



AUSTRALIAN INSTITUTE of  
SUPERANNUATION TRUSTEES

SHAPING PROFIT-TO-MEMBER SUPER

# APRA Capability Review

**10 April 2019**

## **AIST Submission to APRA Capability Review**

### About AIST

**The Australian Institute of Superannuation Trustees** is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$1.3 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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## Summary of recommendations

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**In brief: Following extensive consultation with profit-to-member funds, AIST recommends a new superannuation mandate to better reflect APRA's role; an integrated governmental superannuation data framework to support improved data collection, reporting and analysis; and makes numerous recommendations to improve supervisory arrangements.**

### APRA's superannuation mandate

AIST recommends that the APRA Capability Review recommends a new superannuation mandate for APRA, to:

- take on the role of ensuring the delivering of good value to members; and
- provide a data framework to identify what data is needed to benchmark performance.

### Periodic capability reviews

AIST recommends that the APRA Capability Review recommends that independent, forward-looking capability reviews of APRA be scheduled at least every three-years and that it be aligned and coordinated with each strategic planning process and a capability review of ASIC.

### Improved supervisory arrangements

AIST recommends that the APRA Capability Review recommend that:

- APRA make greater and regular use of consultative forums with the superannuation industry to both improve efficiency and provide informed input into strategy development;
  - APRA re-establish regular Industry Liaison meetings.
- APRA clarify its expectations and risk tolerances on a pro-active basis, both with APRA-regulated entities and with the community;
- APRA's strategy-setting process be more transparent and explicitly aligned with fulfilment of its statutory responsibilities;
- APRA provide additional skilled staff resources in order to meet its prudential supervision responsibilities in light of the increased size and complexity of the superannuation sector;
- APRA establish a two-way secondment program across the superannuation industry to support understanding of industry and address critical skill gaps; and develops mechanisms for interpreting conflicting signals from different benchmarks – without resorting to tick-box solutions;
- APRA undertake a skills gap assessment to support future recruitment, with reference to the structure and operation of the superannuation sector and future operating environment in financial services;
- APRA supplement the skills of its highly-qualified staff with superannuation-industry specific training;

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- APRA develop industry benchmarks as an efficient means of supporting an increased focus on outcomes assessment;
- The Government in consultation with APRA should clearly articulate the framework within which APRA will be able to balance its prudential regulation and member outcomes assessment responsibilities.
- The Assistant Treasurer assess the effectiveness and performance of APRA on an annual basis, with particular reference to the alignment of its activities with its statutory responsibilities.

### Data collection and reporting

AIST recommends that the APRA Capability Review recommend that:

- APRA undertake a project to integrate its reporting, data collection, analysis, publication and dissemination responsibilities and develop a comprehensive forward-looking data reporting framework;
- APRA undertake an audit to identify the weaknesses in its data infrastructure and prepare a proposal to Government for the funding needed to close the identified gaps; and
- APRA resurrect the development of a Data Dissemination Tool that provides the functionality for external parties to interrogate APRA's superannuation database and contribute to improvements in the superannuation system.

AIST recommends that the APRA Capability Review recommend that:

- The Council of Financial Regulators consult with its constituent regulators and the ATO on the design of an integrated data framework; and
- APRA re-establish its dedicated research capabilities with a brief to provide long term insights on the superannuation sector.

### SuperStream

AIST recommends that the APRA Capability Review recommend that:

- APRA provide additional skilled staff resources in order to meet its SuperStream responsibilities.



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## APRA Capability Review

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### Introduction

This submission addresses the factors identified in the Terms of Reference for the Capability Review from our perspective – and that of AIST’s member funds – as a consumer of APRA services.

AIST has been consulting extensively with our member funds and other informed stakeholders in preparing this submission. We have had input from numerous profit-to-member super funds, the AIST Policy Committee (comprised mostly of trustees and fund staff) and many others.

While we have received much positive feedback, especially in relation to the interaction between super funds and their supervisory teams, it is in the nature of such exercises that most commentary is on areas where there appear to be opportunities for improvement.

Much of this paper addresses issues identified by fund on APRA’s process and data. However, overall there is also a concern about the capacity of APRA reviews to comprehend funds’ strategic direction. Funds have observed a tendency to prefer linear relationships between objectives and outcomes.

