Superannuation Data Transformation – Publications and Confidentiality Consultation

SuperRatings' Submission

April 2022

CONTENTS

1. Executive Summary

SuperRatings would like to thank APRA for providing us with the opportunity to comment on the Superannuation Data Transformation - Publications and Confidentiality Discussion Paper, which was released in February 2022.

SuperRatings is a research and consulting firm, which has been assessing and rating superannuation funds and products for almost 20 years. Given SuperRatings' background in superannuation and data science, we are well placed to provide input into the SDT project which seeks to enhance comparability and consistency of reported data. Overall, we support the steps APRA is taking to improve data collection, reporting and transparency around superannuation products across the industry.

However, we note that data collection is onerous for the industry and therefore do not propose any further metrics to be obtained from providers. We believe the greatest value would be achieved through further refinement of the data being collected, with standardisation and improved consistency, where possible, supporting usability, as well as a clear data verification process. Also, as the industry makes leaps and bounds on the digital front; we suggest consideration be given to the provision of APIs for more sophisticated users.

We note that there is still very good reason for segmenting funds based on their fund type due to differences in their ownership structures and product offerings which flow down into impacts that will be seen in service provider agreements, fee structures and insurance arrangements. We support the proposal to apply a representative member balance and believe a $100,000 account balance is reasonable as this is reflective of the average member balance observed.

We note that in our experience we have found that Sharpe ratios are not broadly understood, especially amongst consumers, and are of limited usefulness if not considered alongside other risk metrics, due to their known shortcomings, particularly the inability to account for volatility of unlisted assets. Furthermore, disclosure of multiple performance measures which seek to describe similar underlying constructs, is likely to cause confusion among users of the data and particularly members if they view this information.

We note the challenges of determining growth asset proportions across the industry due to inconsistencies in classification approaches, particularly for unlisted property and infrastructure assets. We believe there is room for improvement here and that a consistent approach is needed for meaningful comparisons to be undertaken across providers. As a result, the computation and interpretation of growth asset proportions across the industry remains a challenging area. Therefore, the introduction of growth asset categories is likely to create further complexity and confusion given there are already a number of bands being communicated, including our own method.

We note that there are likely to be several reasons for there to be a non-zero difference between premiums collected and remitted. These include timing differences, differences in accounting practices and factors inherent to benefit design. There may also be commercial considerations in publishing this data.

One possible objection to the publication of default insurance cover and cost is that products and costs are not always directly comparable from fund to fund. Nevertheless, we do see some value in publishing the default product details for each fund to the extent that these are by definition the terms that will apply to members who make no active decision regarding their insurance cover.

We would question whether smoking status still has any relevance, particularly in the context of 'default' insurance. In addition to publishing the default arrangements, we suggest including a comparison using cohorts based on gender, age and occupation categories.

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Once again, SuperRatings would like to thank APRA for the opportunity to prepare a submission to the Consultation Paper and we would be happy to discuss any aspect of this submission further, as required.

Please feel free to contact any of the following SuperRatings team members should you have any questions or require further information:

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2. About SuperRatings

SuperRatings is a superannuation research and consulting company providing data analysis, information, bespoke services and product benchmarking to the superannuation industry, corporate sector and the general public. SuperRatings prides itself on providing impartial advice to funds and employers, therefore our ratings methodology includes all superannuation funds and we limit the ratings percentile bands of funds to ensure our assessment remains independent. We actively promote engagement, education and ownership of superannuation through the provision of:

- Research analysis;
- Ratings;
- Consultancy services;
- Product reviews;
- Benchmarking; and
- Opinion.

Since its inception, SuperRatings has comprehensively reviewed hundreds of Australia's largest superannuation funds and service providers. SuperRatings currently maintains detailed information in respect of over 530 superannuation products, incorporating 87 MySuper products, 279 choice products and 170 pension products which are all housed within our in-house proprietary database, SMART.

We believe we offer the most extensive industry coverage accounting for over $1.5 trillion in funds under management and over 28 million member accounts. This allows us to understand the various costs, fees, products, services and performance of superannuation funds and benchmark these against the broader market.

