

21/12/23

General Manager, Policy
Australian Prudential Regulation Authority
Level 12, 1 Martin Place
Sydney NSW 2000

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

Dear General Manager,

Re: Consultation - Strategic planning and member outcomes: proposed enhancements

AustralianSuper welcomes the opportunity to provide feedback on the Australian Prudential Regulation Authority's (APRA's) Strategic planning and member outcomes: proposed enhancements consultation.

AustralianSuper is Australia's largest superannuation fund, with over 3.3 million members, and over \$300bn in member assets under management. Our purpose is to help members achieve their best financial position in retirement.

AustralianSuper supports the objective of ensuring that member outcomes considerations are embedded and integrated across an RSE licensee's business operations. From the perspective of the Fund, consideration of member outcomes is at the heart of our purpose and practice. This ranges from our purpose to help members achieve their best financial position in retirement, to our regulatory obligation to act in members' best financial interests and to ensuring member outcomes are clearly defined, monitored and measured to inform our strategic planning processes.

The SPS 515 framework is designed to support funds' consideration of these factors by providing a clear structure for strategic planning, connected to member outcomes considerations. AustralianSuper is supportive of the purpose and intent of the draft prudential standard and associated guidance.

AustralianSuper currently has an extensive program of activities which informs our strategic business and financial planning program, culminating in approval of the Fund's Business Plan by the board. We are also committed to ensuring compliance with the Fund's regulatory requirements, including as set out in SPS 515.

AustralianSuper supports APRA's increasing focus on the management of financial resources and the provision of greater guidance on how to best align expenditure with the best financial interests duty and the retirement income covenant.

To ensure that APRA's vision is realised, focus should be placed upon the release dates of APRA publications which feed into key business planning activities, such as the Business Plan and the Member Outcomes Assessment.

In addition, to allow for this data to be incorporated into the first iteration of the Business Plan under the updated standard and to align with superannuation funds' planning processes we propose that the commencement date of updated SPS 515 should be 1 July 2025.

Detailed comments on selected provisions in the draft standard and guidance are included in the **Attachment**. Should you have any questions, please contact [REDACTED], Head of Government Relations & Public Policy via email at [REDACTED]

Yours sincerely,

[REDACTED]
[REDACTED]
Chief Officer, Strategy & Corporate Affairs

Attachment: Detailed Comments

General comments

Commencement date

We recommend that APRA considers a 1 July 2025 application date for the new SPS 515, rather than 1 January 2025. Superannuation funds typically operate their planning process on a fiscal year timeframe, which will result in the updated standard being released after the FY25 Business Plan has been developed. The Business Plan is developed using multiple internal and external inputs, including the Heatmap, which have fixed dates of release. As such, it may be appropriate to commence the new requirements under SPS 515 from 1 July 2025 to allow funds to prepare and ensure all required data is published and incorporated.

Release of data

We appreciate APRA's recognition of feedback that the earlier release of statistical publications would be beneficial.

While the Fund undertakes a business performance review and Member Outcomes Assessment, the timing of the release of input data (APRA's release of heatmap data) could be improved to support our cycle of strategic reviews to inform business planning. Scheduling the release of APRA's annual fund data and heatmaps for October, rather than December as is currently the case, would better facilitate funds' strategic and business planning cycles and allow for the more timely settlement of the business performance review.

Draft Prudential Standard SPS 515 Strategic Planning and Member Outcomes

Strategic objectives [paragraphs 8-9, draft SPS 515]

We are broadly supportive of proposed paragraphs 8 and 9 regarding strategic objectives. We agree that strategic objectives should be guided by the specific outcomes RSEs seek for beneficiaries and be approved by the board.

Paragraph 9 sets out a number of considerations that strategic objectives must be informed by. We particularly note and welcome that strategic objectives:

- should be cognisant of risk and responsive to the superannuation fund's risk appetite.
- should consider the outcome of the most recent business performance review. It is appropriate that objectives are responsive to both past performance and future outlook.
- should be focussed on the provision of retirement benefits, as embodied in the sole purpose test.

Business Plan [paragraphs 10-14, draft SPS 515]

The three-year duration, the need to cover the entirety of operations and the need for board approval are all appropriate, as is updating the Business Plan annually.

