraph 1.8 of the Discussion Paper, that the standard SPS 225 and associated guidance will be modified as appropriate after the passage of the Treasury Legislation Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill. Our members are keen that the requirements of the Standard and the legislation will be dovetailed so as to avoid duplicate reporting.

Inclusions in the outcomes test

Draft SPG 225 includes at paragraph 6 a list of matters to be considered as outcomes, including, at sub-paragraph 6(e):

> … the adequacy of an RSE licensee's governance and risk management frameworks and practices;

If the outcomes of the RSE's governance and risk management frameworks and practices are to be tested under SPS 225, our members have expressed concern about how RSE licensees are to perform the review and be able to compare the results against peers, if the information is not readily available. Guidance would be needed on the appropriate metrics to be used for this area of assessment.

Benchmarking

We note the guidance provided in paragraphs 24 to 28 of Draft SPG 225. Our funds have raised the following questions:

- How will peer funds be selected? It is anticipated that despite the guidance at paragraph 25, there will be actual difficulties in selecting peer groups to minimise comparison bias; it is generally easier to find data from similar sectors. There will be difficulties in standardising results.
- Will required data for comparison be easily accessed? We accept that APRA data is available but this takes time to collate and there is a time lag. Other sources are available but reliability and objectivity needs to be considered.
- Will these data be validly comparable, in view of the use of differing methodologies for calculation?
- How up to date will the available comparison information be?

Cash flow

In the draft SPG 225 Outcomes Assessment, the discussion of metrics for the Outcomes Assessment includes, at paragraph 18, suggested criteria (e) to (i) which focus on continuing growth in a fund, with implications (paragraph 19) that a fund that is in wind down mode (as evidenced by the suggested metrics) may be becoming non-viable.

A number of corporate funds are in slow wind-down mode, and the suggested metrics would yield reductions in the ratios indicated. However, a controlled extended wind-down can still result in positive outcomes for the remaining members, who continue to benefit from the advantages of superior investment returns, generous benefit design, well-controlled costs and good management in general.

We urge that APRA's approach to negative cash flows should take into account such issues, and that the entire circumstances of a fund should be taken into account in evaluating these metrics, in order to avoid squeezing out still viable entities that have a valuable role to fulfil.

2. Reporting Proposals

Expenses disclosure

We are in favour of accountability and transparency and understand the concern that there should be a dissection of expenses between (for example) the administration costs charged by a service provider and the costs of advertising arranged by such a service provider, as discussed at paragraph 3.2 of the Discussion Paper. We recognise that dissection is of value where services are bundled, and that where costs such as advertising are under scrutiny it is important that they should be identified separately. However, we believe that, where APRA has concerns with the separate identification of particular types of expenses and with their treatment by particular funds, APRA should examine these items in detail as part of fund reviews.

For all funds to be subject to detailed scrutiny of all expenses may result in additional reporting, provision of unnecessary reporting data, and unwarranted expense.

We are particularly concerned by APRA's proposal at paragraph 1.4 of the Discussion Paper to publish the proposed additional data. We do not believe that publication of detailed expense analysis will facilitate consumer and member comparison of funds.

We are strongly of the view that any issues APRA has with a fund's spending should be the subject of discussion directly between APRA and the fund, either as part of its review of the fund or as a separate exercise.

Business planning, expense management and defined benefit interests

The approach in APRA's draft guidance SPG 221 is understandably focused on the operation of accumulation funds. However, we expect that APRA will recognise that business planning in a defined benefit plan has a radically different focus, given that the fund does not rely on fees charged to members to satisfy its need for revenue to meet expenses.

A defined benefit plan relies on sophisticated planning involving the interaction and timing of contribution and investment revenue with anticipated expenses, benefits and other outflows over time. Shortfalls are managed at the expense of the sponsor rather than from increased fees charged to members. Accordingly, the dynamic is very different. Cost management remains a key focus, in view of the impact on the plan's general viability and the costs of the plan to the employer-sponsors, and the expense management performance of our funds with defined benefit plans has been excellent, as demonstrated in the APRA statistics.

However, a key difference is that although members will be interested in the efficient management of costs in general, this will not impact their benefits directly. We trust that these factors will continue to be recognised by APRA in its public statements and guidance as well as in its direct dealings with funds.

Insurance opt-out

APRA proposes to amend Prudential Standard SPS 250 Insurance in Superannuation (SPS 250) to require an RSE licensee to provide simple and straightforward opt-out processes for all insurance products.

We understand the desirability of simplifying this process, particularly for MySuper products. However, the extension to all RSE licensees is less straightforward. In certain arrangements, the process of opting out is not as simple as in funds where a member can arrange to dial up or down units of insurance cover that are negotiated through an external provider.

In some funds, group cover has been negotiated on the basis of specific risks associated with specific jobs in the employer or industry. For members to opt out of these at will is detrimental to their own situation (more expensive, absence of specialist cover) and to the situation of members under the group cover. In defined benefit funds the cover may still be self insured within the fund, or negotiated with an external provider having regard to the specific benefits offered by the fund. It may again be contrary to the member's interest and those of the other members to be able to opt out of these arrangements as a result of standardisation and universality of opt out arrangements.

We urge that there should be recognition of variety in insurance arrangements. A blanket approach to opt out, particularly in products other than MySuper, may not work.

3. Post implementation review

We understand that APRA is conducting a comprehensive post-implementation review of all its prudential standards and reporting requirements. Does APRA anticipate significant changes to be made to any of the prudential Standards and reporting requirements based on any feedback received from the industry since the standards and reporting requirements were released?

Yours sincerely

Mark N Cerché
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Corporate Superannuation Association