3. Responses to consultation paper questions

3.1. General

a) ***Of the proposed suite of publications (super facts, key metrics publication, key metrics datasets and granular datasets, which, if any, do you intend to use? Please outline any intended use of these publication types.***

b) ***Where more granular data is provided, what information would be most useful to you? Do you intend to use the granular datasets?***

We do not have specific comments to these general questions, instead we have comments pertaining to the validation of data and the project scope.

Given the expansion of data being collected, the reporting of benchmarks based on this data and disclosure of various items in the public domain, it is imperative that there is a data validation process in place which is also communicated to users of the data.

We believe it would be valuable for APRA to indicate its data verification process for the information which will be incorporated within the proposed suite of publications, given the benchmarks being disclosed will be used in decision making by stakeholders across the industry. For example, how it plans to verify the accuracy of data being collected, treatment of outliers and their potential impacts on analysis.

Further information on the scope of the proposed suite of publications, in terms of how they intend to calculate and report key metrics for products offered through different investment structures, such as Platforms, would be useful.

3.2. File format

a) ***For downloadable datasets, what file types other than CSV would be desirable?***

We believe CSV files would be sufficient. It is important to ensure the formatting is in a database readable format with the ability to link datasets across the various files i.e. through the use of unique identifiers.

Furthermore, we suggest consideration be given to the provision of APIs for more sophisticated users, as we see increased demand for APIs across the industry. We suggest design could follow the government's existing API Design Standard as per the api.gov.au website.

3.3. Metrics

a) ***Are there any additional metrics beyond those in Attachment D that APRA should consider including in its publications?***

We note that data collection is onerous for the industry and therefore do not propose any further metrics to be obtained from providers. We believe the greatest value would be achieved through further refinement of the data being collected, with standardisation and improved consistency, where possible, supporting usability.

b) ***Of the proposed metrics in Attachment D, should APRA consider changing how any of these are calculated?***

We note that insurance metrics INS_005 to INS_010 are well intended; however, if the goal is to introduce a proxy for insurance administration fees, then these are unlikely to achieve the desired outcome. Please see our comments in section 3.8 a) for further details.

3.4. Segmentation

a) Are there alternative approaches or impediments to the proposed segmentation of products outlined in section 2.8? (i.e segmentation by product phase (accumulation, retirement), product type (MySuper, choice and defined benefit)

On page 26 APRA states that: "*With continued consolidation in the superannuation industry, the current classifications of Corporate funds, Industry funds; Public sector funds; and Retail funds are less distinct and APRA does not consider that retaining segmentation based on fund type useful to the objectives of holding all RSE licensees to account for acting in the best financial interests for their members*."

SuperRatings has since inception undertaken analysis across the industry as a whole and among segments based on fund size and fund type and other subsets as required. Whilst we agree that there is ongoing consolidation across the industry, we continue to see funds of all four fund types mentioned in existence. Therefore, there is still very good reason for segmenting funds based on their fund type due to differences in their ownership structures and product offerings which flow down into impacts that will be seen in service provider agreements, fee structures and insurance arrangements. Consolidating data for corporate funds, industry funds, public sector funds and retail funds within product phase or product types ignores entrenched sectoral biases that exist and will distort the data.

3.5. Fees and Cost Arrangements

b) Should a representative member balance be applied to illustrate the fee arrangements, and if so, what balance/s should be applied?

We support the proposal to apply a representative member balance and believe a $100,000 account balance is reasonable as this is reflective of the average member balance observed. We note that there is a need to consider higher account balances also in order to capture the impacts of fee caps, which often do not have any impact on low account balances. We suggest analysis of a range of account balances including $50,000, $100,000 and $250,000.

We also note that pension phase fees need to be separated from Choice as they are often structured differently.

3.6. Performance

b) APRA invites comment on the proposal to publish risk-adjusted returns using the Sharpe Ratio.

We note that in our experience we have found that Sharpe ratios are not broadly understood, especially amongst consumers, and are of limited usefulness if not considered alongside other risk metrics, due to their known shortcomings, particularly the inability to account for volatility of unlisted assets. In this case, it would create a lot of additional data, which is of limited value.

If Sharpe ratios were to be included clarity around which type of returns these would be based on is desired i.e. net returns or net investment returns. Our position is that the net investment return should be used to enable a focus on investment return comparisons.

c) APRA invites comment on the proposal to publish the return objectives (i.e. return measurement, return objective, return margin and investment horizon) reported under SRF 705.1 Table 1 for TDP investment options.