Consistent with the current framing of paragraph 11(a) in the draft standard, it is important that the scope of the Plan is limited to key initiatives to ensure that it is settled at the right level. It is also appropriate that the retirement income strategy should inform the Business Plan.

Financial resource management [paragraphs 15-22, draft SPS 515]

We welcome the guidance in paragraph 22 regarding expenditure decisions and the focus of the guidance on outcomes for beneficiaries. We think that the assessment approach outlined in this paragraph should expressly incorporate consideration of the proportionality, nature, risk and size of expenditure.

Monitoring [paragraphs 23-24, draft SPS 515]

We agree that monitoring progress against strategic objectives with paired metrics and targets should be a key element of the Business Plan.

Draft Prudential Practice Guide (SPG 515) Strategic and Transfer Planning

Strategic objectives [paragraphs 1-6, SPG 515]

We broadly support the guidance provided by APRA and, as noted above, agree that an RSE's strategic objectives should be focused on the provision of retirement benefits as set out in the sole purpose test. However, it is unclear what paragraph 6(b) of SPG 515 contemplates when it refers to demonstrating how 'tasks that reasonably form part of the total operation' of the RSE maintain the RSE consistently with the sole purpose test.

The tasks listed in paragraph 6(b) such as accepting contributions, recording benefit entitlements, investing fund assets, reporting, fund administration, benefit payments and providing insured benefits are integral to the maintenance of the RSE and therefore to the provision of retirement benefits. In requiring 'governing rules, procedures and practices' regarding these tasks to demonstrate that link to the sole purpose test, it is not clear what this provision contemplates or adds to the governance of an RSE. We are concerned that this provision could add an unnecessary compliance burden which would compromise fund effectiveness and efficiency.

Articulating member outcomes [paragraphs 7-10, SPG 515]

We agree that decision-making and performance assessment should be focussed on beneficiaries, and that how performance is measured should be clearly articulated, as outlined in paragraph 7. In our view, any requirement by APRA to have regard to non-financial outcomes should be clarified in the context of the best financial interests duty.

We suggest that greater clarity should be included on what is meant by 'assistance available to beneficiaries' provided in Figure 1 paragraph 8. In its current form it is unclear that it is exclusively in reference to 'retirement offerings': its scope is unclear.

Paragraph 10 provides APRA's expectations that funds 'fully explore both internal and external data to seek to better understand the financial profile of their membership in different sub-classes beyond superannuation balance'. We accept that such understanding can be gained through both internal sources (e.g. surveys) and external resources (e.g. research reports). We also accept that such understanding could be translated into retirement strategies including through actuarial analysis. However, access to a detailed "financial profile" of the membership would be constrained both by the availability of this data and privacy considerations. This paragraph may need to be revised following the outcome of the Treasury Discussion Paper on Superannuation in Retirement.

Business planning [paragraphs 11-15, SPG 515]

We support the principles-based approach taken to the development of a Business Plan. It is important that superannuation funds retain discretion to develop a Business Plan that is fit for purpose for their circumstances.

The existing SPG 515 (at paragraph 28) provides that a Business Plan need not be a single document but can instead be a suite of appropriate planning documents as determined by the RSE licensee. This provision is currently not included in the draft SPG 515. It would provide helpful clarity and certainty for RSE licensees to retain this guidance.

This flexibility is appreciated as multiple specific and detailed planning documents are of greater utility to the fund. This allows RSEs to develop their Business Plan in a way that is fit for their particular circumstances.

Paragraph 12 sets out that 'APRA expects that an RSE licensee would, where necessary, include in its Business Plan initiatives relating to the systems, processes, supporting infrastructure and resources necessary to support the core components of sound and prudent management'. We recommend that APRA clarifies that it is only 'necessary' to include elements that require particular focus such as new or additional funding and resourcing or those elements that otherwise require new or elevated organisational effort over the planning horizon.

Paragraph 13 states that 'APRA expects that the detail provided in the Business Plan will reflect the complexity, size and budget of each initiative'. We agree that there should be a distinction between the Business Plan and business cases. Detailed justifications for significant projects should be reflected in the respective business cases, with the Business Plan indicating alignment to strategic priority, cost and delivery timeframe.

Paragraph 14 explains APRA's expectations of evidence required prior to deciding to pursue an initiative across four points.

