

APRA Enhanced Statistics Discussion Paper

ASFA Submission

June 2009

Association of Superannuation Funds of Australia

ASFA Secretariat
Level 6
66 Clarence Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 1005
Ph: +61 2 9264 9300
Fax: +61 2 9264 8824

Outside Sydney
1800 812 798

Website: www.superannuation.asn.au

The Association of Superannuation Funds of Australia Limited ABN 29 002 786 290 ACN 002 786 290

Please Note:

This background paper provides general information and is not intended as advice specific for any individual superannuation fund or investment manager's portfolio. Although verification of the accuracy of the information contained in this paper has taken place, liability is not accepted for any errors or omissions that may have occurred.

© ASFA 2009

30 June 2009

Manager, Superannuation Statistics
Australian Prudential Regulatory Authority
GPO Box 9836
SYDNEY NSW 2001

Email: superstats@apra.gov.au

ASFA Preliminary Submission to APRA Discussion Paper: Enhanced APRA superannuation statistics collections

INTRODUCTION

The Association of Superannuation Funds of Australia Ltd (ASFA) is pleased to provide its submission to the Discussion Paper: Enhanced APRA superannuation statistics collections (hereafter called the Discussion Paper).

ASFA is the peak superannuation industry association representing all sectors of the Australian superannuation industry. ASFA supports consistency in reporting - we aim to ensure all superannuation funds are compared and measured on a "like with like" basis. We also aim to ensure members are engaged with their superannuation and have an understanding of the options available to them. One of the most important pieces of information for fund members is accurate, comparable investment performance information at investment option level, so that they can fairly compare the options available to them.

In our 23rd January 2009 submission "Fund level disclosure from the APRA superannuation statistics collections", ASFA called for APRA to collect new data to better reflect the current and evolving structure in the superannuation industry. We are pleased that APRA has decided to collect new data and applaud APRA's consultative approach in releasing this Discussion Paper for comment.

Request for further consultation period until 31 August 2009

The data to be collected (and possibly published) by APRA is a very important issue for the superannuation industry. ASFA have received high level feedback on the proposals from a number of our member funds and service providers. However the one month consultation period for this issue has been very short given the size and scope of the changes being proposed. The superannuation industry has had seven other submissions (including two from APRA) due during the consultation period. This has meant that in general, superannuation funds and service providers (including administrators) have not been able to give this paper the attention it deserves.

For example we are still collecting some information from super funds on the additional costs of the requested new data, as our members have not had adequate time to perform this analysis.

Also due to the high volume of submission work during May and June, ASFA have not had the resources available to respond to the "Confidentiality of APRA Superannuation Annual Return Data" paper which was due on 12th June.

We request a further time period until 31st August 2009 in which to respond to the both papers and in particular to provide some more detailed information and further issues to APRA.

In this preliminary submission we provide our initial analysis of the high level issues our members have raised. We would be happy to meet with the relevant APRA staff to discuss these issues.

We have provided an annexure which is a confidential draft of our initial thoughts on some of the more detailed issues. We will consult further with our members on these issues and provide a further submission once this has been done.

HIGH LEVEL ISSUES

Parity with the Regulatory framework for other industries

It is our understanding that APRA does not collect or publish this fine a level of detail APRA about the other industries they supervise such as banks and insurance companies.

In the banking sector, APRA do not collect information about consumer bank account balances, term deposits and other banking products. Banks have investments underlying consumer accounts and the underlying investments are not required to be disclosed. Also the difference between what those underlying investments earned and what is credited to a consumer's account is not required to be disclosed. Consumers are required to choose for themselves which bank has the best product, fees, returns without relying on APRA to publish the data.

Life and general insurance products are also not reported and scrutinised by APRA to this extent. For example there is no published comparison of home contents insurance for consumers.

We question the rationale for treating superannuation funds differently to banks and insurance companies, given the volume of retirement monies in bank accounts (particularly since the Government guarantee) and the importance of life and general insurance to allowing Australians to build wealth for retirement.

We are not suggesting that similar statistics should be collected for bank and insurers, simply that APRA consider the level of detail of data that is being requested and the extent to which it is really necessary for proper Prudential regulation.

Minimise data duplication

Superannuation funds currently provide data for a range of purposes:

- External - to APRA and other Regulators for regulatory purposes – we note that the Discussion paper indicates that the purpose of APRA data may be changing with a new emphasis on also providing information to super fund members (or the general public);
- External – to members of the fund;
- External - to research houses providing “league tables” or rating systems based on investment performance and other criteria;
- External – to other third parties including consultants performing tenders, to financial planners providing advice to members, to insurance companies, to custody houses, to investment managers, to brokers where investments are placed directly, to actuaries for defined benefit fund valuations etc.
- Internal - for financial reporting in the fund's accounts under AAS25; and
- Internal - for internal compliance and governance purposes, eg. data on their costs in order to measure their efficiency in various areas of their operation. Given the focus of the Cooper review, external provision of such data may in future be required.

In many cases there are large, full-time teams of staff dedicated to collecting and providing this data, either in-house or at outsource administration houses. This is a significant fixed cost to superannuation fund members.

The additional data being sought by APRA is extensive and in some cases is similar to (but slightly different than) data collected by ASIC (eg. on fees and disclosure).

In order to minimise costs, we ask that Regulators consider the information superannuation funds already provide and consider sharing this information so that superannuation funds should not be asked for the same data from more than one Regulator.