Some feedback has been received that APRA’s supervision teams displayed little ability to accommodate ambiguity or nuance in assessing either businesses or outcomes, or to recognise that funds operate in fluid and dynamic markets which do not always lend themselves to 1:1 linear assessments.

As the industry association representing the interests of profit-to-member superannuation funds (all of which are APRA-regulated superannuation funds), AIST engages with APRA on a frequent, detailed and ongoing basis and has been doing so since the inception of APRA in 1998.

AIST engages with APRA in response to Government initiatives and their subsequent implementation; by making submissions on proposed APRA requirements such as prudential and reporting standards; by making representations of behalf of funds about specific issues; in relation to specific initiatives such as AIST Guidance Note on Operational Due Diligence; facilitating and participating in industry forums and events.

AIST and our member funds have an informed appreciation of APRA’s mandate under the APRA Act, and its responsibilities under the Superannuation Industry (Supervision) Act and other relevant legislation.

In making our observations, we have been guided by the OECD Principles of Good Regulation and the OECD Best Principles for Regulatory Policy on The Governance of Regulators<sup>1</sup>.

**From our perspective, the principle requiring the most attention in relation to the Capability review is Principle 1 – serve clearly identified policy goals and be effective in achieving those goals.**

### **A new superannuation mandate for APRA**

The Terms of Reference for the Capability Review includes a requirement to “Undertake a forward-looking assessment of APRA’s ability to respond to an environment of growing complexity and emerging risks for APRA’s regulated sectors.”

AIST submits that APRA’s current mandate requires review. It states:

*Our mandate is to protect the Australian Community by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system.*

AIST believes the current mandate does not address the promise made by superannuation nor recognises how it differs from that of other financial institutions. The mandate is written for banking and insurance. With banking, the ‘promise’ is clear – that the money in a depositor’s account will be there when they want it. With insurance, the ‘promise’ is clear – if an insurable event occurs, the insurance company will pay.

With superannuation, there has been little discussion of what is the ‘promise’. Given the strong focus of both the Productivity Commission and the Financial Services Royal Commission on members’ best interests (and in the case of the FSRC community expectations), this must be addressed by the Capability Review.

APRA’s key performance indicators should be changed in relation to superannuation. The best interests of members should be included in a revised measure of APRA’s success. Currently, ‘loss’ relates to immediate failure or financial loss of regulated entities, and does not include loss to member value arising from entities not acting in members’ best interests. The Productivity Commission’s final report<sup>2</sup> made comments relevant to this question:

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<sup>1</sup> <http://www.oecd.org/gov/regulatory-policy/governance-regulators.htm>

<sup>2</sup> P.43 Productivity Commission (2019). *Superannuation: Assessing Efficiency and Competitiveness*, Report no. 91. Available at: <https://tinyurl.com/y9ylxoll>

*“APRA is best placed to focus on licensing and authorisation to promote high standards of system and fund performance. The elevated outcomes tests should be central to its regulatory approach, by helping to detect poor performance — whether caused by a failing of competence, conduct or a combination of both — and thus informing how APRA prioritises its supervisory effort. The Government should provide APRA with a more explicit ‘member outcomes’ mandate to replace its traditional (and here misplaced) prudential mandate, and clarify that ‘outcomes’ should be synonymous with actual member outcomes, not adherence with processes. APRA will also need an exponential uptick in dedicated expertise and resources to deliver on what is expected of it. An independent and expert capability review of APRA is now overdue. Recently announced and completed reviews are no substitute.”*

AIST believes the ‘promise’ in superannuation is for optimal net long-term returns, promoting the best interests of members and to provide a reasonably comfortable retirement income for them. If this ‘promise’ was recognised in APRA’s mandate, this would have a significant flow-on effect to what APRA does.

In determining good value to members APRA:

- would need to take on the role of ensuring the delivering of good value to members rather than only gauging financial loss of superannuation funds. From the FSRC case studies, it is clear that APRA’s current role of only reviewing systemic financial loss is not serving members well.
- data framework to identify what data is needed to benchmark performance. To ensure regulatory independence, the data should be analysed by an independent agency (eg ABS) with APRA using the data to ensure funds to keep the ‘promise’ of delivering good value to members

The issues in relation to a data framework are also addressed later in this submission.

***AIST recommends that the APRA Capability Review recommends a new superannuation mandate for APRA, to:***

- ***take on the role of ensuring the delivering of good value to members; and***
- ***provide a data framework to identify what data is needed to benchmark performance.***



### The case for periodic capability reviews

A review of APRA's capabilities is long overdue, and its delay may have been a contributing factor to the problematic regulatory responses to the issues identified by the Financial Services Royal Commission (FSRC).

This APRA Capability Review was announced by the Treasurer on 11 February 2019 as a response to a recommendation of the Financial Services Royal Commission, noting that the Productivity Commission had also recommended such a review.

In fact, a review of APRA's capabilities was also recommended in the November 2014 final report of the Financial System Inquiry, where recommendation 28 stated:

*Provide regulators with more stable funding by adopting a three-year funding model based on periodic funding reviews, increase their capacity to pay competitive remuneration, boost flexibility in respect of staffing and funding, and require them to undertake periodic capability reviews.*<sup>3</sup>

The FSI intended that “regulators undertake periodic, forward-looking capability reviews to ensure they are fit for purpose and have the capability to address future regulatory challenges”.<sup>4</sup> The report proposed a six-yearly cycle for APRA and ASIC capability review, allowing the two to take place concurrently.

The Government responded to the FSI recommendations 11 months later, in October 2015. While “The Government agrees to periodic consideration of regulators' capabilities”<sup>5</sup>, it did not address the question of APRA's capabilities beyond stating that “We will use the Statement of Expectations to require all financial regulators to consider and discuss their capabilities in each annual report”.

An APRA capability review was not scheduled in the Government's response in 2015 and was not announced until February 2019. While the Government's response to the FSRC repeated its 2015 pledge that the Government will conduct regular capability reviews going forward, this review has been announced in the singular. The Government has not provided any details of ongoing capability reviews for either APRA or ASIC beyond the timetable for this review.

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<sup>3</sup> p.246, [http://fsi.gov.au/files/2014/12/FSI\\_Final\\_Report\\_Consolidated20141210.pdf](http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf)

<sup>4</sup> p.29 [http://fsi.gov.au/files/2014/12/FSI\\_Final\\_Report\\_Consolidated20141210.pdf](http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf)

<sup>5</sup> <https://treasury.gov.au/publication/government-response-to-the-financial-system-inquiry/attachment-government-response-to-financial-system-inquiry-recommendations>

The last significant capability review of APRA took place in 2002 and was also undertaken on a reactive, ad hoc basis. The 2002 Palmer Review<sup>6</sup> was given “a warts-and-all” brief to critically examine APRA and outlined how systemic challenges severely inhibited APRA’s ability to monitor the insurance company HIH effectively, at a time when APRA was still establishing itself.

Notwithstanding the partial consideration given to regulatory matters by the Super System Review, the FSI, the Productivity Commission and the Financial Services Royal Commission, the importance of the regulation of the financial services sector is such that 17 years is too long between APRA capability reviews and too important to be conducted on reactive, ad hoc basis.

We also believe the six yearly cycle recommended by the FSI is too long and that the cycle should instead be aligned with APRA’s three-yearly strategic planning cycle. APRA requires its entities to conduct triennial reviews of their frameworks. We submit that APRA should reflect the same level of governance and review.

***AIST recommends that the APRA Capability Review recommends that independent, forward-looking capability reviews of APRA be scheduled at least every three-years and that it be aligned and coordinated with each strategic planning process and a capability review of ASIC.***

### Supervisory arrangements with APRA-regulated superannuation funds

The relationship between APRA and the profit-to-member superannuation funds that it regulates is generally positive, with funds reporting that they find APRA to be accessible and engaged with funds, especially through prudential supervision activities. The supervisory teams are overwhelmingly transparent and co-operative in their fund engagements and help facilitate meaningful prudential review processes.

Supervisory teams were also reported as being strongly present- and future-focused and aware of the changing regulatory environment. This is especially the case where at least one member of the supervisory team has extensive, diverse and long-term superannuation-specific experience.

Funds reported overall high levels of satisfaction with principles-based supervision in the profit-to-member sector and noted that it had resulted in highly efficient prudential supervision of profit-to-member funds.

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<sup>6</sup> Palmer J. 2002, