



 APRA

PRUDENTIAL PRACTICE GUIDE

SPG 516 - Outcomes Assessment

December 2018

Disclaimer and Copyright

This prudential practice guide is not legal advice and users are encouraged to obtain professional advice about the application of any legislation or prudential standard relevant to their particular circumstances and to exercise their own skill and care in relation to any material contained in this guide.

APRA disclaims any liability for any loss or damage arising out of any use of this prudential practice guide.

© Australian Prudential Regulation Authority (APRA)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0). This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit <https://creativecommons.org/licenses/by/3.0/au/>

Contents

About this guide	4
Introduction	5
Interaction with the scale test	6
Articulating outcomes	6
Designing the outcomes assessment	8
Establishing cohorts	8
Selecting metrics	9
Investments	10
Insurance	10
Retirement products	11
Defined benefit and legacy products	11
Undertaking the outcomes assessment	12
Benchmarking	13
Analysis of performance	14
Investment strategy	15
Insured benefits	15
Options, benefits and facilities	15
Fees	16
Scale	16
Operating costs	16
Performance against the business plan and projections	17
Outcomes assessment results	18
Determining results of the assessment and taking action	18
Linking outcomes assessment with strategic objectives	19

About this guide

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 the outcomes provided to members (outcomes assessment) and determine whether these outcomes can be improved into the future.

An RSE licensee that identifies opportunities to improve outcomes is required to consider these changes as part of its business planning process. Accordingly, APRA expects *Prudential Practice Guide SPG 516 Outcomes Assessment* would be read in conjunction with *Prudential Practice Guide SPG 515 Strategic and Business Planning*.

In determining the outcomes being sought for members, an RSE licensee must ensure that its RSEs are maintained solely for the purposes set out in section 62 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act). An RSE licensee must also, at all times, comply with the obligations set out in the covenants in section 52 of the SIS Act and the trustee obligations in respect of MySuper products under section 29VN of the SIS Act.

The guidance provided in this PPG is relevant to all areas of the RSE licensee's business operations, including the offering of MySuper products.

Subject to the requirements of RSE licensee law¹, 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.

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.

¹ Refer to section 10 of the SIS Act for the definition of 'RSE licensee law'.

Introduction

1. *Prudential Standard SPS 515 Outcomes Assessment* (SPS 515) requires an RSE licensee to undertake an annual assessment of outcomes being provided to members as part of the annual review of its business plan.
2. SPS 515 sets out requirements that are intended to ensure RSE licensees maintain a focus on the delivery of quality member outcomes in all the decisions they make. The delivery of quality member outcomes is a key indicator of an RSE licensee satisfying its duty to act in the best interests of members.
3. The primary purpose of the outcomes assessment is to require the RSE licensee to assess the member outcomes resulting from its business decisions made in accordance with its strategic objectives and business plan, and the extent to which these outcomes could be improved. Thus, while RSE licensees are expected to be aware of the performance and products offered by other RSEs and relevant benchmarks, the assessment is not solely a comparative process.
4. In conducting an outcomes assessment, APRA expects an RSE licensee would:
 - a) articulate the outcomes it seeks for members and the metrics it will use to measure whether those outcomes have been achieved;
 - b) undertake an assessment of outcomes using these metrics, in absolute and relative terms and against appropriate benchmarks and targets;
 - c) determine the impact of the features or characteristics of its products, services and business operations on the outcomes delivered to members;² and
 - d) identify and pursue opportunities for improving outcomes, where appropriate.
5. As a result of undertaking the assessment, 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 range of products, or fee levels. 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 changes.
6. RSE licensees are encouraged to view the assessment and the manner in which they carry it out as a process of continual improvement. RSE licensees are expected to take meaningful steps towards putting in place a robust and objective outcomes assessment across all aspects of their business operations, using appropriate metrics and analysis, and to incorporate the results of the assessment into their strategic and business planning processes. APRA expects that the member outcomes assessment 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.

² 'Products' and 'services' encompass those products provided at the RSE, product, option and cohort levels and associated services offered to members.