Cost / benefit trade-off of additional data

A major goal of government, and of the superannuation industry itself, is to increase the efficiency of our industry. As a result of the Global Financial Crisis and the current scrutiny on fees, costs and efficiency (for example through the Cooper Review), we recognise that superannuation funds will be required to provide a higher volume of data to regulators on a more frequent basis.

The desire for more stringent regulation and more publicly available information must however be balanced against the costs to superannuation fund members of providing additional data. Additional data should only be requested by the Regulator where the ongoing benefit to superannuation fund members outweighs the ongoing cost of collection. We appreciate that APRA recognises this fact, and thank APRA for seeking the views of the industry about the feasibility and cost of collection the additional data identified in the Discussion Paper.

We provide some comments below on the costs and feasibility of collecting some of the additional data. It is important to note that some of the additional data being requested is either not available at all, or not available without considerable additional cost to fund members.

Additional cost of data requirements

ASFA is in the process of collecting data from our members as to the additional costs they expect to incur in providing this data. Due to the short time-frame for consultation, we have not yet been able to complete this data collection process. This information will be forwarded to APRA as soon we have received information from an adequate number of funds across different sectors.

The statement is made in Chapter 7 of the Discussion Paper that “APRA’s expectation is that the costs to the industry should be minimal”. ASFA strongly refute this statement. Initial feedback from our members in all superannuation sectors is that they expect that the additional costs of collecting this data will be significant. This will be the case even if APRA adopts ASFA’s recommendation to collect the data annually and not quarterly.

Administration companies will need to undergo significant cost to create some of these member level extracts, especially for the larger funds.

Data proposed to be collected by APRA which will either create additional cost or are not possible to collect at all include, but are not limited to the following:

- Whether a member has actively decided to be in the default fund or not. This data is not currently held in administration systems and would require a search back through member correspondence;
- Fees and commissions at investment option level (how are dollar-based fees to be “spit” across investment options?);

- The data in Table 3 is not generally held at investment option level. Most administration systems hold the data the other way around – that is the member’s account information is held at one level, then at the next level down is the investment options that member holds (i.e. the data is held as “investment option within member data”). Some very advanced systems like wrap platforms may be able to re-slice the data as “member data within investment option” but our information is that the minority of administration systems would be able to provide such data.
- Whilst funds will hold records of member requests to move between sub-funds or otherwise change their account arrangements, these requests are not always recorded on the administration system and therefore cannot be extracted and reported to APRA. The same is likely to apply in relation to referrals from planners, switches recommended by planners etc.
- In some funds members hold multiple accounts within a fund eg. defined benefit, rollover (amounts rolled in), voluntary contributions. Asset allocation is held at account level as members will have different asset allocations depending on the type of account. It is difficult, if not impossible (where some benefits are defined benefit) to aggregate asset allocation across accounts at member level.

Defined benefit funds

ASFA members are particularly concerned about the requirements for defined benefit funds and we have the following specific comments in this regard.

1. It is difficult to appreciate the value of quarterly VBI, ABI and MBI figures since they are unlikely to provide for an enhanced understanding/assessment of “emerging risks” compared to the provision of annual data.

Many defined benefit administrators/funds only undertake annual reviews and provide annual member statements. There is likely to be an appreciable cost to sponsoring employers from providing quarterly data. We have had strong feedback from a number of defined benefit funds that this will be a waste of money particularly as funding and contributions are generally based on a 1 - 3 year time period.

For example our members who run defined benefit funds have informed us that they do not update vested benefit data away from the year end (eg, 30 June) review process. As such no new information would be provided via quarterly data collection. In practice salary changes notified “mid year” are available for quotes and benefits, but until a full Plan review is undertaken the funds rely on the previous year end numbers.

2. Reference is made to “actuarially estimated” information as at the reporting date.

The VBI and MBI would be best calculated by the fund’s administrator (unless allowance was to be made for accruals to date) whilst calculation of ABI figures may well take longer than 20 days (depending upon the provision of data from the administrator and on the level of approximation “permitted” by APRA).

Notwithstanding this we believe there would be many cases of funds, as per 1. above, where the information could not be provided readily at this time.

For the above two reasons ASFA strongly recommends that data for defined benefit members is collected on an annual and not a quarterly basis.

3. Collection of the various data, particularly on a quarterly basis, is unlikely to enhance the comparability between defined benefit funds or between accumulation and defined benefit funds due to the very different nature of the various funds (and also due to different balance dates). This information may be useful for Regulatory purposes but will lack relevance for 3rd party analysts

or members of the public.

4. Using AAS25 as a basis for the data to be collected may be inappropriate given the Standard is being revised by the AASB.
5. As a general comment, the requirement for such fine detail of the age group, sex, vested benefit range on a quarterly basis seems excessive given there may be little, if any, noticeable change from quarter to quarter in a defined benefit fund. Defined benefit funds typically have very low member change rates, with many being closed to new members and (due to the often generous benefit scales) expecting their members to stay with them until retirement.
6. It would be more meaningful to completely exclude DB members (not DB funds) from all reporting since nothing is calculated at member or investment option level. However, we recognise that this would bring complexity since most DB members also have an accumulation account for rollovers and voluntary contributions.

Yours faithfully,

Melinda Howes

Director of Policy and Industry Practice