Statistics

Segmentation of superannuation entities

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Background

The Australian Prudential Regulation Authority (APRA) is a national statistical agency for the Australian financial sector, as well as the prudential regulator. APRA has for many years collected data, including superannuation data, and made data publicly accessible, primarily through statistical publications. APRA's statistics promote understanding of the superannuation industry and facilitate improved transparency and accountability of superannuation entities.

APRA strives to provide statistics that are useful and trustworthy and meet the needs of Government and the public. APRA observes international statistical standards in developing, producing and managing its statistics (except in the few instances where doing so would conflict with APRA's primary role as a prudential regulator). International statistical standards set accepted prerequisites for quality statistics. The prerequisites include: relevance of statistics to users' information needs; impartiality and objectivity of statistics; accuracy and reliability of statistics and their interpretation; periodic and timely release of statistics; and ensuring the statistics are easily accessed and utilised by all users at the same time. These standards inform APRA's approach to releasing statistics.

APRA recently completed its review of reporting requirements for registrable superannuation entities (RSEs) as part of a wider program of superannuation reforms that have been undertaken since 2011. Following introduction of the new reporting requirements in 2013, APRA proposed changes to the format and content of the quarterly superannuation statistics it releases, and APRA's proposals in relation to the data to be determined non-confidential.[1]

APRA sought feedback on the value of classifying superannuation data into segments based on various attributes, the segments to be used in statistical publications and reports and the particular data it may be appropriate to publish by segment.

This paper outlines proposed changes to the segmentation of the superannuation statistics to be publicly released by APRA following the implementation of these superannuation reforms and the new reporting requirements.

Segmentation

In general, segmentation is intended to divide a population into groups (or 'segments') so that each group is as homogenous as possible, and as distinct as possible from other groups. The institutions in each segment should be similar to others in their own group, and different from institutions in the other segments.

A capacity to divide an industry into distinct groups of institutions, each of which may behave differently over time, can be beneficial for users seeking to better understand the industry and its participants. An improved understanding of an industry enhances public discussion on policy issues facing the industry and supports well informed decision-making about that industry and its participants. Effective segmentation also enhances the ability of entities to benchmark themselves and identify and investigate industry trends and emerging issues.

Effective segments are ones that are identifiable, measurable, accessible, substantial, stable, actionable and differentiable. Even when users have sufficient source data to create their own segments, they often will not have all the necessary data to ensure that the segments meet these criteria. APRA therefore publishes segmentation statistics to minimise the risk that users

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[1] http://www.apra.gov.au/Super/Pages/Superannuation-reforms-2011-2013.aspx

may unintentionally miscalculate the statistics, for example, if they did not include statistical adjustments for events like mergers or changes in RSE balance dates. APRA also publishes segmentation statistics to ensure that there is consistent identification of, and calculations for, the identified segments.

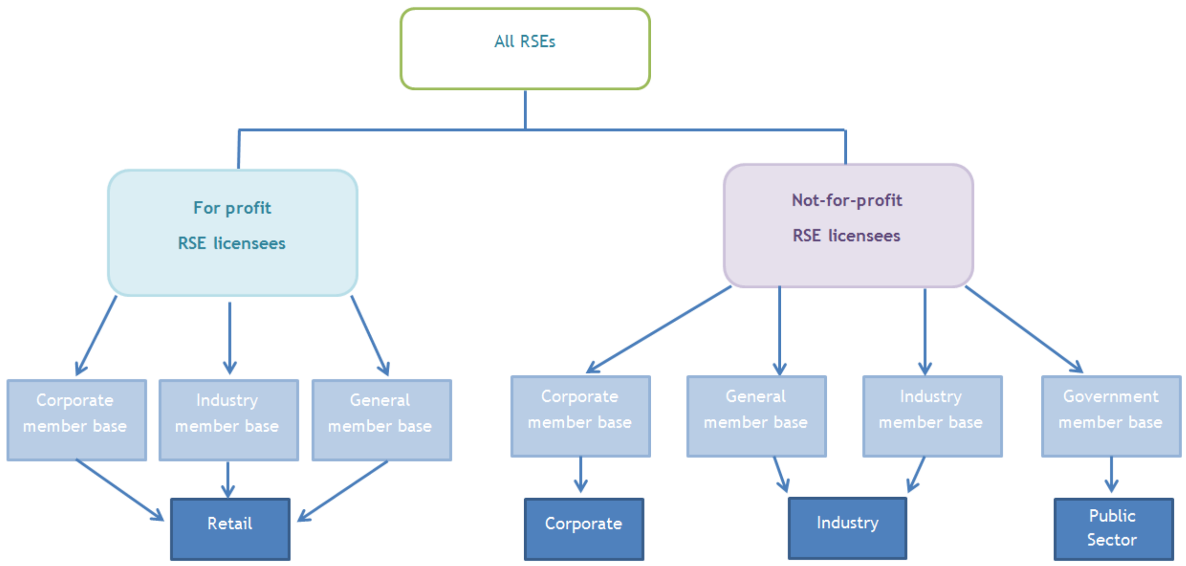
Method of segmentation

The segments that APRA most commonly uses for superannuation are fund types. These fund types comprise corporate funds, industry funds, public sector funds, retail funds and small superannuation funds. These segments, based on RSE licensee profit status and the membership base of the funds, are shown in figure 1 below.

RSE licensee profit status represents whether the articles of association of the RSE licensee prohibit it or the RSEs within its business operations from being a source of income, profit or other financial gain to the RSE licensee owners, or associates of the RSE licensee owners, that establish, control or finance the legal entity.

Fund membership base represents the classification of the predominant base of members within the fund. Predominant base means more than half of the overall fund membership.

Figure 1 – superannuation fund type segmentation



Corporate funds are RSEs with more than four members under the trusteeship of a 'not for profit' RSE licensee and with a corporate membership basis.

Industry funds are RSEs with more than four members under the trusteeship of a 'not for profit' RSE licensee and with either an industry or general membership base.

Public sector funds are RSEs with more than four members under the trusteeship of a 'not for profit' RSE licensee and with a government base membership base. Public sector funds also include superannuation schemes established by a Commonwealth, State or Territory law (known as exempt public sector superannuation schemes).

Retail funds are RSEs with more than four members under the trusteeship of a 'for profit' RSE licensee with a corporate, industry or general membership basis.

Small funds are superannuation entities with fewer than five members and include small APRA funds (SAFs), single-member approved deposit funds and self-managed superannuation funds (SMSFs). SMSFs are regulated by the ATO and have different legislative requirements than APRA regulated funds.

APRA's primary source of information about the profit status of RSE licensees and membership status of entities will be the categorical information about RSE licensees and their RSEs on Reporting Form SRF 001.0 Profile and Structure (SRF 001.0). APRA will also use other sources of information if entities appear to have misreported profit status or membership base. APRA will review the information reported to APRA on SRF 001.0 to ensure the entities are appropriately segmented.

While the majority of entities are classified into one segment based on the two characteristics, some entities may have characteristics of two segments and may have reported their profit status and/or membership base inconsistently with the reporting requirements. In these instances, APRA will consult the RSE licensee and may publish the most appropriate segment based on APRA's understandings of the entities' characteristics.

Change in segmentation methodology

While APRA has used the same fund types since 2004, prior to July 2013 segmentation was based on entities' self-classification of their fund type, which was often subjective. Descriptions of these classifications can be found on APRA's website.[2] The revised classification method, as outlined above, is more objective.

As a result of the change in segmentation methodology, a number of funds have changed classification as outlined below. The most significant change is that a number of entities with a corporate membership base under a for-profit trustee are now classified as retail funds, whereas previously they were classified as corporate funds. This change addresses much of the feedback from users on APRA's previous segmentation methodology regarding corporate master trusts.

Of the 258 entities in existence at 31 December 2014, there are 45 cases where the fund type is different under the new segmentation methodology. In these cases, APRA analysed the information reported to APRA, the structure of the fund and composition of the RSE licensee as well as other prudential information. APRA also drew on publicly available information and consulted RSE licensees in the cases where the information reported on SRF 001.0 was inconsistent.

Following this further analysis, of the 45 entities:

- 38 entities were re-classified from corporate to retail;
- four entities were re-classified from industry to retail;
- one entity was re-classified from retail to industry;
- one entity was re-classified from corporate to public sector; and
- one entity was re-classified from industry to public sector.

Table 1 below shows the number of entities and assets in each sector before and after the review of fund types.

[2] http://www.apra.gov.au/Super/Publications/Documents/Classification-of-superannuation-entities.pdf

Table 1: Number of entities and assets of superannuation entities (as at 31 December 2014)						
Fund type	Prior to review		After review		Change	
	Number of entities	Total assets ($b)	Number of entities	Total assets ($b)	Number of entities	Total assets ($b)
Corporate	73	63 (5%)	34	58 (4%)	-39	-14 (-1%)
Industry	46	418 (32%)	42	403 (31%)	-4	-15 (-1%)
Public sector	36	321 (25%)	38	335 (26%)	2	15 (1%)
Retail	103	502 (38%)	144	516 (39%)	41	14 (1%)
Total	**258**	**1,308**	**258**	**1,308**		

After the review of fund types, retail funds' assets increased from $502 billion to $516 billion and account for 39 per cent of total superannuation assets as at 31 December 2014.

Industry funds' assets decreased by $15 billion from $418 billion to $403 billion and account for 31 per cent of total superannuation assets as at 31 December 2014.

Public sector funds' assets increased by $15 billion to $335 billion (to 26 per cent of total superannuation assets), while corporate funds' assets decreased from $63 billion to $58 billion (to four per cent of total superannuation assets).

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