Regulation Impact Statement – SuperANNUATION Data Transformation (SDT) Phase 1

Contents

[Introduction 3](#_Toc75295625)

[Background 3](#_Toc75295626)

[The problem 4](#_Toc75295627)

[Why action is needed 8](#_Toc75295628)

[Policy options 11](#_Toc75295629)

[Cost benefit analysis of each option/Impact analysis 13](#_Toc75295630)

[Consultation 21](#_Toc75295631)

[Option selection/Conclusion 24](#_Toc75295632)

# Introduction

This Regulation Impact Statement (RIS) has been prepared by the Australian Prudential Regulation Authority (APRA). Its purpose is to assist APRA in making a decision on the implementation of proposed new reporting requirements for Registerable Superannuation Entity (RSE) licensees to report information on RSE structure and profile, membership, investments, performance, fees and costs, insurance and expenses to APRA.

APRA has prepared a standard-form RIS as the Office of Best Practice Regulation (OBPR) considers that the proposals are likely to have more than minor regulatory impacts. The issues addressed in this RIS were considered as part of APRA’s decision making process relating to these measures.

This RIS follows a Preliminary Assessment (PA) submitted to OBPR on 24 September 2020. The RIS has been prepared in accordance with the Australian Government Guide to Regulation and relevant guidance notes.

The issues raised in this RIS were considered by APRA at each major decision point. The need for regulatory action, proposed solution, industry feedback, estimates of regulatory burden and alternative options were considered by APRA throughout the development and consultation process.

# Background

Over the last decade, the superannuation industry has grown in size and importance to the Australian economy, with total assets of superannuation entities increasing from $1.3 trillion to $3.1 trillion[[1]](#footnote-2). Australia’s superannuation industry plays a critical role in the delivery of retirement incomes for Australians and through its investment of superannuation assets in the economy more broadly.

APRA is tasked with the prudential supervision of Registerable Superannuation Entity (RSE) licensees and protecting the interests of superannuation fund members. APRA has broad data collection powers[[2]](#footnote-3) to collect data from RSE licensees to support APRA’s prudential supervision of these entities, to support policy making by Government and for publication to improve the transparency of the industry for a wide range of stakeholders. APRA also collaborates closely with other agencies such as the Australian Securities and Investments Commission (ASIC), Australian Taxation Office (ATO) and the Australian Bureau of Statistics (ABS) to collect data on behalf of these agencies or share reported data.

APRA’s current suite of superannuation reporting standards encompasses 35 reporting forms[[3]](#footnote-4).

It is crucial that RSE licensees, government, regulatory agencies, superannuation members and other interested stakeholders have access to high quality and consistent data to assess industry performance and the outcomes delivered for superannuation members.APRA identified the need to address gaps in the coverage and quality of the superannuation data collection and commenced the Superannuation Data Transformation (SDT) project in 2019.

Given the scale and complexity of the SDT project, APRA has divided the consultation into three phases:

* Phase 1 (Breadth) will address the most significant gaps in APRA’s data collection, particularly for ‘Choice’[[4]](#footnote-5) products and investment options.
* Phase 2 (Depth) will identify the broader data needs of stakeholders and propose further changes to the data collection to meet these needs.
  + APRA will increase the granularity of the entire collection, taking advantage of APRA’s new Data Collection Solution and enhanced data analytic capabilities; and
  + Identify any data currently collected that can be discontinued.
* Phase 3 (Quality) will assess the quality and consistency of the additional data reported during Phases 1 and 2, and review and address any implementation issues.

This RIS is for the proposals under Phase 1 of the SDT project. Phase 2 and Phase 3 will each follow the Australian Government requirements.

# The problem

The superannuation system works well for the majority of Australians, however not all Australians are well served by it. Some RSE licensees have products and investment options with high fees, poor investment performance, inappropriate insurance or weak governance of expenditure management and these translate into poor outcomes for their superannuation members. One of APRA’s key community outcomes in its Corporate Plan is improving outcomes for superannuation members. APRA does not currently have the data needed to identify areas across all RSE licensees where improvement is needed to achieve this community outcome.

Drivers of outcomes experienced by Fund members are broad

Fees and costs, investment performance and insurance coverage and premiums are key elements which impact outcomes to members. Small differences in these elements over individuals’ working lives can have significant impacts on the outcomes they receive in retirement. Data currently reported to APRA on MySuper products has provided evidence that some products and options are underperforming when compared to relevant benchmarks, or have fees which are demonstrably higher than similar peer products.

The key elements of fees and costs, investment performance and insurance coverage and premiums are themselves impacted by the efficiency of fund operations in various areas including expenditure management and business planning, the design of insurance arrangements and the structure of fees and costs. APRA’s supervision activities have identified that there is room for improvement by RSE licensees in these areas and APRA has introduced *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515) to enhance industry practices.

Lack of transparency is making it hard to act on underperformance

A number of recent reviews, outlined below, have found evidence of poor member outcomes and a lack of transparency, making it hard for all stakeholders, including members, to compare fees, costs and performance across superannuation products. This lack of transparency limits the degree to which RSE licensees can be held to account for underperformance. These reviews highlighted gaps in data and specifically called out the need to expand the existing MySuper-focused superannuation data collection to include all products and investment options.

The 2014 Financial System Inquiry found the superannuation industry was charging high fees and needed to improve its efficiency, competitiveness and governance arrangements[[5]](#footnote-6).

In response, the Government tasked the Productivity Commission to undertake a detailed review of the efficiency and competitiveness of the superannuation system and a comprehensive report on the outcomes of this review was released in 2019. The Productivity Commission found that the superannuation system was working well for some members, but that outcomes for other members were poor and identified funds that persistently delivered poor returns for members. The Productivity Commission highlighted large differences in member outcomes driven by the variation in fees and performance between funds[[6]](#footnote-7).

The Productivity Commission highlighted that the superannuation system “… is opaque, with members finding it difficult to understand how their super fund stacks up against others”[[7]](#footnote-8). This means stakeholders are unable to hold RSE licensees to account for the outcomes they deliver and the way they spend members’ money.

The Productivity Commission’s review highlighted the limited data on products and member outcomes and recommended APRA collect and publish member and performance data for all product cohorts at the investment option and asset class level. The Capability Review of APRA conducted in 2019 also recommended that APRA ‘collect product level data that facilitates accurate assessments of outcomes and comparability across funds’ beyond the MySuper product data collection in place at that time[[8]](#footnote-9).

The way that RSE licensees structure insurance terms, fees and costs (particularly for default insurance) can also have significant impacts on the outcomes for different member cohorts, for example based on their account balance or age. Evidence of default insurance arrangements contributing to poor outcomes for some members was identified by the Productivity Commission[[9]](#footnote-10). Specific examples of this, such as the erosion of low account balances by insurance premiums, have been addressed through government policy[[10]](#footnote-11). A lack of granular and comparable data on insurance prevents APRA and other stakeholders from identifying other member cohorts which may be receiving poor outcomes due to insurance impacts.

APRA’s existing superannuation data collection does not provide the depth and breadth of data needed to adequately assess all aspects of the industry’s operations or to track progress of RSE licensees in improving outcomes for their members. A summary of the key gaps and limitations of the current collection is set out in appendix B. APRA’s data collection currently collects most data at an aggregated level for the whole fund, which does not enable detailed analysis or comparison of the key elements that impact member experience[[11]](#footnote-12).

Existing data collections do not cover all products

MySuper products are default products that a member will be placed into when they first join a superannuation fund through an employer. They are designed to be simple, low cost, and easy to compare. They are not available in pension phase. MySuper funds represent 60 per cent of superannuation members and 40 percent of assets in the superannuation industry. Superannuation funds may also offer additional products to members who choose to join a fund based on their own research or through an advisor, or for members who join a fund as a default member and later decide to change their selection of investment. These products are routinely referred to in the industry as ‘Choice products’. They range in complexity from products which closely resemble MySuper products, to complex investment platforms often accessed through a financial advisor.

APRA’s existing superannuation data collections focus on data needed to assess member outcomes for MySuper products, although improvements need to be made to to the MySuper data to better understand drivers of performance using improved asset allocation data, and to maintain alignment with the classifications in the fee and cost disclosure regime (RG97). Use of comparable and consistent data reported to APRA on MySuper products by both RSE licensees and APRA, and in particular APRA’s publication of MySuper Heatmaps, has lead to demonstrable improvements in member outcomes. Similar benefits are expected from collection of comparable and consistent data for Choice products.

Currently APRA does not collect data on the performance of Choice products, which represent 34 per cent of members with 45 per cent of assets.[[12]](#footnote-13) This limits APRA’s ability to assess the quality of the outcomes delivered for Choice product members by RSE licensees, and to determine where supervisory attention or enforcement action is needed. APRA’s current published data is also not able to support RSE licensees to easily benchmark their performance and improve outcomes for their members across all of their products.

Due to the increased complexity and the absence of standardised measures which are prescribed for MySuper products, it is not simple or efficient to simply expand the current data collection to Choice products. This is primarily due to the inherent lack of standardised measures in the Choice product sector which is notable across all elements of performance.

The MySuper product dashboard prescribes a standardised return measure, return objective, risk measure, and representative member to be calculated and published in a consistent way for MySuper products[[13]](#footnote-14). However, for Choice products there is no standardised return measure, return objective, risk measure and representative member prescribed. For MySuper products the type of fees and costs, and the way fees and costs are charged, are limited and prescribed[[14]](#footnote-15). Unlike MySuper products where (generally) all members must be charged the same fees and costs, for Choice products there may be many different fee structures and investment options for members in different products. These structures can be complex and difficult to compare.

Quality and granularity of existing data collections needs attention

The current reporting standards and requirements resulting from Stronger Super reforms[[15]](#footnote-16) in 2013 were a significant upgrade to both the breadth and depth of data collected on the superannuation industry, resulting in a ten-fold increase in the amount of data collected at the time[[16]](#footnote-17). To reduce burden and promote efficiency, APRA aligned these reporting obligations to accounting standard requirements. In the Review of APRA’s 2013 superannuation prudential framework, published in April 2019, APRA received feedback noting opportunities to enhance the comparability and efficiency of the data collection. These limitations have resulted at times in reporting which is not meaningfully categorised and inconsistent across different funds.

Without addressing the limitations in the current collections, APRA and other stakeholders are unable to use the data to support analysis of outcomes to members and the drivers of these outcomes. The three key topics included in scope for Phase 1 of the Superannuation Data Transformation project, in addition to expanding product performance data to Choice products, are:

* Expenses, which are a key driver of fees and costs.
* Insurance claims experience, which provides a measure of value for money, and the cost and cover design of default insurance, which determines the amount of insurance premiums deducted from a member’s account and should not inappropriately erode member balances.
* Member accounts data, which is needed to understand the impact of RSE decision making on member outcomes for the membership of the fund.

A lack of comparable and sufficiently granular data prevents APRA and other stakeholders from benchmarking RSE licensees and identifying potential areas of concern which impact member outcomes.

# Why action is needed

Many superannuation fund members are disengaged and need to be protected from poor outcomes in underperforming products. RSE licensees need to be held to account to ensure they are acting in the best financial interests of members. Information asymmetry exists with respect to RSE licensee operations and performance due to a lack of consistent and comparable data for regulators, superannuation members and other stakeholders.

