November 2022

Strategic planning and member outcomes: Proposed enhancements

Funds need to deliver good outcomes for their members. It is important trustees have the processes in place to achieve good member outcomes, assess their performance and take meaningful action where it is lacking. We support APRA efforts to drive a culture of improvement, accountability and transparency among funds through Prudential Standard SPS 515 Strategic Planning and Member Outcomes.

This submission highlights our support of APRA's proposals and some areas for further consideration in SPS 515. However, we note the member outcomes framework is only one part of the system to drive good outcomes. We encourage APRA to similarly focus on increased transparency over fund activities. Public accountability can drive further actions and allow bodies like Super Consumers Australia to apply consumer-side pressure. This also needs to be complemented with timely supervisory activities when funds are providing poor outcomes to members to ensure all of ASIC's regulatory levers are working together.

Clearly defining outcomes for members

1. *Which, if any, provisions in the SPS 515 framework have worked well in improving business planning? Which, if any, provisions have caused unintended consequences? Please provide details?*
2. *Has APRA correctly identified the areas for enhancement? What additional areas could benefit from enhanced requirements or guidance to support effective strategic planning and delivery of outcomes to members?*

The SPS 515 framework has begun a process of ensuring funds focus on putting members first. Our evidence for this is limited to the public facing member outcome assessments (MOAs) which identify aspects of the strategic thinking and processes funds take to define outcomes for their members. In 2021, we analysed 42 funds' first attempt at MOAs (attached to this submission).[1] They worked well when funds combined APRA's prescribed processes with the appropriate use of discretion to choose the most suitable cohorts, methodology and content to define outcomes for their membership.

However, too often funds took the discretion afforded to them to dampen the intent of the

[1] https://superblog.netlify.app/2021/08/16/member-outcome-assessments-analysis/

reform. An example of this was how funds defined their performance outcomes. Discretion over the metrics, comparison types, time frames and cohorts were provided to funds. This resulted in some funds relying heavily on their own self created target returns as a metric and creating their own comparison groups. This methodology is less credible than independently set benchmarks and comparison groups such as the APRA heatmaps and the annual performance test. Our findings suggest that allowing funds to side-step the use of objective, appropriately comparable and independent data to define outcomes weakens the SPS 515 framework.

The regulator also needs to be in a position to identify when funds fail to properly assess the outcomes delivered to members. In our sample, every fund indicated that they were promoting their members' best interests, yet a third were likely to fail the upcoming annual performance test. This indicates that some funds undertook a limited assessment of whether outcomes for members were being delivered. We support APRA's focus on ensuring funds are accountable to members in a more granular and measurable way. This will minimise the risk of funds using subjective and limited determinations to avoid the intent of SPS 515.

We also encourage APRA to publicly release the findings of how funds have tracked against SPS 515. Public accountability can drive action and allow bodies like Super Consumers Australia to apply consumer-side pressure on funds to improve. Our work writing to funds with restrictive disability policies in insurance indicated how powerful this method can be. 14 of the 19 funds we wrote to improved their policies compared to only one of the nine funds we didn't contact.[2] Greater transparency will ensure that the SPS 515 process isn't something that just happens behind closed doors.

3. *What additional guidance could be provided to help inform the development of cohorts?*

A cohort-based view of outcomes is central to better understanding what members are in the fund and what solutions can be applied to achieve positive member outcomes. We support the proposed refinements which will ensure funds must justify their cohort approach rather than just describe how it has decided to segment its business.

Our preliminary analysis on the first batch of member outcomes assessments highlighted that in the absence of prescription, most funds chose to ignore cohort analysis in their public facing documents. Our analysis highlighted:

- Only one fund (3%) consistently analysed the outcomes it was delivering to cohorts of members relying on demographic data throughout its MOA.
- Nine funds, (21%) made partial reference to cohort information.
- 76% of funds treated their membership profile as homogenous, neglecting to mention cohorts at all.