We believe that having multiple measures which seek to describe similar underlying constructs is likely to cause confusion among users of the data and particularly members if they view this information.

We note that funds currently publish return targets, minimum suggested time frames for investment and expected frequency of negative returns in Product Disclosure Statements (PDS). While the Heatmaps disclose Net Investment Returns (NIR) based on SRF 702.0 disclosures and NIR relative to the Simple Reference Portfolio.

The disclosure of the four return objectives as suggested results in four different return measures (Gross Investment Return, Gross Investment Return Net of Fees, Net Investment Return and Net Return), a return benchmark and investment horizon (which may differ to PDSs), and a return margin being disclosed.

We believe simplification would be useful here.

d) APRA does not propose to publish 'Return Objective Target Return' collected in SRF 705.1 Table 2 at this stage. APRA invites feedback on the potential for publication of this data in the future.

We support the proposal not to publish the 'Return Objective Target Return'.

3.7. Asset Allocation

b) APRA seeks feedback on any additional asset class characteristics that would be of public interest to publish on an aggregated industry-level or fund-level basis?

We believe it would be useful to provide an indication of the proportion of assets under passive management.

c) APRA invites comment on the proposal to publish the estimated allocation to growth assets and the use of this metric to segment multi-sector investment options into categories (0-40 per cent; 40-60 per cent; 60-75 per cent; 75-90 per cent; and 90-100 per cent).

We note the challenges of determining growth asset proportions across the industry due to inconsistencies in classification approaches, particularly for unlisted property and infrastructure assets. We believe there is room for improvement here and that a consistent approach is needed in order for meaningful comparisons to be undertaken across providers. Since the disclosure of ARPA's Heatmap methodology we have seen some movement towards the use of APRA's approach among funds, yet meaningful differences remain.

As a result, the computation and interpretation of growth asset proportions across the industry remains a challenging area. Therefore, the introduction of growth asset categories is likely to create further complexity and confusion given there are already a number of bands being communicated, including our own method. We are also likely to see more providers grouped towards the upper end of each band proposed e.g. within 70-75% for the 60-75% category; within 85-90% of the 75-90% category and so on.

3.8. Insurance

a) In the draft Insurance publication, APRA is proposing to calculate insurance fees as the difference between premiums collected from members and premiums paid to insurers. Should APRA consider an alternate method of calculating this amount? Please refer to Tables 2 and 2a of the Key metrics Publication mock-up for insurance for more information.

We are unsure of the purpose of computing the difference in premiums paid by members versus premiums paid to insurers. If the goal is to understand the cost of insurance administration, there are more suitable methods to utilise.

We note that there are likely to be several reasons for there to be a non-zero difference between premiums collected and remitted. These include timing differences, differences in accounting practices and factors inherent to benefit design. For example, many funds have to monitor small accounts so that insurance can be terminated when the balance falls below zero. Subsequent receipt of a late contribution can mean that the account will be restated, and insurance revived. Also, some funds, particularly corporate funds, may operate on a salary-based insurance structure, with a retrospective premium adjustment process at the end of each fund year.

If the purpose of the metric is to estimate the amount (if any) retained by the fund towards insurance administration costs, it may be more accurate to simply ask the funds for their insurance administration fee revenue (if they have an insurance administration fee). We note of course that some funds pay insurance administration costs out of their general administration fee. Alternatively, funds could be asked to allocate their administration and operating expenses down to the functional level, with insurance administration costs being one component.

There may also be commercial considerations in publishing this data.

b) APRA invites comment on the proposal to publish data on default insurance cover design and cost for representative members (male and female non-smoker) in the Key metrics publications.

One possible objection to the publication of default insurance cover and cost is that products and costs are not always directly comparable from fund to fund. For example, the default occupational profile may be quite different for (say) a fund operating predominantly in a blue-collar industry versus (say) a corporate fund for a financial institution. This is a valid objection insofar as the objective is for trustees to be able to compare underlying premium rates on a fair basis. Nevertheless, we do see some value in publishing the default product details for each fund to the extent that these are by definition the terms that will apply to members who make no active decision regarding their insurance cover.

We would question whether smoking status still has any relevance, particularly in the context of 'default' insurance.

In addition to publishing the default arrangements, we suggest including a comparison using cohorts based on gender, age and occupation categories.