Interaction with the scale test

7. An RSE licensee is required under section 29VN(b) of the SIS Act to undertake an annual assessment of whether its MySuper members are disadvantaged by virtue of the scale of the RSE or the MySuper product.
8. An RSE licensee may use the scale test and its results in the design and undertaking of the outcomes assessment in respect of paragraph 17(e)(v) of SPS 515. While the analysis for the scale test has direct relevance to considering the delivery of outcomes to MySuper cohorts, APRA expects that an RSE licensee would assess the impact of the scale of the RSE licensee's business operations on outcomes for all members.

Articulating outcomes

For an RSE licensee to deliver quality outcomes to members, it must provide high quality, value for money superannuation products and services and ensure its business operations are soundly and prudently managed. A focus on member outcomes includes using the outcomes assessment to identify areas of potential improvement in order to enhance outcomes over time.

9. SPS 515 requires an RSE licensee to articulate the outcomes that it seeks to provide to members as part of the outcomes assessment. These outcomes are also to be considered by the RSE licensee in the development and review of its strategic objectives. APRA expects that the development and review of strategic objectives would incorporate a review of existing and prior objectives.
10. In meeting the requirements in SPS 515, RSE licensees would be expected to take a multi-faceted approach to assessing member outcomes, incorporating both financial and non-financial outcomes, and considering both historical and forward-looking analysis.
11. RSE licensees would be expected to consider different cohorts of members when articulating the outcomes to be provided, reflecting the different products and options that may be appropriate for and made available to various groups of members. However, there is likely to be some commonality in the types of measures or indicators used to describe the outcomes the RSE licensee seeks to provide for different member cohorts. For example, common indicators that an RSE licensee may use in articulating outcomes include targeting a certain level of benefits in retirement or achievement of a risk-adjusted return target over an appropriate time period. APRA expects where an outcome is expressed as a target level of benefit in retirement, the assumptions underlying the projections would be detailed in the outcomes assessment.
12. An RSE licensee would be expected to take a broad approach to considering the outcomes sought, including, but not limited to:
 - a) risk-adjusted investment returns net of investment fees;
 - b) administration and other fees;

- c) insurance product design, premiums, claims management, and terms and conditions;
 - d) retirement products; and
 - e) member services, engagement, and education.
13. For many members, investment performance will be central to the assessment of outcomes achieved. However, in APRA's view, relying solely on net returns as a measure of outcomes, whether on a relative or absolute basis, is not sufficient.
 14. Achieving reduced fees or costs may be an appropriate objective. However, seeking to provide the lowest relative fees and costs may not necessarily provide better outcomes for members over the long-term. An RSE licensee may conclude, for example, that members would benefit from short-term increases in costs where this will support appropriate investment in systems and services that are expected to deliver enhanced outcomes over time. Providing enhanced communication platforms to support member understanding and participation in their superannuation products, or investing in improved data on the RSE licensee's membership base, may materially enhance long-term outcomes. Similarly, improved outcomes may result from an investment strategy that involves higher investment costs but is expected to provide higher (risk-adjusted) investment returns that will offset the costs over time.
 15. An RSE licensee's selection of outcomes would typically draw on extensive historical data, where possible. For example, an RSE licensee could consider long-term data on cost and fee levels in determining targets for the factors that are central to the outcomes it seeks to provide to members.
 16. Ensuring insurance arrangements appropriately balance the cost of insurance with members' needs in respect of product design and claims management is also a relevant consideration in assessing overall long-term outcomes. APRA expects that in considering outcomes related to insurance, an RSE licensee would have regard to the covenants concerning insurance in the SIS Act and the requirements under *Prudential Standard SPS 250 Insurance in Superannuation*.
 17. APRA's expects a well-managed RSE licensee will use the findings of the outcomes assessment to identify areas for improvement. As a result, in articulating the outcomes they seek for members, RSE licensees are expected to set targets or goals that are not already being achieved or are not likely to be very easily achieved based on existing forecasts.

Designing the outcomes assessment

A rigorous approach to establishing cohorts and the supporting metrics is fundamental to the design of the assessment and ensuring it is a key component of the business planning process.

18. An RSE licensee will typically offer a range of products to its members in both the accumulation and the retirement phase, differentiated across aspects such as the investment risk/return objective (and hence investment strategy) or other features such as insurance design and cost. An RSE licensee would be expected to design its outcomes assessment in a manner that reflects the structure of its business operations, including the range of products, investment options, sub-plans and retirement products that are provided to members. Appropriately segmenting the RSE licensee's business operations will assist in demonstrating that the outcomes assessment undertaken is comprehensive and appropriately reflects different cohorts of members.

Establishing cohorts

19. Assessing outcomes at a cohort level, rather than across the RSE as a whole, will assist an RSE licensee to obtain a detailed understanding of the performance of its operations and appropriately assess outcomes for members. For example, underperformance of a particular sub-plan or investment option may be masked when overall outcomes at the RSE (or fund) level are satisfactory. Establishing meaningful cohorts enhances the ability of an RSE licensee to appropriately benchmark its performance across different cohorts, and to identify and investigate underlying trends and emerging issues.
20. Under SPS 515, an RSE licensee has discretion to establish the membership cohorts on which its outcomes assessment is based in a manner that best suits its operations, as long as it is satisfied that all members are appropriately covered by the assessment that is undertaken. APRA expects that in almost all circumstances, a cohort would be set at least at a product level, including separate consideration of any retirement products. Separate cohorts may also be established using membership characteristics that cut across superannuation products, for example cohorts based on balance size, demographic data (e.g. age, gender), occupation data or level of engagement (e.g. voluntary contributions, provision of advice).
21. Individual members may be included within multiple different cohorts that may be used for the outcomes assessment 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. Establishing multiple cohorts will assist RSE licensees in developing a deeper understanding of the outcomes provided to different types of members. In turn, this will inform the development of the RSE licensee's strategic objectives and the areas where enhancement of member outcomes may be needed.

22. Understanding outcomes for low account balance or inactive members through establishing separate cohorts for these members is likely to be an appropriate consideration for an RSE licensee in the design of its outcomes assessment. This would facilitate enhanced understanding of the impact on the outcomes for these members of different product features, such as fees and costs, including any potential cross-subsidisation across the membership base.

Selecting metrics

23. SPS 515 requires an RSE licensee to set out the metrics that it will use in undertaking its assessment. APRA would expect that a thorough assessment would use both financial and non-financial metrics reflecting past-performance and forecasts or future modelling.

24. The following measures are examples that an RSE licensee may choose to use (this list is not exhaustive):

- a) net investment returns, on an absolute basis, as well as relative to relevant benchmarks and risk/return targets over different time periods (e.g. one year, 3 years, 5 years and 10 years);
- b) fee levels, including costs per member;
- c) administration and operating expenses as a percentage of average net assets (operating cost ratio); and
- d) level and cost of insurance cover (by type of insurance), including measures of account erosion such as the premium as a percentage of salary or superannuation guarantee contribution.

25. APRA expects that 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 in the future under paragraphs 17(f) and 17(g) of SPS 515 and relevant to future stability or growth of an RSE licensee's business operations. The following non-exhaustive list of examples may assist an RSE licensee 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.

26. Where an RSE licensee offers a MySuper product, key outcomes metrics may include net investment returns relative to return targets for each MySuper product, as well as benchmark returns, operating cost ratios, cost per member and insurance costs (particularly the rate at which insurance premiums are likely to have eroded account balances).

27. It is common for an RSE licensee to manage and assess performance based on core business lines, such as investments, insurance and advice. An RSE licensee may use

established reporting on performance for these business lines in its methodology for the outcomes assessment.

28. APRA expects that an RSE licensee will apply equal rigour to the selection and use of metrics regardless of data availability issues that may be present for individual cohorts. For instance, where cohorts are based at the product level there may be greater data available for MySuper products than for other (choice) products. Nonetheless, APRA expects that an RSE licensee will comprehensively use internal and external data sources for choice products and seek to access or develop new data sources where existing data is insufficient to perform meaningful analysis. An RSE licensee would actively seek to enhance the data used in the outcomes assessment as a key component of ensuring the outcomes assessment remains fit for purpose.

Investments

29. Assets generating earnings for an RSE represent a combination of the assets held for MySuper products, choice investment products, retirement products and fund reserves. These different segments (and the underlying suite of products and options) typically have different investment strategies that reflect their different purposes and risk and return objectives. Such segments are also likely to have different fees and costs. Accordingly, at a minimum, APRA expects that the methodology set by the RSE licensee would include metrics designed to take into consideration these different return objectives, risk profiles and liquidity requirements, reflecting the range of investment options and strategies that may exist within an RSE.

Insurance

30. There may be challenges inherent in developing comparative metrics for outcomes relating to insurance products and costs due to the unique nature of the products and premium structures that may be in place for different RSE licensees and insurers. A tender process for new or revised insurance arrangements, or other independent benchmarking processes, may be an appropriate means through which to obtain comprehensive information on insurance arrangements that can be compared with those provided by other RSE licensees.
31. The outcomes assessment would also be expected to include robust analysis and assessment of insurance outcomes for different member cohorts within an RSE licensee's business operations (including between different RSEs where relevant).
32. In addition to considering product design, premium level and costs, an RSE licensee may consider metrics on how members engage with and claim on their insurance as indicators of how members understand and value the insurance offering. Relevant metrics may include changes in level of cover, opt-out rates for default members, claim admittance rates, claims handling procedures, claims processing times, policy terms and conditions, the rate of claims disputes and the time taken to resolve disputes, and policy lapsing rates. These metrics, in conjunction with premium costs, would assist an RSE licensee in forming a view on the outcomes related to their insurance offering by cohort,

and will enable the RSE licensee to assess whether changes to the offering would improve outcomes in the future.

33. APRA expects that an RSE licensee would maintain an up-to-date view of its membership demographics, including for example the number of part-time, casual and unemployed workers, as well as occupation types, to allow it to improve its insurance arrangements.
34. Broader industry benchmarks will serve as an important guide in assessing the impact of insurance on members. For example, the percentage of superannuation guarantee contributions that are taken up by insurance premium costs may serve as an appropriate measure of the level of account balance erosion.

Retirement products

35. APRA expects that the methodology and supporting metrics of the outcomes assessment will appropriately reflect the retirement products offered by an RSE licensee and the cohorts of members who hold these products. As with accumulation products, the metrics would consider the absolute performance of a product, including against any member expectations when taking out the product, such as the estimated income streams or target returns. Further, APRA expects the metrics will enable benchmarking against the performance of products offered by other RSE licensees or external providers.
36. Where an RSE licensee offers annuity products, APRA expects that metrics will encompass 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 to ensure that members do not hold high cost and poorly performing products into the future.

Defined benefit and legacy products

37. The outcomes assessment requirements of SPS 515 equally apply to defined benefit and legacy products. An RSE licensee would be expected to design an outcomes assessment that is relevant to these products and the corresponding membership cohorts who hold these products with the same level of rigour as applied to other products and cohorts.
38. 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 outcomes assessment. APRA expects that for defined benefit cohorts, demonstrating the relevant product or RSE is in a satisfactory financial position, supported by actuarial advice, such that the future benefits of members are fully funded, will be key to meeting the outcomes assessment requirements.
39. For legacy products, a central consideration in designing and undertaking the outcomes assessment will be any decision by an RSE licensee on transition and closure of the product(s). 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 under the outcomes assessment. 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.

Undertaking the outcomes assessment

An RSE licensee is expected to undertake the outcomes assessment in a comprehensive manner and regularly consider how the assessment itself may be improved in the future.

40. APRA expects that the Board will have overall responsibility for the outcomes assessment, including consideration of the assessment as part of the annual review of the business plan as required under SPS 515. The Board would in most cases delegate responsibility for designing and undertaking the outcomes assessment to senior management, including presentation of the results and incorporating associated actions in the business plan.
41. APRA expects that in certain circumstances it may be appropriate for an RSE licensee to engage external expert advice to assist in components of the assessment, such as external benchmarking. Instances of where an external expert may be used include for the purpose of obtaining specialist expertise and associated data or to provide an independent view of the delivery of outcomes by the RSE licensee. Where an external party conducts the entire outcomes assessment on behalf of the RSE licensee, senior management would be expected to be closely involved in the analysis.
42. As the outcomes assessment is a key component of the annual review of the business plan, an RSE licensee would generally be expected to conduct the outcomes assessment at a pre-determined time each year. The timing of the outcomes assessment and consideration of the results by the Board would enable these to be incorporated in the business plan, including the actions identified to improve member outcomes.
43. Due to the prevalence of outsourcing arrangements in the superannuation industry, providers of services to RSE licensees would often be a key source of data for the outcomes assessment. For example, an insurance provider may be better placed to provide data on insurance outcomes than the RSE licensee itself. APRA expects the RSE licensee to assure itself as to the quality of the data that is provided by the external party. Where a service provider contributes to the assessment, APRA expects that this will be clearly documented, and include a summary of any validation activity undertaken.
44. APRA expects that an RSE licensee will regularly consider how the methodology and process for undertaking the assessment can be improved in the future to ensure the assessment remains a key tool in the business planning process and reflects changes in membership, products and services. Examples of improvements may include developing more granular membership cohorts, designing additional meaningful metrics and obtaining richer sources of data. The outcomes assessment itself is a focus for continuous improvement as an RSE licensee becomes familiar with undertaking the