The legislative amendments introduced under the Government’s Treasury Laws Amendment (Your Future Your Super) Act 2021 (the YFYS Act) have made it imperative to collect sufficiently granular, comparable and consistent data on the elements that drive member outcomes.

The performance test introduced as part of the YFYS Act creates an obligation for APRA to calculate a performance test for MySuper products, and, separately for a cohort of Choice sector products known as trustee-directed products[[17]](#footnote-18). The performance test will apply to MySuper products in 2021 and trustee-directed products in 2022. APRA therefore needs to commence collecting the relevant investment performance, asset allocation and fee and cost data on Choice products to enable administration of the performance test for Choice products in 2022. Over time, other investment options which are made available by the trustee are also expected to be subject to annual performance tests[[18]](#footnote-19).

Recent prudential changes governing the superannuation industry such as the introduction of *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515)[[19]](#footnote-20) have also increased the importance collecting this data. Under SPS 515, RSE licensees are expected to regularly assess the outcomes provided to members and identify opportunities to improve these through business planning, which includes expense management. Collecting comparable data and making it publicly available will support industry in implementing improved benchmarking and support enhancements to business planning, expenditure management and oversight as required by SPS 515.

Greater transparency on fund performance delivers improvements in outcomes for fund members

The existing data collection, which is focused on MySuper products, has seen improvements in quality and reliability of data over time. Many benefits have been derived from APRA’s supervisory use of this data since the collection was implemented. APRA identified funds which appeared not to be consistently delivering quality, value-for-money outcomes or positioned for sustainability into the future. RSE licensees of these funds were targeted with intensified supervision, with APRA seeking prompt action to address areas of weakness or concern. Trustees that have been unable or unwilling to respond appropriately have been expected to seriously consider whether restructuring or exiting the industry is in their members’ best interests.

Increased transparency leads to improvements in outcomes for members by putting pressure on RSE licensee with poor outcomes to make changes which improve the outcomes delivered to members. It also enables use of the data by a wide range of stakeholders to inform member decision making in selecting superannuation products, investment options and insurance cover in order to deliver good outcomes for their circumstances.

Enhanced data is needed to produce comparable measures of relative investment performance, relative fees and costs charged and disclosed, relative cost and value of insurance policies, relative expenditure for different types of expenses, and the metrics which illustrate their drivers and key components. APRA will use these measures in internal reports to identify areas for supervisory intervention, and publish these measures in publications including heatmaps. Supervisory intervention, use of these measures by RSE licensees as part of their outcomes assessment and increased public scrutiny will lead to RSE licensees making changes which improve future outcomes for members including:

* reducing or restructuring fees and costs,
* reviewing investment strategies and investment manager performance
* reviewing service arrangements and expenditure management to reduce or cease expenditure
* reviewing insurance arrangements, enhancing insurance design, and reducing inappropriate cross subsidisation

Enhanced data is needed to enable administration of the YFYS performance test for Choice products, the outcomes of which will influence members directly including:

* Products which fail the performance test must write to members within 28 days of the test in a prescribed form[[20]](#footnote-21) which includes a suggestion to members to consider moving their money into a different superannuation product.
* Where a product fails the performance test in two consecutive years, the RSE licensee will be prohibited from accepting new beneficiaries into that product., which prevents members from joining persistently underperforming products.

The current data collection has also enabled APRA to provide increased transparency on RSE licensee performance by publishing an annual MySuper heatmap that displays investment performance and fee levels and enables comparison of MySuper products across the industry. This increased transparency has focused supervisory, industry and public attention on the poorest performers in the sector and delivered measurable improvements for members in most MySuper products.

Publication of the MySuper product heatmap has shown that public scrutiny on measures of performance published by APRA are utilised by other stakeholders including media, financial planners, researchers and consumer groups to highlight underperformers, which in turn is likely to prompt members to consider moving assets from underperforming assets. APRA has also provided MySuper data to the Australian Tax Office (‘ATO’) for inclusion in the YourSuper comparison tool (‘comparison tool’), empowering members to choose a well-performing product that meets their needs.

An example of benefits from transparency on product performance can be seen in the benefits realised between the release of the first MySuper product heatmap in December 2019 and the updated heatmap in December 2020. APRA has seen the following impacts in response from RSE licensees[[21]](#footnote-22):

* 11 of the MySuper products that underperformed the investment benchmarks have exited the industry;
* 71 per cent of MySuper members (10 million members) are paying less in total fees and costs; and
* an estimated $408m annual saving in total fees and costs across the MySuper product cohort has been achieved.

Comparability, consistency and coverage of data is needed

Action is required to address the coverage issues with the current data collection and enhance the comparability and consistency of data reported to APRA.

Updated *ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and periodic statements* (RG 97) which sets out requirements for fee and cost disclosure in the Product Disclosure Statement (PDS) and periodic statements will be adopted by RSE licensees from 2021. The fees and costs reported under the current data collection align to the previous disclosure requirements. Upon adopting updated RG 97 this data will no longer be aligned with the disclosure categories and definitions under the new disclosure requirements, resulting in duplicate and inconsistent data reporting[[22]](#footnote-23).

Addressing identified data gaps is also needed to support Government policy making and oversight of the superannuation industry by other government agencies, and to provide additional transparency for all stakeholders on the outcomes being delivered for superannuation members. Data collected under these proposals would be shared with ASIC to supplement their supervision activities, for example, enhancements to insurance data collected builds on an ad-hoc collection ASIC conducted with a sample of superannuation funds in 2020 to explore the value for money that Australians receive from default insurance provided by their superannuation funds[[23]](#footnote-24).

Making use of additional powers

APRA has been granted powers by the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measure No. 1) Act 2019* (IAMOIS amendment) to enable APRA to look through to the underlying nature of expenses incurred by the fund. Action is needed to make use of these additional powers, to better enable APRA to assess how RSE licensees are spending members’ money.

Improved data on expenses will enable enhanced benchmarking and increased scrutiny, influencing RSE licensees to reduce expenses which are not in members best interests. Even a one per cent decrease in expenses would lead to a saving to members of $100 million per year.

Inefficiency of ad-hoc collections

FSCODA sets out APRA’s data collection powers, including the ability to determine reporting standards that require RSE licensees and other regulated institutions to provide information about their businesses and activities. APRA and other agencies at times request submission of data on an ad-hoc basis to fill gaps in existing data collections. Unlike data submitted under reporting standards, ad-hoc data is collected on a ‘best endeavours’ basis via simple spreadsheets which are prone to error and drive increases in compliance costs and regulatory burden for funds. The data is not subject to the strict reporting requirements of reporting standards determined under FSCODA and is of varying quality, timeliness and usability.

Formal data collections using reporting standards under FSCODA gives industry greater certainty of ongoing reporting requirements, allowing for appropriate investment in higher quality reporting as well as the opportunity for streamlining of RSE licensees’ reporting processes.

# Policy options

APRA has identified four options under Phase 1 to address the significant data gaps in the current reporting framework:

* Option 1: retain the existing reporting standards without revision;
* Option 2: expand the existing MySuper reporting standards to all products and investment options;
* Option 3: introduce an enhanced data collection; or
* Option 4: implement option 3 with a staged implementation.

**Option 1 – Status quo option**

The status quo option is to retain the existing superannuation reporting framework without change.

**Option 2 – Expand existing MySuper reporting standards to all products and investment options**

Under this option, APRA would expand the coverage of existing data collections for MySuper products to all products and investment options.

Four reporting standards would be expanded to provide coverage of all products and investment options, these are:

* *Reporting Standard SRS 533.1 Asset Allocation and Members’ Benefit Flows* (SRS 533.1);
* *Reporting Standard SRS 700.0 Product Dashboard* (SRS 700.0);
* *Reporting Standard SRS 702.0 Investment Performance* (SRS 702.0); and,
* *Reporting Standard SRS 703.0 Fees Disclosed* (SRS 703.0).

This option does not include improvements to address limitations of the data currently collected on these topics. This option also does not include data required to understand the overall RSE licensee operations such as RSE structure and profile, member accounts, expenses and insurance.

**Option 3 – Introduce an enhanced data collection**

Under this option, an enhanced data collection would be introduced to ensure that APRA has the data it requires to identify areas where supervisory intensity is needed to hold RSE licensees to account for acting in the best financial interests of members and provide stakeholders with insights into the business practices of RSE licensees. This option expands the current reporting framework to cover all products and investment options, and also includes enhancements to the quality and granularity of data for insurance, expenses and member accounts. The reporting standards will facilitate performance assessments for Choice products and more granular performance assessment for MySuper products in key areas. In addition, the reporting standards will enable enhanced assessment of insurance claims experience, the impact of default premiums on member outcomes and a more detailed assessment of how RSE licensees are spending members money.

Ten reporting standards would be introduced, as outlined below:

* *Reporting Standard SRS 605.0 RSE Structure* (SRS 605.0) which would establish the population of superannuation products (MySuper and Choice), investment menus and their characteristics.
* *Reporting Standard SRS 606.0 RSE Profile* (SRS 606.0)which would introduce reporting on the relationships between these superannuation products, investment menus and investment options including the number of members and member assets.
* *Reporting Standard SRS 611.0 Member Accounts* (SRS 611.0) which would provide enhanced reporting on member demographics of the fund.
* *Reporting Standard SRS 705.0 Components of Net Return* (SRS 705.0)which would provide performance data on all superannuation products, investment menus and investment options.
* *Reporting Standard SRS 705.1 Investment Performance and Objectives* (SRS 705.1)which would provide enhanced and consistently reported performance data for all investment options.
* *Reporting Standard SRS 550.0 Asset Allocation* (SRS 550.0) which wouldprovide enhanced data on investment strategies, to facilitate the assessment of investment performance and understanding of investment strategy and exposures to various asset classes for all investment options, and data on the investment exposures of the fund.
* *Reporting Standard SRS 706.0 Fees and Cost Disclosed* (SRS 706.0) which would provide data on the disclosed fees and costs for members for all products, investment menus and options.
* *Reporting Standard SRS 251.0 Insurance* (SRS 251.0) which would provide enhanced data to facilitate an improved understanding of the nature and value of insurance arrangements, as well as enhanced reporting on insurance experience.
* *Reporting Standard SRS 332.0 Expenses* (SRS 332.0) which would collect the expenses data of each fund to enable consistent and comparable assessment of expenses across the superannuation industry.
* *Reporting Standard SRS 101.0 Definitions for Superannuation Data Collections* (SRS 101.0) which would provide consistent superannuation definitions across the data collection. Previously definitions were captured within each individual reporting standard.

The first submission for these reporting standards would be due on 30 September 2021, for data as at an effective date of 30 June 2021.

Where these reporting standards overlap with existing reporting standards, the superseded elements will be revoked after a period of parallel reporting to ensure the quality of the data submitted under the new reporting standards is sufficient before ending the existing collections.

**Option 4 – I****mplement Option 3 with staged implementation**

Option 4 involves implementing the enhanced data collection as per Option 3, with staged implementation of the new reporting requirements over a longer period. This amended implementation timeframe would seek to ease the implementation burden on industry by enabling the submission of the highest priority data to commence in 2021, with the submission of the remainder of the data to achieve full reporting in 2022/23. In particular, Option 4 will reduce the need to go back and re-categorise existing data by giving RSE licensees reasonable time to put in place processes to capture new classifications going forward.