- With regard to paragraph 14(a), we agree that initiatives should be well-founded, but note that the Business Plan is not necessarily the document in which to detail the rationale. Initiatives should however be supported by robust business cases.
- With regard to paragraph 14(b), we agree that the Business Plan, as a portfolio of activities, should be subject to risk assessment, e.g. an assessment of delivery risk over the plan's horizon. However, the risk assessment of individual initiatives may be conducted as part of the respective business cases.
- With regard to paragraph 14(c), we agree that metrics and project governance should be in place to determine and support the success of initiatives.
- With regard to paragraph 14(d), we agree if an in-progress initiative is deemed to be unlikely to achieve its expected outcomes then it should be discontinued or revised (d). However, APRA should clarify that there is no requirement to have a plan to cease initiatives that are capable of being remedied.

Contrary to paragraph 15, we believe the retirement income strategy is a dedicated endeavour. However, given that ensuring members achieve their best financial position in retirement is the superannuation fund's purpose, it is beneficial for the Business Plan to include key initiatives accompanied by a high-level implementation plan. We note that the Business Plan will not fully discuss the retirement income strategy and detailed implementation plan.

Monitoring [paragraphs 47-50 draft SPG 515]

We agree that effective monitoring would facilitate remedial action, when necessary, prompt the review of assumptions and support business performance review. However, we do not consider it necessary to have pre-determined triggers for escalating issues with the delivery of specific strategic objectives to the board. We recommend an approach whereby objectives are paired with clear metrics & targets which are regularly monitored. Issues with specific objectives can be addressed by management and escalated to the board as required. Management would in ordinary course keep the board updated on progress against strategic objectives.

Pre-determining triggers may result in a 'set and forget' mentality which could result in too much focus being placed on non-contemporaneous risks at the expense of emerging or unexpected risks.

Draft Prudential Practice Guide (SPG 516) Business Performance Review

Introductory paragraphs [paragraph 1-8, draft SPG 516]

Paragraph 8 sets out when it may be appropriate for an RSE licensee to engage an external expert to access specialist expertise, associated data or to provide an independent view of the delivery of outcomes. The intent of this guidance is currently unclear. It should be clarified whether the intent of the guidance is to a) indicate that external experts should be used on an exceptions basis only b) encourage licensees to use external experts to support internal assessments where useful or c) simply acknowledge that external experts are sometimes used. Greater clarity would also be appreciated on the use of the term “comprehensive understanding” in paragraph 46 of the guidance.

Cohort analysis [paragraph 11-14, draft SPG 516]

Paragraphs 11-14 of draft SPG 516 (and the associated paragraph 26(b) of draft SPS 515) contain guidance around cohort analysis in the context of the business performance review. We think that the provisions strike the right balance in providing appropriate guidance to RSEs without including unnecessary prescription. They balance the benefits of more specific cohort analysis with the appropriateness of, and the practicality and costs involved in, collecting the additional data required to give effect to this.

As noted in our previous submission to the SPS 515 discussion paper in November 2022, given the different demographic and other characteristics of members across all funds, we do not support requirements for cohort analysis being so strict as to prevent individual funds from determining relevant and appropriate definitions of cohorts for use in their own strategic planning (including business performance review / Member Outcomes Assessment) processes.

Outcomes assessment step 2: Assessment of specified factors [chapter 2, draft SPG 516]

As noted above, we agree that the outcomes assessment and business performance review should inform business planning and be sequenced accordingly. However, the timing of the release of Annual Fund Level Statistics and Heatmaps are dependencies which a superfund does not have control over. We suggest that APRA endeavours to release these reports as soon as practicable once the financial year has concluded.

Options, benefits and facilities [paragraphs 50-52, draft SPG 516]

The expectation in paragraph 51 to determine the extent of the impact of the cost of services on the financial interests of beneficiaries, as reflected in the fees and the ultimate returns to beneficiaries, is important. Superannuation funds should ensure that beneficiaries receive adequate value for fees charged. We also accept that this requires benchmarking of costs relative to the level of service provided. However, we caution that a like-for-like comparison with services offered by other funds would not always be meaningful, and that not all forms of value are accurately quantifiable. We also caution against ‘additional member take up’ being prescribed as the most appropriate evidence of value. A better member satisfaction rating, for instance, may be just as important an indicator.