assessment, observes industry developments and identifies or develops new sources of data.

Benchmarking

45. SPS 515 requires an RSE licensee to undertake a comparison of its performance in both absolute and relative terms and with reference to objective benchmarks and targets.
46. In this context, absolute performance provides an indication of the delivery of outcomes against the RSE licensee's internal benchmarks and targets, and additionally against external absolute benchmarks. For example, an absolute measure may be investment performance against a long-term target return, or progress towards a particular retirement income target for a membership cohort.
47. Relative performance encompasses assessing indicators of the delivery of outcomes for different cohorts compared to other products or options within an RSE licensee's business operations, and also those available to members of other RSEs. A straightforward example of relative comparison would be the investment performance of a MySuper product against the performance of all MySuper products in the market over a certain time period.
48. APRA expects that an RSE licensee would develop a methodology for undertaking benchmarking and comparison, including being able to demonstrate how the selection of measures enables an objective and rigorous analysis. In conducting this analysis, APRA expects the RSE licensee would access external sources of information, such as those produced by independent ratings agencies, and APRA's statistical publications.
49. An RSE licensee's methodology for benchmarking may include simple comparisons of individual indicators, or more sophisticated approaches that incorporate multiple factors. It may also incorporate both 'point of time' analysis and a longitudinal review, the latter being particularly useful for highlighting trends - consistent with the long-term nature of superannuation.
50. APRA expects an RSE licensee to consider the interplay and weighting given to the absolute and relative assessment of the metrics, and across different components of the assessment. For example, some RSE licensees apply weights to a number of categories of outcomes including investment performance, fee levels, administration, governance, the cost and level of insurance and advice to members, to develop an overall assessment.
51. For metrics associated with choice product cohorts an RSE licensee would use, where appropriate, indicators external to superannuation, such as the performance of certain asset classes. For example, the net investment returns provided to a member cohort that hold a product substantially made up of Australian property securities could be benchmarked against the performance of an index fund that tracks Australian property securities.
52. The development and use of benchmark portfolios may be a useful tool for many RSE licensees in assessing key metrics for both MySuper and choice member cohorts, particularly in respect of investment performance. APRA expects that RSE licensees will

adopt a rigorous approach to constructing benchmark portfolios through ensuring the weightings ascribed to the market indices that form the basis of the portfolio appropriately reflect the underlying target and actual asset weights of the relevant superannuation product.

53. As noted above, APRA expects that benchmarking will not be solely used to develop investment performance metrics, but will also be applied to other areas such as fee levels, insurance and retirement products. Fee level benchmarking could draw on APRA data on the fee levels of other RSEs as well as other available comparative data. The investment fees associated with other similar asset classes, for example low cost exchange traded funds, could also serve as a useful benchmark. For retirement products, benchmarking would be expected to include an examination of other RSE licensees' products and performance, and the retirement product options or assets that a member may be able to access outside of superannuation, as appropriate.
54. For many RSE licensees, internal benchmarks will be an important reference point for the calculation of metrics. Internal benchmarks would include the performance or outcomes delivered by alternative products that a member could access within the same RSE or across the RSE licensee. For example, 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 may be appropriately incorporated into the outcomes assessment. Similarly, where the RSE licensee, via multiple RSEs, has comparable choice products or options then it may be appropriate to compare the performance and outcomes delivered to the different member cohorts that hold these products.
55. When using peer groups as a benchmark or comparison, an RSE licensee would be expected to identify peers that minimise comparison bias, to ensure the assessment is objective and is a genuine tool to drive improvement. This necessitates considering peers from across the superannuation industry and not limiting the peer group solely on size, sector type or ownership structure.