The first submission for these reporting standards will be due on 30 September 2021 for data as at an effective date of 30 June 2021. APRA would adopt a staged implementation approach in four key areas:

* Temporary (one year) reduced coverage of products, investment menus and investment options for reporting on Performance, Asset Allocation and Fees and Costs
* Temporary (one year) application of a materiality threshold for expense reporting
* Delay (one year) for reporting on (whole-of-RSE) investments and currency exposure
* Staged two-year transition arrangement for reporting on asset allocation characteristics.

This staged implementation approach would also apply to the reporting of historical data.

# Cost benefit analysis of each option/Impact analysis

**Option 1 – Status quo option**

Under this option, there would be no additional requirements imposed on industry. The policy problem and need for intervention would remain. There would be no mechanism to address the data limitations outlined, and the data collected would fremain primarily at an aggregate level, with limited more granular data only for MySuper products.

**Benefits**

* No change in regulatory burden: RSE licensees would not incur additional regulatory costs of implementing and complying with new requirements.

**Disadvantages**

* APRA would continue to be limited by gaps in coverage, comparability and granularity of data needed to identify underperformance and other areas for increased supervisory intensity where RSE licensees may not be acting in the members best financial interests. This would continue to limit APRA’s ability to ensure RSE licensees to make needed changes, such as fee reductions to improve member outcomes.
* APRA would not have the data required to administer the performance test for Choice products.
* The data collections would no longer be aligned with fee and costs disclosure requirements.
* APRA would not have the detailed visibility on expenses required to adequately understand how members money is spent, and does not make use of the powers granted in the IAMOIS amendment to capture a full look-though of expenses incurred by the RSE licensee.
* Significant ad-hoc data collection would continue to be needed to inform APRA’s supervisory activities and work to improve member outcomes.

Given APRA’s focus on improving member outcomes and the policy intent of the Your Future Your Super legislation, Option 1 is fundamentally problematic and APRA would be unable to administer the performance test for Choice products.

**Regulatory costs and net benefit**

There are no regulatory costs associated with this option, and no net benefit.

**Option 2 - Expand existing MySuper reporting standards to all products and investment options**

Option 2 expands the current data collection to cover all products and investment options under the current reporting standards.

As noted in the problem statement, data for MySuper products is limited in complexity by legislation and standardised measures are prescribed. Extending the existing reporting forms for reporting on Choice products would involve significant additional effort for RSE licensees to aggregate and report data in prescribed ways, and would only capture a partial picture of product outcomes.

The current collection is inefficient for collecting more complex data, as one form would need to be reported for each combination of product, investment menu and investment option, which for some RSE licensees would lead to submissions of thousands of reporting forms each reporting period.

This option only partially solves the policy problem. While going some way to address the existing gap with respect to Choice products, Option 2 will collect data at a representative member level, would not capture all fee data for all products and would not capture data required to understand the structure of RSE’s operations.

In addition, as in Option 1, Option 2 does not make use of the powers granted in the IAMOIS amendment to capture a full look-though of expenses incurred by the RSE licensee.

**Benefits**

* The critical benefit of expanding the current data collections under Option 2 is that full coverage of all products and investment options offered by each RSE licensee would enable some level of comparison across the industry. This would improve APRA’s ability to identify underperformance and to ensure RSE licensees make changes such as fee reductions to improve retirement outcomes.
* APRA would be able to publish limited Choice heatmaps based on a representative member.
* APRA would be able to expand current publications to cover all products and investment options, increasing transparency in the superannuation industry.
* As this option builds upon existing reporting standards for MySuper products, the transition to reporting is facilitated for RSE licensees currently reporting to APRA, as data items and structure are understood.

**Disadvantages**

* The data collected under current reporting standards is insufficient for APRA to identify areas for supervisory intensity in key areas which impact member outcomes such as expenses and insurance.
* The relationships between the products and investment options would not be captured, limiting understanding and transparency of RSE licensee structures.
* Collecting the complex Choice product data using the current forms is inefficient and would result in regulatory burden as RSE licensees would need to modify and aggregate data prior to submission.
* Key differences between the cohorts, for example complex fee structures that exist for Choice products, cannot be captured under the current reporting structure.
* The data collection would no longer be aligned with fee and costs disclosure requirements under RG97.
* APRA would not be using the powers granted by the IAMOIS amendment.
* To inform APRA’s supervisory activities and work to improve member outcomes, additional ad-hoc data collections would likely be needed, although to a lesser degree than under Option 1.

While this expansion of coverage would address the gaps in coverage of all products and investment options offered by each RSE licensee, the application of the MySuper collection to other products and options does not address the limitations of the current collection, and does not adequately cater for the complexity of member arrangements and experiences outside the MySuper products. In particular, APRA and other stakeholders could only assess performance of products and investment options in isolation, without understanding a representative or cumulative member experience through each combination of products and options.

**Regulatory costs**

Under Option 2, additional regulatory costs would be imposed on RSE licensees. These costs are expected to arise primarily as upfront costs, specifically to understand the expansion of requirements, identify and source additional data points and update systems to deliver reporting, develop policies and procedures, and train staff. There would also be recurring costs to compile and report the data for the expanded population each quarter. The continuation of ad-hoc data collections in this option would prevent a reduction in costs borne by funds to respond to ad-hoc requests.

Using the regulatory burden measurement framework, it is estimated that Option 2 would increase compliance costs for the industry by $62 million per annum for the first year and $37 million per annum thereafter. Over 10 years this represents a total increase of $39 million per year or $386,000 per year per RSE licensee or $1.75 per member per year (based on 22.5 million member accounts in APRA regulated funds at June 2020).

Table 1: Regulatory burden estimate (RBE) table (see Appendix D for further detail)

| Average annual regulatory costs (from business as usual) | | | | | |
| --- | --- | --- | --- | --- | --- |
| Change in costs | Business | Community organisations | Individuals | Total change in costs | Average cost per business |
| Total, by sector | $39 million | $0 | $0 | $39 million | $386,000 |

There would also be additional costs to APRA in accepting and analysing additional data, as well as publishing industry insights. These are estimated at $2 million of initial cost and $400,000 annually, an average cost of $560,000 per year over 10 years.

**Net benefit**

It is not possible to identify and quantify the impact of underperformance in the industry, or the improvements to member outcomes expected from enhanced transparency, identifying underperformance and enabling increased supervisory scrutiny. RSE licensees provide a broad range of products and services and there is a lack of comprehensive data on the efficiency and performance of the industry.

However, based on the experience of MySuper product heatmaps outlined above, it is evident that an improvement in the transparency of industry performance will provide improvements in member outcomes.[[24]](#footnote-25) Obtaining more granular data to strengthen supervision, and identify where action should be taken on poor performing funds, will enable APRA to ensure RSE licensees reduce fees and make improvements to investment strategies. Internal modelling by APRA estimates the benefits from option 2 at least **$1.3 billion per annum** based on available data[[25]](#footnote-26). Therefore, the benefits of the enhanced data collection are expected to outweigh the regulatory costs, but not to the same extent as other options.

Although there are some advantages to Option 2, the total costs are significant and the net benefits would be less than for other options. **Therefore, there is some perceived net benefit.**

**Option 3 - Introduce an enhanced data collection**

Option 3 involves the expansion of the data collection to all products and investment options and the introduction of ten new reporting standards, nine of which determine the data to be reported and one which contains the definitions. The proposals under Option 3 will facilitate performance assessments for Choice products and enhanced performance assessment for MySuper products in key areas. The proposals under Option 3 also include three additional topics: insurance, expenses and member accounts. These proposals will facilitate detailed assessment of how RSE licensees are spending members money, more granular analysis of the membership of the fund, and enhanced assessment of insurance outcomes.

1. The proposals under option 3 involve a redesign of the collection to collect data about all possible combinations of products and investment options in a more efficient way. Under the current reporting form, RSE licensees would need to submit one reporting form for each combination of product and option. Under option 3 proposals, RSE licensees would submit all data on one form, and only report each metric once unless it varies for different combinations of product, investment menu and investment option[[26]](#footnote-27).

The dynamic collection design would enable APRA and other users of the data to combine the reported data to calculate outcomes for different types of representative members with different combinations of investment pathways, and to create tools which can display comparable outcomes for any prescribed parameters. More granular fees and costs data will enable RSE licensees and APRA to focus in on where change is most needed.

The proposed reporting standards are anticipated to replace eight existing reporting standards:

* SRS 702.0 Investment Performance
* SRS 703.0 Fees Disclosed
* SRS 530.0 Investments
* SRS 533.0 Asset Allocation
* SRS 534.0 Derivative Financial Instruments
* SRS 250.0 Acquired Insurance
* SRS 610.0 Membership Profile
* SRS 610.2 Membership Profile

Option 3 is the approach APRA proposed in its Discussion Paper and Topic Papers and meets the required criteria for effective data collection and reporting.

**Benefits**

* Coverage issues would be addressed, with full oversight of all superannuation products, investment menus and investment options operated by RSE licensees, including the relationships between them. This would allow assessment of a range of possible member experience through all combinations of products and options in addition to assessment of a product’s fees and investment option performance in isolation. APRA would be able to publish Choice heatmaps using this data.
* More consistent and comparable reporting on investment strategy and performance and fees and costs by addressing current inconsistency in key definitions would enable all stakeholders to make more meaningful comparisons of performance.
* Enhanced granularity of asset class classifications and characteristics, enabling more accurate and robust methodologies in benchmarking investment option performance and assessing risks and exposures, as well as reducing opportunities for RSEs to manipulate their performance test outcomes through aggregate reporting.
* Enhanced reporting of insurance arrangements would enable APRA to expand analysis and insights such as heatmaps and benchmarking to insurance.
* Enhanced reporting of expenses using look-through methods to report the purpose for which the expense is used. This would enable APRA to identify areas for increased supervisory scrutiny, and ensure RSE licensees reduce or cease expenses which may not be in members best interests.
* The collection would remain aligned with fee and costs disclosure requirements, removing duplicate and inconsistent data reporting of fees disclosed.
* The need for ad-hoc data collections to inform APRA’s supervisory activities and work to improve member outcomes would be substantively reduced.
* APRA would be able to expand current publications to cover all products and investment options, increasing transparency on the superannuation industry and its outcomes/performance.

**Disadvantages**

* The reporting costs for superannuation entities would increase, with these costs ultimately passed onto members.
* The additional granularity means that in many cases, RSE licensees would need to implement practices to review and categorise existing reporting data for the first period/s until such time as they put in place processes to capture these granular classifications.

The limitations of the existing reporting framework would be substantively addressed, with the significant gaps in current data addressed and the additional granularity needed achieved. The data would enable deeper insights into aspects of the industry that are difficult to scrutinise under the current collections, putting APRA supervisors in a stronger position to hold RSE licensees to account for their decisions and the outcomes they deliver to all their members.

**Regulatory costs**

Should APRA implement Option 3, additional regulatory costs would be imposed on RSE licensees. As with Option 2, these costs are expected to include upfront implementation costs to understand the new requirements, identify and source additional data points and build and update systems to report data, develop policies and procedures, and train staff. There would also be ongoing costs to compile and report the data for the expanded population each quarter.