[2] https://superblog.netlify.app/2021/10/28/update-on-restrictive-tpd-policies/

Since this date we have seen encouraging signs that some funds are taking a well-rounded approach to cohorting as part of their retirement income strategy. For example, Commonwealth Superannuation Corporation's retirement income strategy includes seven customer retirement profiles based on eligibility for the Age pension, consumer needs and asset position.[3] They undertook consumer research to better understand their member's needs which allowed them to cohort by engagement type. For example, cohorts based on whether people wanted financial advice. This is the standard we expect funds apply when defining member outcomes. Requiring funds to demonstrate why their cohorts are reasonable should further encourage funds to take this path.

A reason for an improvement in the cohort analysis in retirement income covenants may stem from the wording and structure of the retirement income covenant legislation. The legislation requires a fund to create a class of members who are retired or approaching retirement.[4] While the legislation provides discretion over subclasses, the Explanatory Memorandum is heavily detailed with examples to spur their development (Age, home ownership, age pension etc). The Explanatory Memorandum also encourages trustees to:

- Survey beneficiaries
- Use publicly available demographic data
- Consider qualitative sources of information such as research reports by peak bodies[5]

We recommend APRA incorporate these requirements into SPS 515.

We understand that the regulator does not want to prescribe how cohorts are to be constructed, with the intent being that funds will design cohorts which best suit their membership. This approach can be effective, but it requires all funds to have the governance, resources and expertise to deliver. Now that funds have had a couple of years to develop their own approaches, we would expect to see best practice emerging. Now is a good time for APRA to be pointing funds to better examples.

4. *What challenges, if any, has industry faced in developing cohorts of members for the purposes of the retirement income strategy?*

We support APRA's attempts in helping funds reflect on how they have gone about developing cohorts for their retirement income strategies. There is likely much that can be learnt from the approach funds have taken here. Our brief review of retirement income strategy summaries indicated that while results were mixed, some had taken a very clear approach to cohorting in the retirement phase. There are likely valuable reflections that funds could draw on here across

[3] https://csc.sitecorecontenthub.cloud/api/public/content/87006930758d41f6b8981bb39ef66fbc?v=b6e9406b
[4] s52AA (3) SIS Act
[5] 17.31 and 17.72 Explanatory Memorandum, Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021

the market which could improve approaches to member outcomes assessments.

A limitation we have observed is in the way some funds have struggled to articulate their retirement income strategy cohorts and how they would engage each cohort. For example, we are aware some funds have implemented strategies that incorporate a 'cohort of one' due to the heterogeneous nature of retirement but lack an engagement strategy for this approach. Articulating the effectiveness of this approach would highlight the need for an expansive engagement strategy to overcome barriers like disengagement and the cost of financial advice to service each of these members. We encourage SPS 515 to be used to get funds to reflect on their engagement strategies to drive better member outcomes. Requiring funds to demonstrate why cohorts are reasonable will make it harder for some funds to justify cohort approaches that don't support better outcomes.

Fee setting principles

5. *What additional fee setting principles should be reflected in the SPS 515 framework?*

The SPS 515 framework could be enhanced by requiring funds to consider the fairness of fee setting across the membership. Cross-subsidisation frequently results due to fee design. Trustees should be consciously engaging with the impacts of cross-subsidisation to ensure they have considered their fairness on different groups within the membership. For example, cross subsidisation may occur where existing members are required to fund a levy and new members are not, yet both enjoy the benefits of its existence. This should also prompt trustees to consider models such as those that provide reimbursements or credits to certain members where this is appropriate. Ensuring funds are required to turn their mind to cross-subsidisation when assessing what is in the best financial interests of members will ultimately improve the fairness of how these fees are levied.

We uncovered evidence of potentially unfair cross-subsidisation in our review of occupational exclusions in default insurance. The 2021 member outcome assessments of funds like AMP and MLC included no mention of the fact they included occupational exclusions in their insurance policies. Nor did these funds appear to weigh the fairness of charging members who couldn't claim due to an occupational exclusion the same as members who could claim. To address this unfairness funds should be taking a far more active role in assessing the impact of the fees they are charging members.