Analysis of performance

56. SPS 515 requires an RSE licensee to consider, at a minimum, the impact of a number of key factors on the results of the metric calculations. SPS 515 also requires the RSE licensee to assess its ability to continue to provide the outcomes it seeks, having regard to its performance against the business plan and whether it has succeeded in delivering quality outcomes for the period covered by the assessment.
57. The requirements are designed to ensure that there is a comprehensive approach to how an RSE licensee interprets and explains the results of the assessment, and how rigorously it assesses its ability to continue to provide the relevant outcomes into the future. The analytical approach set out in SPS 515 represents minimum requirements. Accordingly, APRA expects that RSE licensees would consider and incorporate other factors that are relevant to their business operations and to quality member outcomes.

Investment strategy

58. APRA expects that the investment strategy set under *Prudential Standard SPS 530 Investment Governance* is the starting point to an RSE licensee assessing investment performance and whether amendments to investment objectives are necessary.
59. APRA expects an RSE licensee would use performance attribution analysis as an appropriate mechanism by which to assess investment performance against relevant objectives, targets or benchmarks contained in the investment strategy. This analysis would consider the impact on returns of asset allocation decisions and the investment strategy, including the impact of fees.
60. Additionally, the analysis would assist in identifying key drivers of performance and enable areas for potential improvement to be determined. APRA expects an RSE licensee to identify and document whether its investments could be adjusted in a manner that delivers an improved investment outcome for members. This may take the form of, for example, an adjusted risk/return target, change in asset manager, a reduction in investment fees or a change in asset allocation. These are processes that would typically be embedded within the RSE licensee's investment governance framework.

Insured benefits

61. An analysis of the insurance arrangements would be a key consideration in assessing performance in delivering outcomes. APRA expects an RSE licensee to consider whether the cost of insurance offered to members will inappropriately erode members' retirement savings, as this would be central to an analysis of member outcomes. This analysis may incorporate affordability measures determined by the RSE licensee and/or benchmarking with comparable RSEs or other indicators, such as those established in relevant industry codes or guidance.

Options, benefits and facilities

62. Members are generally charged for a range of options, benefits and facilities related to the superannuation product(s) they hold. The fees associated with these services may be charged across all member cohorts 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.
63. APRA expects an RSE licensee would determine the extent of the impact of the cost of these services on outcomes to members. Where costs or fees are measured as exceeding a set benchmark (e.g. of a median cost fund), the RSE licensee would be expected to be able to demonstrate the value of additional services or features that are associated with the fee levels.

Fees

64. An RSE licensee's primary source of revenue is derived from fees. As such, the basis for fee structures adopted and the way the fees are charged to members are material considerations for the RSE licensee in respect of the outcomes delivered to members. It is recognised that 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 individual members or cohorts of members. The basis of setting fees covers decisions such as the attribution of costs to member cohorts, structure of the fees charged (e.g. split between flat and variable fees), fee caps and the timing of fees charged.
65. When assessing the impact of fees on the outcomes for different member cohorts, APRA expects an RSE licensee to consider the appropriateness of its fee structures, including the way it splits fees between flat and variable and the impact that the charging of the fees has on different member cohorts. For example, the balance between fixed and variable fees is likely to have different impacts on the outcomes delivered to a low account balance cohort relative to a high account balance cohort. APRA expects this analysis would aid in understanding the degree of cross-subsidisation across different products or cohorts.

Scale

66. APRA considers that understanding the impact of scale is a key component of an RSE licensee assessing its current performance and importantly its ability to continue to deliver the outcomes it seeks for members. Key considerations for the RSE licensee in assessing existing scale and projections of future scale include:
- 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 operational issues or 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.
67. Whilst scale in and of itself does not guarantee better outcomes for members, an RSE licensee's management of its scale and related efficiencies are key drivers behind the delivery of quality outcomes now and into the future.

Operating costs

68. 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 member outcomes. Operating costs include administration costs, investment costs and management costs, such as professional services, marketing services, technology expenses and communication costs.

69. An RSE licensee may operate under a business model that enables a return (e.g. dividend) to be paid to a parent company. In such circumstances, APRA expects the RSE licensee would be able to demonstrate that the level of return is consistent with the provision of quality member outcomes.
70. 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, APRA expects that reported data and the operating cost ratio would be one input into the analysis of the impact of an RSE licensee's operating costs on member outcomes. Additionally, APRA expects that reported data may assist an RSE licensee to understand historical trends in operating costs and what the drivers of those trends are.
71. As a component of assessing operating costs and their impact on member outcomes, APRA expects the RSE licensee to consider the impact of significant expenditure. It is open to the RSE licensee to assess the impact of significant expenditure on operating costs in totality, rather than the impact of each instance of significant expenditure. However, where a particular instance of significant expenditure results in, or may result in, a material impact on operating costs this would be expected to be highlighted in the outcomes assessment, including quantification of the impact where possible. For example, where an instance of significant expenditure is materially higher than anticipated, the RSE licensee would be expected to consider how this may impact fee or reserve levels in the current and future periods.

Performance against the business plan and projections

72. The performance of the business plan against the key performance indicators for the relevant period and delivery of outcomes are closely related. An RSE licensee that achieves the business plan key performance indicators and is making progress on its strategic objectives is more likely to be able to demonstrate that it has provided the outcomes that it sought for members for the year, and is likely to continue to do so in future periods.
73. Central to meeting the requirements under SPS 515 is the RSE licensee's assessment of whether it will continue to deliver the outcomes it seeks for members in the future. APRA expects that RSE licensees will go beyond just considering progress in meeting strategic objectives and take a longer term view. This process will necessitate the RSE licensee determining a set of realistic assumptions and projections to model future outcomes for the RSE licensee's business operations. APRA expects that an assessment of current scale and future scale projections will be a key component of this analysis.

Outcomes assessment results

The outcomes assessment has an integral role in informing the strategic objectives and business plan that the Board approves under SPS 515. The assessment, as part of the annual review of the business plan, provides the Board with a detailed understanding of whether its business operations are delivering the outcomes it has sought for its members and is an important tool to identify areas for improvement.

Determining results of the assessment and taking action

74. APRA expects that the results of the outcomes assessment that are presented to the Board for consideration will be comprehensively documented. This documentation would include analysis of any actions that have been identified as potentially improving outcomes for members.
75. APRA expects an RSE licensee would go through a rigorous decision making process, including a cost/benefit analysis, to determine proposed actions to improve member outcomes.
76. Actions resulting from the outcomes assessment that are approved by the Board would be expected to be reflected as initiatives in the business plan. Consistent with the business planning requirements under SPS 515, the expected results of these initiatives 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.
77. Prior to undertaking a new initiative with associated significant expenditure, APRA expects an RSE licensee to examine cost-efficient changes to existing approaches or strategies to drive improved member outcomes. Examples of potential cost-efficient actions include:
 - a) closing or merging inefficient or under-used products;
 - 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 outcomes assessment with strategic objectives

78. SPS 515 makes it clear that in developing, reviewing and approving the strategic objectives, the RSE licensee Board must be satisfied that there is a strong link between the outcomes being sought and the current and prior outcomes assessments.
79. Strategic objectives 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 outcomes assessment that is undertaken in the intervening period. However, where the outcomes assessment, or a series of outcomes assessments, reveal significant issues with the performance of the RSE licensee and that action is to be taken to address the underperformance, this may warrant an RSE licensee amending its strategic objectives.
80. In circumstances where an RSE licensee's outcomes assessment demonstrates a consistent pattern of underperformance in either absolute or relative terms, APRA expects the RSE licensee to actively consider whether continuing to operate the RSE in its current form is consistent with the RSE licensee's obligation to act in the best interests of members.
81. Where an RSE licensee decides to undertake a merger or wind-up of its RSE(s), APRA expects the RSE licensee would implement a timely exit strategy that complies with the relevant legal obligations and reflects the guidance provided in *Prudential Practice Guide SPG 227 Superannuation Transfers, Mergers and Wind-ups*.



 **APRA**