Given the introduction of ten reporting standards and the inclusion of additional data topics, these costs would exceed those of Option 2.

Using the regulatory burden measurement framework, it has been estimated that Option 3 would increase compliance costs for the industry by $111 million for first year and $46 million per annum thereafter. Over 10 years this represents a total increase of $52 million per year or $511,000 per year per RSE licensee, or $2.13 per member (based on 22.5 million member accounts in APRA regulated funds at June 2020).

Table 2: Regulatory burden estimate (RBE) table (see Appendix D for further detail)

| Average annual regulatory costs (change from business as usual) | | | | | |
| --- | --- | --- | --- | --- | --- |
| Change in costs | Business | Community organisations | Individuals | Total change in costs | Average cost per business |
| Total, by sector | $52 million | $0 | $0 | $52 million | $511,000 |

There would be additional costs to APRA in accepting and analysing additional data, as well as publishing industry insights. These are estimated at $3 million initial costs and $500,000 annually, an average cost of $750,000 per year over 10 years.

**Net benefit**

It is not possible to identify and quantify the impact of underperformance in the industry, or the improvements to member outcomes expected from enhanced transparency, identifying underperformance and enabling increased supervisory scrutiny. RSE licensees provide a broad range of products and services and there is a lack of comprehensive data on the efficiency and performance of the industry.

However, based on the experience of MySuper product heatmaps outlined above it is evident that an improvement in the transparency of industry performance would provide a material improvement in member outcomes[[27]](#footnote-28). The benefits in obtaining more granular data to strengthen supervision, and identify where action should be taken on poor performing funds, would enable APRA to ensure RSE licensees reduce fees, make improvements to investment strategies, improve insurance arrangements and ensure expenditure is in members best interests. Internal modelling by APRA estimates the benefits from option 2 at least **$1.3 billion per annum** based on available data [[28]](#footnote-29).

Improved transparency on expenditure, and insurance; improved comparability and granularity of data; as well as including coverage of all fee and cost structures under Option 3 are expected to deliver additional benefits compared with Option 2. This data would enable APRA and other stakeholders to identify further areas for reduction in fees, expenses and insurance premiums which are not in the best financial interests of members. Breakeven analysis shows that the reductions needed to offset the additional costs of Option 3 are just 0.11 percent of annual expenses and 0.15 per cent of annual insurance premiums. Therefore, the benefits of the enhanced data collection are expected to clearly outweigh the regulatory costs.

Whilst the cost to implement Option 3 is higher than Option 2, the increased expected benefits it would bring to superannuation members and the industry as a whole are expected to materially outweigh the additional costs. **Therefore, Option 3 has a substantial net benefit.**

**Option 4 - Implement Option 3 with staged implementation**

Option 4 involves a staged implementation of the reporting framework changes outlined in Option 3, with full reporting to commence in 2022/23. Therefore, the drivers for benefits and disadvantages are aligned to those in Option 3.

Option 4 is the approach APRA proposed in March 2021 in the Response Paper and meets the required criteria for effective data provision and reporting as outlined in the previous section.

**Benefits**

Option 4 delivers the same benefits as Option 3. In addition to these benefits, under Option 4:

* The need for RSE licensees to re-categorise existing data for the initial reporting periods would be substantially reduced.
* The burden for superannuation entities to develop and deliver full reporting in 2021 would also be reduced overall, with the delayed introduction of new reporting for investments. RSE licensees would be able to stagger the cost of implementation over a longer time period. Staggering the implementation would free up resources to spend time on other initiatives, including those that would improve member outcomes.

**Disadvantages**

* As per Option 3, the reporting costs for superannuation entities would increase, and these costs would ultimately be passed onto members.
* Under Option 4, while most data would begin being reported in late 2021, APRA and other stakeholders would not receive the full data until 2022/23.

**Regulatory costs**

Should APRA implement Option 4, additional regulatory costs would be imposed on RSE licensees. As with Option 2 and Option 3, these costs are expected to include upfront costs to understand the new requirements, update systems, policies, and train staff. There would also be ongoing costs to compile and report the data for the expanded population each quarter.

The upfront costs for Option 4 would be split over two years, with some increase in costs to provide legal advice, project support and training over a longer period expected to be offset by the reduction in costs delivered by:

* not having to re-categorise expense data for prior periods, instead focusing on building processes to capture the new classifications going forward.
* longer lead time to put in place downstream collection of asset allocation characteristics.

Using the regulatory burden measurement framework, it has been estimated that Option 4 would increase compliance costs for the industry by $89 million in year one, $68 million in year two (deferred upfront costs of $22 million plus $46 million in ongoing costs) and $46 million per annum thereafter. Over 10 years this represents a total increase of $52 million per year or $511,000 per year per RSE licensee, or $2.13 per member (based on 22.5 million member accounts in APRA regulated funds at June 2020).

Table 3: Regulatory burden estimate (RBE) table (see Appendix D for further detail)

| Average annual regulatory costs (change from business as usual) | | | | | |
| --- | --- | --- | --- | --- | --- |
| Change in costs | Business | Community organisations | Individuals | Total change in costs | Average cost per business |
| Total, by sector | $52 million | $0 | $0 | $52 million | $511,000 |

There would be additional costs to APRA in accepting and analysing additional data, as well as publishing industry insights. These are estimated at $3 million initial costs and $500,000 annually, an average cost of $750,000 per year over 10 years.

**Net benefit**

The benefits outlined for Option 3 are also delivered under Option 4. In addition, Option 4 would provide the benefit of easing the implementation burden of the new reporting standards on the superannuation industry. RSE licensees would be able to stagger the cost of implementation over a longer time period. Staggering the spend would free up resources to spend on other initiatives, including those that would improve member outcomes. Although the regulatory costs are similar to Option 3, the expected net benefit is therefore more than Option 3. **Therefore, Option 4 has a similar substantial net benefit to Option 3 with more manageable transition period for implementation.**

# Consultation

APRA has developed the proposals and preferred option after extensive informal and formal consultation with superannuation entities, industry representative bodies, the Australian Securities and Investments Commission (ASIC), the Australian Bureau of Statistics (ABS) and the Australian Taxation Office (ATO).

APRA’s formal public consultation on the specific proposals commenced in November 2019. This decision was informed using exploration of the problem statement and impact analysis which formed the basis for this RIS. APRA released a discussion paper outlining the scope, objectives and approach to the SDT project. Consultation on proposals under Phase 1 was done over three consultation periods supported by the release of consultation packages including topic papers, each covering a different aspect of the consultation. The aim of this consultation was to obtain feedback on all aspects of the proposed changes from any interested stakeholders. APRA issued a media release[[29]](#footnote-30) and sent an email to subscribers to its email alert service and to representatives from each RSE licensee.

Through the Phase 1 consultation process, APRA provided collection templates and requested that entities submit pilot data for the proposed collection to test and inform the availability of data and clarity of reporting requirements. Issues identified through the pilot process resulted in refinement and clarification of reporting requirements prior to finalising Phase 1 data collection design to be reflected in finalised reporting standards. Past experience in data collection design and implementation has shown that the initial collection of data is where many implementation issues are identified. APRA has utilised pilot collections of data prior to the finalisation of reporting standards for other industries and these have proven to be useful in road-testing data items and definitions, refining discussion on proposed changes and assisting reporting entities in their implementation efforts.

Throughout the formal consultation period, APRA held more than 20 roundtable consultation sessions and working group meetings with industry, and informal meetings with RSE licensees. APRA released frequently asked questions (FAQs) and worked examples to address and provide clarification on issues raised by industry stakeholders.

APRA worked closely with other regulators, such as the ATO and ASIC to ensure changes to the superannuation data collection will also support their data needs in relation to superannuation, and to put in place data sharing arrangements to reduce burden on industry under the principle of ‘collect once and share’. APRA also liaised with ASIC to ensure that the new reporting framework aligns with the fee and cost disclosure guidance provided in RG 97.

On 7 November 2019, APRA released the first consultation package on reporting requirements for the first phase of the SDT project. This covered the topics of RSE structure and profile. Submissions on these proposals closed on 17 January 2020[[30]](#footnote-31).

On 19 December 2019, APRA released a second consultation package on reporting requirements for the first phase of the SDT project. This covered the topics of performance and member accounts. Submissions on these proposals closed on 26 March 2020[[31]](#footnote-32).

On 28 August 2020, after a pause in the planned consultation timeline to allow industry to focus efforts on responding to the COVID-19 pandemic, APRA published the final consultation package on reporting requirements for the first phase of the SDT project. This covered the topics of asset allocation, insurance arrangements, fees and costs and expenses. Submissions on these proposals closed on 13 November 2020[[32]](#footnote-33).

To provide early visibility to industry and assist with the planning and commencement of work required to implement the reporting standards, APRA provided updated draft reporting standards and details of the staged implementation approach to the industry bodies in late December 2020.

APRA requested that respondents provided an assessment of the impact of the proposed changes and, specifically, the marginal compliance costs RSE licensees are likely to incur. Respondents were also requested to indicate whether there are any other superannuation reporting requirements that should be improved or removed to reduce compliance costs.

APRA also requested feedback from RSE licensees on the concepts and definitions in the proposed data requirements. APRA sought suggestions for changes to definitions that will improve data quality and reduce reporting burden.

APRA received 35 submissions in response to the consultation package and over 300 submissions of pilot data. These have been valuable in assessing whether the data will meet the objectives of the SDT project, highlighting the practical issues that RSE licensees may experience in reporting and where additional guidance or improvements to definitions were required. Whilst no respondents provided the detailed breakdown on costs requested by APRA, a few respondents did provide high-level estimates of costs.

Stakeholders supported the proposals overall and the need to enhance the superannuation data collection as soon as possible. Stakeholders particularly recognised the value in implementing consistent reporting and clear definitions across the industry to enable meaningful comparison.

However, most stakeholders considered the proposed timeline for the new collections with data for the first reporting period to be submitted in September 2021 to be challenging. Stakeholders indicated that implementation of the new data collection involved significant technology and system effort and cost, primarily due to the volume of new data items and increased level of granularity of the data to be submitted, as well as a need to engage third party providers to deliver components of the data collection required to be reported. In light of this feedback, APRA recognised that some of the data being sought in Phase 1 of the SDT project could be progressed on a slower timeline or deferred to a later time or phase of the project, and a staged implementation timetable would assist this.

APRA consulted with RSE licensees in February 2021 on costing estimates developed using the regulatory burden measurement framework.

APRA considered the feedback received and responded with updates to the proposed reporting standards. To address the key concerns related to the timeframe for implementation, APRA worked closely with industry, through the industry bodies, to develop a staged approach to implementation of the Phase 1 reporting standards.