In the UK the Financial Complaints Authority has established fairness guidelines to identify issues with price discrimination.[6] It's framework examines:

[6] https://www.fca.org.uk/publication/research/price_discrimination_in_financial_services.pdf

1. Who is harmed by cross-susbisies or price discrimination?
2. How much are individuals harmed?
3. How large is the pool of people being harmed?
4. How are firms price discriminating?
5. Is the product/service essential?
6. Does society view the price discrimination as egregious or socially unfair?

The SPS 515 framework could develop a similar set of questions to help alert trustees to potential unfairness in their charging structure and more broadly in assessing how they weigh the different interests of members.

Assessing performance

6. *How have RSE licensees incorporated the result of APRA's heatmaps and the legislated performance test into their BPRs?*
7. *What additional benchmarks do RSE licensees consider when assessing performance? In determining an overall assessment of outcomes, how are the various benchmarks weighted?*
8. *What additional areas of data would be useful in developing comparable assessments of performance?*
9. *What data (including benchmarks) do RSE licensees plan to use to develop retirement cohorts and assess performance of post retirement income strategies?*

Super Consumers supports APRA's intended improvements to ensure funds are identifying and assessing factors that affect business performance and the outcomes delivered to members. As part of our MOA work we identified the best examples assessed their product offering against objective measures, like the APRA heatmaps. Fund's then used this assessment to identify ways to improve the quality of their product (e.g. if they charged relatively high fees to a cohort of members, what they would do to address this issue). Ingraining the rich objective data on returns and fees in APRA's heatmaps and the performance is central to making the SPS 515 an effective tool.

We also encourage APRA to direct funds to use data that becomes available through the Superannuation Data Transformation Project. Insurance is a key area that funds appeared to pay limited regard to in their first member outcomes assessments. We understand that is a challenging area to benchmark but it is disappointing to see the funds adopt so few metrics in this area. A reasonable starting point would be for funds to consider how members engage with and claim on their insurance, opt-out and opt-in rates for default members, claims pay-out ratios, claims handling procedures and processing times, claim withdrawal rates, the number of insurance-related disputes, the time taken to resolve disputes, and policy lapsing rates. Each of these metrics are mentioned in APRA's guidance for funds to consider but were largely ignored.

If funds have made little progress on this front on their own we recommend APRA provide additional guidance about the value of benchmarking against these metrics in the SPS 515 framework.

Taking meaningful action

MOA's can be an important self-reflection and accountability measure if funds are using them to identify and commit to improvements. For example, Suncorp's 2020 MOA combined appropriate data use, clear performance indicators and made tangible commitments to improve. They detailed they would reduce their administration fee on 1 April 2021, which disproportionately impacts lower account balance members in their MySuper option. Their 2021 MOA details that they removed fixed administration fees and reduced variable MySuper administration fees from 0.76% to 0.54% effective 1 April 2021 which delivered $7.7m in gross annual savings to MySuper members.

We recommend funds be encouraged to include areas for improvement, along with commitments for each main category of their MOA (e.g. performance, fees, insurance etc.). This section should appear immediately after the fund's overall determination of whether it's promoting best interests. Given member outcome assessments are part of the notification requirements for annual member meetings, this also provides an avenue for engaged members to be informed about the steps funds are taking and hold them to account if they fail to deliver.

We support APRA making enhancements which connect larger 'action taking' prudential standards, such as wind up of products, with the SPS 515 framework. Identification of underperformance is a crucial time for a fund and its membership. There is increased risk that a fund will take steps to improve its chances of survival, which may not align with the long term interests of members. For example, a fund could commit to an excessive marketing spend to try and reverse declining membership. Given low rates of engagement with super, this may not be an effective strategy compared to seeking a merger partner. Requiring funds to reflect on these existential questions should help APRA to challenge fund thinking.