The updates to the reporting standards addressed the key concerns:

|  |  |
| --- | --- |
| Concern | Response |
| Implementation timeline | APRA has adopted a staged implementation approach in four key areas. |
| Granularity: Asset allocation classifications | APRA removed the requirement to report the asset classifications for each product / menu option combination.  APRA has put in place a two-year transition for reporting of the full detailed asset class classifications to be mandatory. |
| Expenses look-through requirements | APRA has put in place a temporary materiality threshold for reporting expenses to allow entities to put in place processes to capture more granular expense classifications. |
| Duplicate reporting | Due to the importance of the enhanced data collection, current reporting requirements will continue for an initial parallel collection period, primarily to enable APRA to assess data quality for the new collections. Once appropriate quality of reporting under the new framework is achieved, APRA will provide exemptions from reporting obligations and/or revoke reporting standards which require the same data that is to be submitted under the new data collection. |
| Data confidentiality | APRA will undertake a separate consultation in late 2021 on proposals for publication of data reported under these reporting standards, including consulting on the confidentiality of the specific data items to be made public. |

A draft RIS (which was not formally assessed by the OBPR) was used to inform a decision to release APRA’s proposed response to submissions, including revisions to the proposed reporting standards to address concerns, on 25 March 2021[[33]](#footnote-34).

APRA continued to work closely with industry from March 2021 – September 2021 through workshops and supporting test submissions of the proposed data in the reporting system (APRA Connect) external test environment to ensure that the data is available and can be submitted. Where RSE licensees have identified specific challenges through this process, APRA has released clarifications, made updates to the proposed reporting standards and further adjusted the staged implementation approach to address these concerns by allowing an additional month for reporting of initial trustee-directed product data, deferring the collection of historical insurance data until 2022 and allowing reporting of expenses and detailed asset class classifications on a best endeavours basis for the first year of reporting.

APRA also requested updated costing estimates from a representative sample of entities following the updates to the reporting requirements. The costing estimates provided verified the estimates included in appendix D.

As part of a broader letter to industry released on 30 July 2021, APRA confirmed the proposed reporting standards are informed by an interim RIS and that the reporting standards will be made final when APRA determines the reporting standards after finalising the RIS.

APRA considers the final decision to regulate will occur when the reporting standards are determined, which represents the final decision point for the first phase of the SDT project. This decision will be supported by this RIS and will occur following formal assessment of the RIS by the OBPR. Following determination of the reporting standards, APRA will announce the finalisation of the reporting standards to industry.

# Option selection/Conclusion

The solution that most effectively addresses the problem for which this RIS has been prepared is **Option 4** as the benefits it provides to members, RSE licensees, APRA and other stakeholders outweigh the costs identified and so delivers a perceived positive net benefit.

The additional cost of option 3 and 4 compared to option 2 is largely due to the inclusion of three additional data topics, however these are anticipated to deliver additional benefits that far outweigh the difference in costs. Breakeven analysis shows that a 0.15 per cent reduction in total annual industry insurance premiums from removal or redesign of inappropriate insurance cover would recover the additional costs. Similarly, just a 0.11 per cent reduction in total annual industry expenses from the identification of expenditure which is not in members best financial interests would recover the additional costs.

The following table provides a summary of the costs and benefits of each option against the key criteria discussed in this RIS.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Criteria** | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| Ongoing compliance costs | No change | Moderate net costs, disclosure regime will become out of step | Moderate net costs, will be consistent with disclosure regime | Moderate net costs, will be consistent with disclosure regime |
| Set-up costs including processes to capture new classifications | No change | Moderate to substantial costs for system set-up. Lower costs for those 65 RSE licensees with MySuper products | Substantial costs for system set-up. Substantial costs for mapping classifications in implementation timeframe | Substantial costs for system set-up. Substantial (but lower than option 3) costs for putting in place processes to capture classifications |
| APRA costs | No change | Moderate | Moderate | Moderate |
| Addresses coverage of products and options | Does not meet criteria | Meets criteria with structural limitations | Meets criteria | Meets criteria |
| Addresses limitations and inefficiency of applying existing reporting to all products and options | Does not meet criteria | Does not meet criteria | Meets criteria | Meets criteria on a staged timetable |
| Addresses limitations of current insurance collection | Does not meet criteria | Does not meet criteria | Meets criteria | Meets criteria on a staged timetable |
| Utilises APRA’s full look-through powers to address limitations of reporting on expenses | Does not meet criteria | Does not meet criteria | Meets criteria | Meets criteria on a staged timetable |
| Addresses limitations of current member accounts collection | Does not meet criteria | Does not meet criteria | Meets criteria | Meets criteria |
| Reduces need for ad-hoc collections | Does not meet criteria | Somewhat meets criteria | Meets criteria | Meets criteria |
| Overall | **No net benefit** | **Some net benefit** | **Substantial net benefit** | **Substantial net benefit** |

This RIS has presented four options to address the problem – the significant gaps in coverage and quality that currently exist in the superannuation reporting framework. The merit of each option is outlined below, with the merits of Option 4 providing the rationale for it being the option selected.

**Option 1** considered making no change to the current reporting framework. Inevitably, this option fails to deliver on any of the objectives identified in this RIS and would only serve to preserve the status quo.

**Option 2** only partially solves the policy problem. Option 2 addresses the need for a complete picture of the Australian superannuation industry with respect to product and investment option coverage. It does not, however, address the insufficient granularity of the current reporting framework and would carry through the structural limitations, affecting APRA’s ability to effectively assess and supervise entities and address underperformance in member outcomes in retirement. As set out in the problem statement, data for MySuper products is limited in complexity by legislation and standardised measures are prescribed. Extending the existing reporting forms for reporting on choice products would be difficult, involve transformations of data that trustees would have to put in place, and would only capture a partial picture and be inefficient. Ad-hoc collections would be needed to supplement and provided deeper insights on particular topic areas.

**Option 3** addresses the policy problem. This option represents a change in reporting frameworks which addresses the need to measure outcomes delivered across all products and investment options offered by RSE licensees to a sufficient level of granularity. The proposals under option 3 involve a redesign of the collection to collect data about all possible combinations of products and investment options in a more efficient way. The dynamic collection design would enable APRA and other users of the data to combine the reported data to calculate outcomes for different types of representative members with different combinations of investment pathways, and to create tools which can display comparable outcomes for any prescribed parameters.

The proposals under Option 3 also include three additional topics insurance, expenses and member accounts. These proposals would facilitate detailed assessment of how RSE licensees are spending members money, more granular analysis of the membership of the fund, and enhanced assessment of insurance outcomes.

The data collection under Option 3 would provide APRA supervisors with consistent, comparable and more granular information necessary to benchmark funds more accurately and make determinations on the quality of outcomes delivered to members. This would enable APRA to identify areas of the superannuation industry that are underperforming and increase supervisory intensity accordingly; and hold RSE licensees to account for their operations, including the outcomes they deliver to members and the way they spend members’ money.

**Option 4** addresses the policy problem as outlined for Option 3, with a more manageable transition period for implementation. Option 4 reduces the implementation burden identified by stakeholders in the consultation process through the provision of a staged implementation.

The performance test will apply to MySuper products in 2021 and trustee-directed products in 2022[[34]](#footnote-35). Over time, other investment options which are made available by the trustee will also be subject to annual performance tests.[[35]](#footnote-36)

Under the staged implementation approach in option 4, RSE licensees would submit data for MySuper products on 30 September 2021 and data for trustee-directed products on 28 October 2021. Submission of data for all other investment options would be deferred until 28 July 2022.

**Implementation**

* APRA will give effect to the proposed reporting requirements by determining the ten reporting standards under FSCODA in early September 2021.
* The first submission for these reporting standards will be due by 30 September 2021 for data for the period ending 30 June 2021.
* APRA has offered to discuss any difficulties in meeting the reporting requirements with impacted RSE licensees.
* APRA has put in place working groups with RSE licensees and service providers, with regular workshops scheduled to understand potential implementation issues with the proposed data collection.
* APRA will continue to publish FAQs to provide additional guidance on commonly asked questions about reporting under the reporting standards for Phase 1 of the SDT project. APRA intends to release FAQs on a regular schedule in the lead up to the first submission of data under the new reporting standards on 30 September 2021. The intention of these FAQs is to clarify reporting issues raised by RSE licensees which are relevant in helping to meet reporting obligations.
* As delegated legislation, reporting standards impose enforceable obligations on RSE licensees. APRA monitors ongoing compliance with its reporting framework as part of its supervisory activities. APRA has a range of remedial powers available for non-compliance with a reporting standard, including issuing a direction requiring compliance, a breach of which would be a criminal offence.
* APRA regularly reviews its prudential and reporting framework as part of APRA’s policy development process. Such reviews consider whether the requirements continue to reflect good practice or impose undue regulatory burden.
* APRA will also take action within a shorter timeframe than the regular reviews where there is a demonstrable need to amend a reporting requirement. Such a need could be identified through APRA’s ongoing engagement with superannuation entities as part of its supervisory activity, regular stakeholder surveys, or internally within APRA. Phase 3 of the SDT project will explicitly consider the quality and consistency of reporting implemented in Phase 1.

**Appendix A: Summary of current and proposed reporting standards**

|  | Reporting level | | | | |
| --- | --- | --- | --- | --- | --- |
| Topic | RSE licensee | RSE | MySuper  Products | Choice Products | Defined benefit |
| Responsible persons | SRS 520.0 |  |  |  |  |
| Structure and profile | SRS 600.0 | SRS 001.0 |  |  |  |
|  | SRS 601.0 | *List reported under SRS 601.0* | *List of select investment options reported under SRS 601.0* |  |
|  | **Proposed**  **SRS 605.0** | ***List reported under SRS 605.0*** | ***List of all choice products, investment menus and investment options reported under SRS 605.0*** |  |
| Product relationships |  | **Proposed**  **SRS 606.0** |  |  |  |
| Operational risk financial reserve | SRS 114.0 | SRS 114.1 |  |  |  |
| Membership |  | SRS 610.0 | SRS 610.2 |  |  |
|  | SRS 610.1 |  |  |  |
|  | SRS 610.2 |  |  |  |
|  | **Proposed**  **SRS 611.0**  (Enhanced granularity account balance and age) | **Proposed**  **SRS 611.0** (Enhanced granularity account balance and age) |  |  |
| Conditions of release |  | SRS 710.0 |  |  |  |
| Statement of financial performance |  | SRS 330.0 | SRS 330.2 |  | SRS 330.1 |
|  |  |  |  | SRS 160.1 |
| Statement of financial position |  | SRS 320.0 |  |  | SRS 320.1 |
|  | SRS 720.0 (ABS) |  |  |  |
| Expenses and service providers |  | SRS 331.0  (Expense with each service provider) |  |  |  |
|  | **Proposed**  **SRS 332.0**  (All expenses with classifications) |  |  |  |
| Fees |  | SRS 540.0 |  |  |  |
| Asset allocation |  | SRS 530.0 | SRS 533.0 | SRS 533.1 (Select investment options only) |  |
|  | **Proposed SRS 550.0**  **(**Enhanced granularity of asset class classifications) | **Proposed SRS 550.0**  **(**Enhanced granularity of asset class classifications) | **Proposed SRS 550.0**  (All investment options,Enhanced granularity of asset class classifications) |  |
|  | SRS 531.0 |  |  |  |
| Investment Exposure Concentrations |  | SRS 532.0 |  |  |  |
| Repos and Stock lending |  | SRS 535.0 |  |  |  |
|  | SRS 721.0 (ABS) |  |  |  |
| Derivatives |  | SRS 534.0 |  |  |  |
|  | SRS 722.0 (ABS) |  |  |  |
|  | **Proposed SRS 550.0** |  |  |  |
|  | SRS 722.0 (ABS) |  |  |  |
| Fees and costs disclosed |  |  | SRS 703.0 |  |  |
|  |  | **Proposed**  **SRS 706.0**  (Aligned to new RG 97) | **Proposed**  **SRS 705.0** |  |
| Investment performance and objectives |  |  | SRS 702.0 |  |  |
|  |  | **Proposed**  **SRS 705.0**  (Aligned to new RG 97) | **Proposed**  **SRS 705.0**  (Aligned to new RG 97) |  |
|  |  | SRS 700.0 |  |  |
|  |  | **Proposed**  **SRS 705.1** | **Proposed SRS 705.1** |  |
| Defined benefit matters |  |  |  |  | SRS 160.0 |
| Insurance |  | SRS 250.0 | SRS 703.0 (item 6) |  |  |
|  | SRS 161.0 |  |  |  |
|  |  | **Proposed**  **SRS 251.0**  (Enhanced data and classifications) | **Proposed**  **SRS 251.0** (Enhanced data and classifications) |  |  |
| Wind up |  | SRS 602.0 |  |  |  |

**Appendix B: Key gaps and limitations in current superannuation data collection**

|  |  |  |
| --- | --- | --- |
| Existing Reporting Standard | Gaps in current collection framework | New Reporting Standard |
| SRS 250.0 Acquired Insurance. | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-6-insurance-arrangements):   * Data on premiums is bundled, and claims are reported at the whole of fund level. Claims / premiums ratios cannot be calculated. * Data on claims experience for TDP does not include details on assessment criteria applied at the time of the claim. | SRS 251.0 Insurance   * (SRF 251.0 Insurance Arrangements; SRF 251.1 Insurance coverage and SRF 251.2 Insurance payments) * Enhanced data to facilitate an improved understanding of the nature and value of insurance arrangements, as well as enhanced reporting on insurance experience. |
| SRS 703.0 Fees Disclosed | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-6-insurance-arrangements):   * Collects sample premiums for policies providing default cover for representative MySuper members aged 30 and 50. * Worker category is not defined, so default insurance design and cost data cannot be compared. * Discounted fee arrangements are not reported. Under these arrangements, members may pay significantly different premiums for the same insurance policy. | SRS 251.0 Insurance  (SRF 251.3 Insurance Payments)   * Expanded coverage to capture all premium rates which apply to default cover, and standardised reporting of worker categories to enable comparisons. * Enables analysis of default premiums to better understand the member experience across a range of circumstances. |
| New reporting standard  (some overlap with:  SRS 330.0 Statement of Financial Performance;  SRS 331.0 Services | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-4-expense-reporting):   * There is no meaningful and consistent classification of what members money is being spent on. Different entities structure their operations in different ways, so users cannot compare expenses. * Users cannot identify how much entities have spent for specific purposes, requiring ad hoc collection of data if thematic approaches are needed. | SRS 332.0 Expenses   * Introduces classifications to capture the purpose for which all expenses are used enabling transparency of what member’s money is being spent on and allowing benchmarking against peers.      * Enables consistent and comparable assessment of expenses across the superannuation industry. |
| SRS 001.0 Profile and Structure (Baseline)  SRS 601.0 Profile and Structure (RSE) | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-1-rse-structure-and-profile):   * The population of Choice products is not reported. There is no record of how many products there are across the industry. * The full population of investment options is not reported. There is no consistently calculated record of how many investment options there are across the industry. * There are not clear characteristics of investment options which are needed to interpret performance data about investment options, for example whether it is in the taxed or tax-free phase. | SRS 605.0 RSE Structure   * Introduces full reporting on the population of superannuation products (MySuper and Choice), investment menus and their characteristics. * Support the collection of more granular and meaningful data through a foundational framework capturing the structure of each RSE, the products and investment options they offer and the relationships between them. |
| New reporting standard | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-1-rse-structure-and-profile):   * There is no reporting about how many members are in each product and option and what pathways members may take to invest in an investment option (which impacts the net return a member will receive) | SRS 606.0 RSE Profile   * Introduces reporting on the relationships between these superannuation products, investment menus and investment options including the number of members and member assets. |
| SRS 610.0 Membership Profile  SRS 610.2 Membership Profile | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-3-member-accounts):   * Annual frequency means that ad-hoc data is required to monitor impacts of significant external events and / or legislative changes * Different member characteristics are reported at an aggregated level so users cannot assess how these are dispersed among the demographics of the fund, for example inactive accounts | SRS 611.0 Member Accounts   * Efficient dynamic collection structure means that all combinations of member demographics and characteristics are reported, with the frequency increased to quarterly. |

|  |  |  |
| --- | --- | --- |
| Existing Reporting Standard | Gaps / challenge in extending to non-MySuper products | New Reporting Standard |
| SRS 702.0 Investment Performance | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-2-performance):   * Representative member concept is not defined or meaningful for non MySuper products. * Reporting the product / option combination would result in submission of hundreds of thousands of reporting forms. * Classifications of fees and costs do not align to the updated RG 97 fee and cost categories. | SRS 705.0 Components of net return   * Consistently reported performance data on all superannuation products, investment menus and investment options allow assessment of a range of possible member experience through all combinations of products and options. * Redesigned dynamic collection one form per entity is submitted, if one element is the same for all combinations of product, menu and option it is only reported once. * Classifications of fees and costs align to the updated RG 97 categories for consistency. |
| SRS 700.0 Product dashboard | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-2-performance):   * There is no standardised risk measure for non MySuper * There is no prescribed return objective for non MySuper * There is no standardised reporting of net investment return for non MySuper | SRS 705.1 Investment Performance and Objectives   * Enhanced and consistently reported performance data for all investment options, including volatility measure, return objective and standardised net investment return. |
| SRS 703.0 Fees Disclosed | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-7-fees-and-costs-disclosed):   * Representative member concept is not defined or meaningful for non MySuper. * Fees for MySuper products can only be charged in a prescribed way. For non MySuper products this is not prescribed and fee tiers may apply. * Classifications of fees and costs do not align to the updated RG 97 fee and cost categories. | SRS 706.0 Fees and Costs   * Consistently reported data on the disclosed fees and costs for members for all products, investment menus and options. * Allows for different types of fees and tiers to be reported to enable assessment of a range of possible member experience through all combinations of products and options. * Updated classifications of fees and costs to align to the updated RG 97 categories for consistency. |
| SRS 530.0 Investments  SRS 533.0 Asset Allocation  SRS 534.0 Derivative Financial Instruments | Details on the gaps are outlined in the [topic paper](https://www.apra.gov.au/topic-paper-5-asset-allocation):   * Industry feedback that the strategic asset allocation classes could be improved. * SRF 533.0 strategic asset allocation does not allow for assessment of the differing levels of risk within the same strategic allocation to an asset class. * SRF 534.0 is collected on an annual basis and so does not provide a timely enough view of the exposures achieved through the derivative instruments directly held by the RSE. | SRS 550.0 Asset Allocation   * Enhanced data on investment strategies, to facilitate the assessment of investment performance and understanding of investment strategy and exposures to various asset classes for all investment options, and data on the investment exposures of the fund. |

|  |
| --- |
| Reporting standards to be replaced\* |
| SRS 702.0 Investment Performance |
| SRS 703.0 Fees Disclosed |
| SRS 530.0 Investments  SRS 533.0 Asset Allocation  SRS 534.0 Derivative Financial Instruments |
| SRS 250.0 Acquired Insurance |
| SRS 610.0 Membership Profile |
| SRS 610.2 Membership Profile |

\* SRS 700.0 Product dashboard will be retained, as this standard sets out the methodology for calculating the prescribed metrics for the MySuper product dashboard.

**Appendix C: Comparison of reporting under each policy option**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Reporting at MySuper product and Choice product level | | | | | | | | |
|  | **Option 1** | | | **Option 2** | | | **Option 3 and 4** | |
| Data | **MySuper**  **Products** | **Choice**  **Products** | **MySuper**  **Products** | | **Choice**  **Products** | **MySuper**  **Products** | | **Choice**  **Products** |
| RSE Structure – list of all products, menus options and fee arrangements with characteristics | Yes | Limited coverage | No change | | Expanded coverage – options only | Enhanced | | Yes |
| RSE profile - Relationship between products, menus and options (including members and assets) | Yes | No | No change | | No | Enhanced | | Yes |
| Components of net return | Yes | No | No change | | Yes – representative member only | Enhanced | | Yes |
| Asset allocation | Yes | Limited coverage | No change | | Yes | Enhanced | | Yes |
| Fees and costs disclosed | Yes | No | No change | | Yes – representative member only | Enhanced | | Yes |
| Investment performance and objectives | Yes  (product dashboard) | No | No change | | No | Enhanced | | Yes |

|  |  |  |  |
| --- | --- | --- | --- |
| Reporting at the RSE level | | | |
| Data | Option 1 | Option 2 | Option 3 and 4 |
| Investments (RSE) | Yes | No change | Enhanced granularity of asset class classifications and derivatives information |
| Insurance claims and premiums (RSE and default for MySuper) | Yes | No change | Enhanced data on claims and premiums, addressing inconsistencies in classifications for default products and enhanced data on insurance coverage. |
| Membership profile (RSE and MySuper) | Yes | No change | Enhanced granularity account balance and age. |
| Expenses (RSE) | Yes | No change | Enhanced categories on a look-through basis, with related providers identified. |

**Appendix D: Costing Methodology**

RSE licensees will be subject to upfront regulatory costs to implement the reporting requirements, and ongoing costs to report the data five times per year (each quarter, and for the annual submission). The costing estimates supplied indicate substantial difference based on the size and complexity or RSE licensee operations. The costings have been estimated for 36 low complexity RSE licensees (one RSE with less than 15 investment options), 56 medium complexity RSE licensees and 10 high complexity (which have multiple RSEs under their trusteeship and over 100 investment options).

Option 2: Of the 102 RSE licensees, 65 have a MySuper product, and are subject to the reporting requirements outlined for MySuper in this option. Given the reporting standards used in Option 2 are currently in place for MySuper products, it is anticipated that the cost of expanding this collection to all other products and investment options is likely to be lower for those entities. For the remaining 37 RSE licensees, however, the cost will be higher.

Over a ten-year period, APRA estimates that on average RSE licensees will be subject to approximately $137,000 per year in regulatory costs for low complexity RSE licensees, approximately $442,000 per year for medium complexity RSE licensees and approximately $955,000 per year for high complexity RSE licensees. Based on the current reporting population the average regulatory costs per RSE licensee would amount to $383,000 per year.

Option 3: Over a ten-year period, APRA estimates that on average RSE licensees will be subject to approximately $160,000 per year in regulatory costs for low complexity RSE licensees, approximately $570,000 per year for medium complexity RSE licensees and approximately $1.45 million per year for high complexity RSE licensees. Based on the current reporting population the average regulatory costs per RSE licensee would amount to $511,000 per year.

Option 4: Over a ten-year period, APRA estimates that, in line with Option 3, on average RSE licensees will be subject to approximately $160,000 per year in regulatory costs for low complexity RSE licensees, approximately $570,000 per year for medium complexity RSE licensees and approximately $1.45 million per year for high complexity RSE licensees. Based on the current reporting population the average regulatory costs per RSE licensee would amount to $511,000 per year.

The costing inputs are based on industry feedback including costing estimates provided by four RSE licensees. The costing assumptions are allocated to the following categories, with assumptions for each option based on the RSE licensee complexity set out in the detailed tables below:

**Upfront costs**

*Education:* Initial costs associated with understanding the reporting standards requirements, updating procedures to ensure compliance with the reporting standards submission requirements and training staff.

*Record Keeping*: Initial costs associated with updating the RSE licensees’ internal record keeping processes to enable the collation and submission of the reporting standards (internal administration).

*Purchasing*: Initial costs for additional data recording and reporting with external providers (e.g. administrators or custodians).

*Publication and Documentation*: Initial costs associated with implementing and completing the initial submission of data under the new reporting standards to APRA.

*Project Management (Other)*: Initial project costs for implementing the new data collection.

**Ongoing costs**

*Record Keeping*: Ongoing costs associated the annual process to ensure that internal procedures are compliant and the reporting standards submission requirements are met and the training of new staff.

*Purchasing*: Ongoing costs for additional data recording and reporting with external providers (e.g. administrators or custodians).

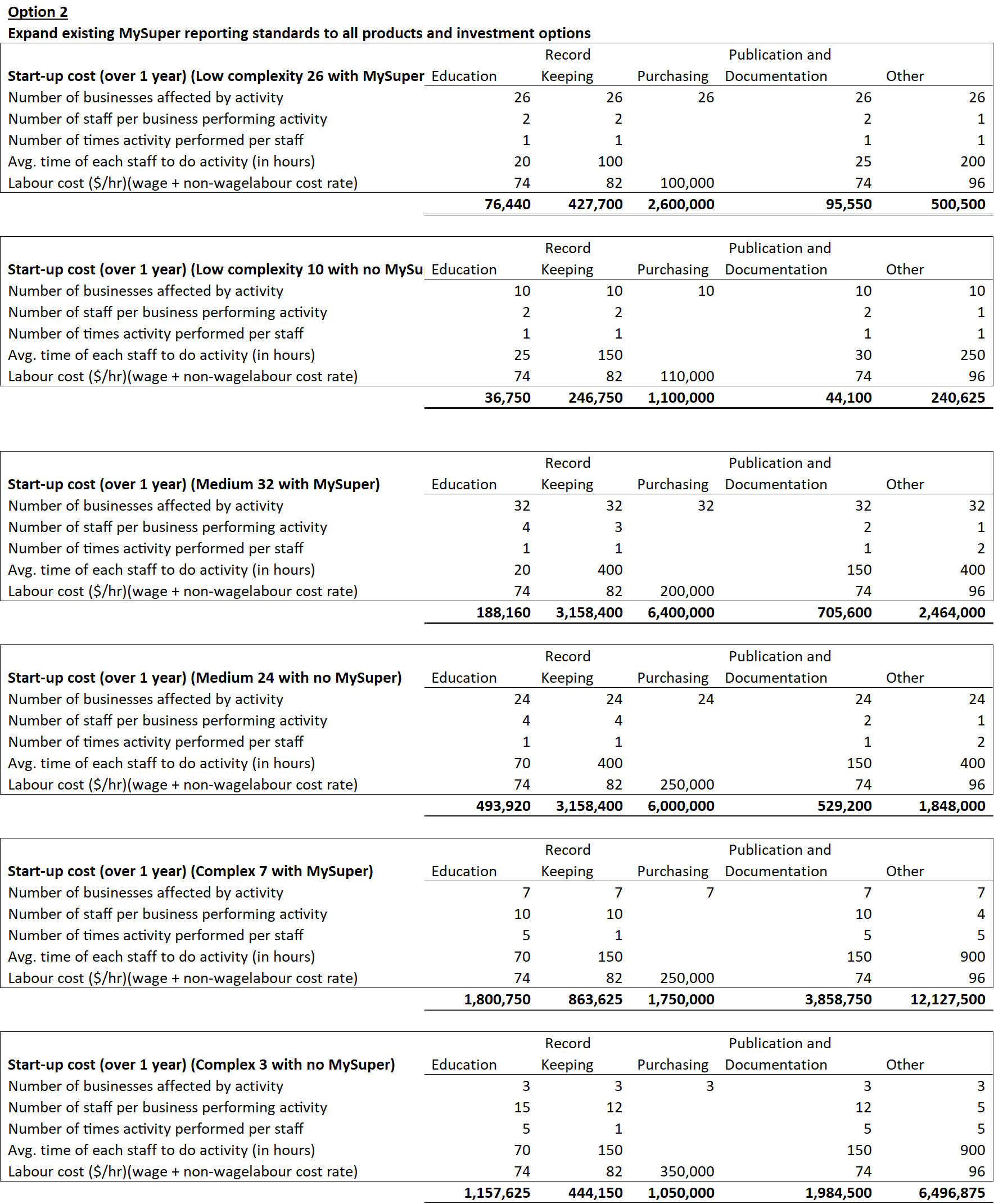
*Publication and Documentation*: Costs associated with submitting data under the new reporting standards to APRA.

**Individual costs**

Not Applicable – The data collection applies to RSE licensees, individuals are not affected.

**Option 2 costing inputs**







**Option 3 and 4 costing inputs**





**Appendix E – Anticipated Benefits**

**Expanding coverage of member outcomes data to Choice products: Investment performance and administration fees**

**Table 1: Estimated benefits from addressing underperformance in Choice products**



**Investment performance**

Benefits from identifying underperforming options are anticipated to include:

* Encouraging RSE licensees to improve performance of net investment returns (for example, by lowering investment fees and costs).
* Preventing members from investing in underperforming options (for example, through the outcomes of the performance test).
* Encouraging members to consider moving assets from underperforming options to better performing options (for example, through the outcomes of the performance test).

Under option 3 and 4, enhanced granularity of asset class classifications and characteristics is also anticipated to enable more accurate and robust methodologies in benchmarking investment option performance and assessing risks and exposures, as well as reducing opportunities for RSEs to manipulate their performance test outcomes through aggregate reporting.

**Investment performance outcomes and data limitations: highlights from Productivity Commission report**

The productivity commission found ‘about 36 per cent of the choice investment options (accounting for 15 per cent of assets with data available, or $24.2 billion) delivered returns more than 25 basis points below their tailored benchmark.’ p148

‘Scaling up these results to the entire choice segment would suggest that at least $150 billion in assets (or 15 per cent of choice assets) are in underperforming investment options. While data are not available for the rest of the choice segment, to the extent that the SuperRatings dataset is more likely to capture relatively good options, the percentage assets in underperforming options is likely to be an underestimate.’ p150

‘This is likely to be a conservative estimate of underperformance in the whole choice segment, as our data disappointingly only cover about 16 per cent of assets in the segment — a chasm of selection bias.’ p13

Across the entire industry, Treasury analysis estimated the cost of underperformance is at least $10.7 billion over 10 years[[36]](#footnote-37). Treasury estimates that holding funds to account for underperformance through the performance test introduced as part of the YFYS Act will deliver this benefit to members over 10 years. Until APRA collects data on the performance of all choice products and investment options the total cost of underperformance cannot be accurately quantified.

APRA estimates that 15 per cent of choice assets, representing $129 billion are in underperforming options with the quantum of underperformance ranging from 0.25 per cent below the benchmark return to more than 2.0 per cent below the benchmark return. Using 0.50 per cent as an estimate of underperformance, APRA analysis based on available sample data shows that addressing the underperformance of these choice products or members moving to products which are not underperforming would represent a minimum saving of **$600 million per year**.

Given these estimated savings are much larger than the $52 million in average annual regulatory costs under option 3 or 4, smaller incremental improvements could cover the regulatory costs:

* if just $10 billion (7.8 per cent of total assets in underperforming options) were moved from underperforming options to equivalent options with performance of an additional 50 basis points;
* if all underperforming options improved their performance against benchmark returns by 0.04 per cent (rather than 0.50 per cent), for example through reduction of investment fees; or
* if all underperforming options improved their performance against benchmark returns by 0.01 per cent, for example through reduction of investment fees, the benefit would offset the difference in total regulatory costs between option 2 and option 3 and 4 of $12 million per annum.

**Administration fees**

Benefits from identifying high administration fees (relative to peers) are anticipated to include:

* Encouraging RSE licensees to improve reduce administration fees and costs.
* Preventing members from joining high fee products (for example, through the outcomes of the performance test).
* Encouraging members to consider moving assets from high fee products to lower fee products (for example, through the outcomes of the performance test).

Under Option 3 and 4, the fee and cost data would be anticipated to enable identification of additional poor outcomes resulting from the impact of differing fee structures on different member cohorts. These would not be identified under the representative member approach to reporting under option 2.

**Administration fees outcomes and data limitations: highlights from Productivity Commission report**

‘Nevertheless, a tail of high fee products remains entrenched. Annual fees exceed 1.5 per cent of balances for an estimated 4 million member accounts (holding about $275 billion). Almost all of these accounts are in choice products offered by retail funds. While some may be receiving exceptional investment returns or member services, the evidence indicates that funds that charge higher fees tend to deliver lower returns, once both investment and administration fees have been netted off. High fees also persist over time.’ p15

‘Analysing fees is bedevilled by significant gaps and inconsistencies in how funds report data on fees and costs, despite regulator endeavour to fix this. This lack of transparency harms members by making fee comparability difficult at best, and renders cost based competition largely elusive.’ p16

‘Products in the higher‑fee tail generally have high administration and investment fees relative to other products. That said, the relative difference is greater for administration fees..’ p179

From preliminary analysis that APRA has done using an external data source on a sample of choice products, APRA has observed that choice products have a higher median fee, and the variation in administration fees for Choice products is much wider than for MySuper products. An estimated $116 billion in assets are in Choice products with administration fees equivalent to more than 0.75 per cent for a $50,000 balance, compared to the median MySuper administration fee of 0.44 per cent for a $50,000 balance. The benefits from benchmarking and making public administration fees for Choice products are therefore anticipated to be higher. If RSE licensees reduced fees for those products to the median administration fee for a MySuper product, or members in these products moved to equivalent products with the median administration fee for a MySuper product, APRA estimates this would represent a minimum saving of at least **$670 million per year** based on available data.

Given these estimated savings are much larger than the $52 million in average annual regulatory costs under option 3 or 4, smaller incremental improvements could cover the regulatory costs:

* Just an 0.04 per cent decrease in total administration fees which are more than 0.75 per cent of member balances would deliver an annual saving to members which would offset the total regulatory costs of option 3 and 4 of $52 million per annum over 10 years.
* Just an 0.01 per cent decrease in total administration fees which are more than 0.75 per cent of member balances would offset the difference in total regulatory costs between option 2 and option 3 and 4 of $12 million per annum over 10 years.

**Additional topics in option 3 and 4: Expenses and insurance**

**Table 2: Break even analysis from addressing inappropriate expenditure and insurance arrangements**



**Expenses**

The enhanced data on expenses under option 3 and 4 would be anticipated to enable enahanced transparency on profit attributable to superannuation entities expenses and benchmarking of expenditure for different purposes, and increased supervisory scrutiny of RSE licensee expenditure. Anticipated benefits include RSE licensees reducing or ceasing expenses which may not be in members best interests.

**Expenses outcomes and data limitations: highlights from Productivity Commission report**

‘Despite the regulatory protections in place, trustees’ use of related parties is clearly too often not in the best interests of members. Vertical integration is contributing to inefficiency in the system. Regulatory protections need to be further strengthened to ensure that members are not disadvantaged if their fund chooses to use related‑party service providers...

Data limitations relating to these arrangements are, of themselves, a red flag. The inability to examine investment management expenses is particularly problematic given they represent around 30 per cent funds’ reported expenses, and of member fees. Deficiencies in the information reported should be addressed...’ p349

Total annual expenses for the industry are $11.3 billion. Assuming that the savings from a reduction in expenses which are not in the best financial interests of members is passed on to members:

* Just an 0.46 per cent decrease in total industry expenses which are not in the best financial interests of members would deliver an annual saving to members which would offset the total regulatory costs of $52 million per annum.
* Just an 0.11 per cent decrease in total industry expenses which are not in the best financial interests of members would deliver an annual saving to members which would offset the difference in total regulatory costs between option 2 and option 3 or 4 of $12.4 million per year over 10 years.

**Insurance**

Enhanced insurance data under option 3 and 4 is anticipated to lead to identification of variation in default cover and premiums across funds which is unlikely to be explained by differences in the risk profile of different member cohorts, an indication of inappropriate cross subsidisation. The data would also enable benchmarking of premiums and claims experience.

While government policy has addressed undue erosion of account balances for specific member cohorts (low balance and inactive)[[37]](#footnote-38) and will reduce the number of duplicate accounts which result in ‘zombie cover’ going forward[[38]](#footnote-39), more granular and comparable data would enable better understanding and benchmarking of claims experience and insurance design. This data would enable supervisory attention to ensure RSE licensees are acting in their members’ best financial interests and that insurance does not inappropriately erode their members’ balances. The anticipated benefits include:

* Encouraging RSE licensees to seek improved data on their members to tailor insurance design to be appropriate to members. Improved design means members have cover appropriate for their circumstances, and premiums do not inappropriately erode member balances.
* Encouraging RSE licensees to reduce inappropriate cross subsidisation, which may not reduce total premiums for the industry, but would improve equitable outcomes for individual members.

**Insurance outcomes and data limitations: highlights from Productivity Commission report**

‘The default premiums that members pay vary widely — while the average hovers around $300 per year, premiums can be as high as $2000 per year … One key factor is age — premiums tend to increase by age (reflecting increasing risk), but then decrease again at older ages as funds reduce the default levels of cover. But there are also other reasons why default premiums differ. …To some extent, the variation in types and levels of cover and unit prices can be expected to reflect differences in member cohort characteristics and preferences (such as occupational risk, income levels and financial/familial obligations). Nonetheless, the wide disparity in premiums across offerings suggests that there may be other factors at play. Given the limitations in the data about their members that funds can and do collect, it is implausible that the wide observed variation in default cover and premiums across funds is fully explained by these cohort differences.’ p370

‘Cross subsidisation is an essential feature of group insurance. A key reason that group insurance is relatively cheap is that risk factors that are costly to collect information on can be averaged across the population without the risk of adverse selection occurring. … The question then is one of appropriate versus inappropriate cross subsidisation.’ p389

‘This complexity and lack of product comparability could act as a constraint to product switching by members. Switching may also be constrained where a preferred insurance product in an existing fund dissuades a member from rolling over their balance to another fund that offers other advantages, such as better returns.’ p394

Total annual insurance premiums for the industry are $8.4 billion – while premiums cannot be looked at in isolation, comparable data would enable potential reductions in premiums from identifying inappropriate cover which RSE licensees could address through either removing or redesigning default cover:

* Just an 0.62 per cent decrease in total industry premiums which are not in the best financial interests of members would deliver an annual saving to members which would offset the total regulatory costs of $52 million per annum.
* Just an 0.15 per cent decrease in total industry premiums which are not in the best financial interests of members would deliver an annual saving to members which would offset the difference in total regulatory costs between option 2 and option 3 or 4 of $12.4 million per year over 10 years.

1. $1.3 trillion at June 2011 Source: Annual superannuation bulletin statistics June 2004 to June 2019; $3.1 trillion at March 2021 Source: APRA Quarterly superannuation performance statistics March 2021. [↑](#footnote-ref-2)
2. *Financial Sector (Collection of Data) Act 2001* (FSCODA). [↑](#footnote-ref-3)
3. See Appendix A: Summary of current and proposed reporting. [↑](#footnote-ref-4)
4. Outside of the default MySuper products, the ‘Choice’ segment represents around a third of all superannuation members, with $900 billion in assets. [↑](#footnote-ref-5)
5. Australian Government, *Financial System Inquiry Final Report*, published online, November 2014. [↑](#footnote-ref-6)
6. Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness, Inquiry Report*, published online, 2018, pp 23, 30, 247. [↑](#footnote-ref-7)
7. Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness, Inquiry Report*, published online, 2018, p 576. [↑](#footnote-ref-8)
8. Capability review of APRA, 2019, recommendation 5.2 p 109. [↑](#footnote-ref-9)
9. Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness, Inquiry Report*, published online, 2018, pp 19, 363, 396. [↑](#footnote-ref-10)
10. Treasury Laws Amendment (Putting Members’ Interests First) Act 2019. [↑](#footnote-ref-11)
11. See Appendix C: Comparison of reporting under each policy option. [↑](#footnote-ref-12)
12. Funds may also have defined benefit products for employees of particular employers, which are generally closed to new members. Members in these defined benefit products represent just 3 per cent of members and around 15 per cent of assets. Outcomes for these members are defined by the plan rules. [↑](#footnote-ref-13)
13. *Corporations Act 2001 s1017A.* [↑](#footnote-ref-14)
14. *Superannuation Legislation Amendment (MySuper Core Provisions) Act 2012, Division 5 – Fee rules for MySuper products.* [↑](#footnote-ref-15)
15. Stronger Super was the government’s response to reforms arising from the Review into the governance, efficiency, structure and operation of Australia’s superannuation system (Super System Review). [↑](#footnote-ref-16)
16. Under the current reporting framework, 5 forms collect aggregate information about the 106 RSE licensees (Operational Risk Financial Requirement, Profile and structure); 21 forms collect aggregate information about the 160 RSEs these RSE licensees have trusteeship over; 6 forms collect data aggregate data about the 70 MySuper products and their investment options (membership, asset allocation, representative member data on performance and disclosure data about fees and costs); one form collects information on asset allocation for select Choice investment options, covering 1,046 investment options out of the more than 40,000 investment options in the industry; 4 forms collect aggregate information about defined benefit funds or sub funds; and 2 forms collect aggregate information about Small APRA Funds from the 3 RSE licensees of Small APRA Funds. [↑](#footnote-ref-17)
17. Trustee-directed products has the meaning given by subregulation 9AB.2(2) of Superannuation Industry (Supervision) Regulations 1994. [↑](#footnote-ref-18)
18. <https://treasury.gov.au/sites/default/files/2020-10/p2020super.docx> [↑](#footnote-ref-19)
19. [SPS\_515\_strategic\_planning\_and\_member\_outcomes\_december\_2018.pdf (apra.gov.au)](https://www.apra.gov.au/sites/default/files/sps_515_strategic_planning_and_member_outcomes_december_2018.pdf#:~:text=%20Prudential%20Standard%20SPS%20515%20Strategic%20Planning%20and,strategic%20and%20business%20planning.%20Its%20objective%20is%20to) [↑](#footnote-ref-20)
20. Schedule 2A of Superannuation Industry (Supervision) Regulations 1994, Subsection 60E(2) of Superannuation Industry (Supervision) Act [↑](#footnote-ref-21)
21. [MySuper Product Heatmap - Insights Paper (apra.gov.au)](https://www.apra.gov.au/sites/default/files/2020-12/MySuper%20Heatmap%20-%20Insights%20Paper%202020_0.pdf) [↑](#footnote-ref-22)
22. In the existing superannuation data collection, data items related to fee and cost disclosure definitions are collected for MySuper products via "SRS 700.0 Product Dashboard", "SRS 702.0 Investment Performance" and "SRS 703.0 Fees Disclosed". [↑](#footnote-ref-23)
23. [20-323MR ASIC report explores how to measure ‘value for money’ in default insurance in superannuation | ASIC - Australian Securities and Investments Commission](https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-323mr-asic-report-explores-how-to-measure-value-for-money-in-default-insurance-in-superannuation/) [↑](#footnote-ref-24)
24. As noted above, since the first publication of performance assessments in the MySuper product heatmap, an estimated $408m annual saving in total fees and costs has been achieved for MySuper products. [↑](#footnote-ref-25)
25. See Appendix E: Anticipated Benefits [↑](#footnote-ref-26)
26. For example, the gross investment return would be reported only once for each investment option. If fees or tax for that option vary for members in different products, the RSE licensee would report different fees and tax that apply to those combinations. For RSE licensees with simple products, reporting is simple and many fields will be blank. For RSE licensees with complex products and fee pricing, reporting would be more complex, but it is important to shine a light on these arrangements, to enable APRA and other users of the data to compare different products. [↑](#footnote-ref-27)
27. As an example, since in the year since the first publication of performance assessments in the MySuper product heatmap, an estimated $408m annual saving in total fees and costs has been achieved for MySuper products (which represent assets of over $800 billion). [↑](#footnote-ref-28)
28. See Appendix E: Anticipated Benefits [↑](#footnote-ref-29)
29. Media release: [APRA’s Superannuation Data Transformation to enhance industry transparency and accountability](https://www.apra.gov.au/news-and-publications/apra%E2%80%99s-superannuation-data-transformation-to-enhance-industry-transparency) [↑](#footnote-ref-30)
30. [Phase 1 – RSE Structure and Profile](https://www.apra.gov.au/phase-1-%E2%80%93-rse-structure-and-profile) [↑](#footnote-ref-31)
31. [Phase 1 – Performance and Member Accounts](https://www.apra.gov.au/phase-1-%E2%80%93-performance-and-member-accounts) [↑](#footnote-ref-32)
32. [Phase 1 - Expenses, Asset Allocation, Insurance Arrangements and Fees and Costs](https://www.apra.gov.au/phase-1-expenses-asset-allocation-insurance-arrangements-and-fees-and-costs) [↑](#footnote-ref-33)
33. [Response Paper - Superannuation Data Transformation Project Phase 1 PDF 773.72 KB](https://www.apra.gov.au/sites/default/files/2021-03/Response%20Paper%20-%20Superannuation%20Data%20Transformation%20Project%20Phase%201_0.pdf), APRA website. [↑](#footnote-ref-34)
34. Treasury Laws Amendment (Your Future, Your Super) Act 2021. [↑](#footnote-ref-35)
35. <https://treasury.gov.au/sites/default/files/2020-10/p2020super.docx> [↑](#footnote-ref-36)
36. https://treasury.gov.au/publication/p2020-super [↑](#footnote-ref-37)
37. Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019. [↑](#footnote-ref-38)
38. Treasury Laws Amendment (Your Future, Your Super) Act 2021. [↑](#footnote-ref-39)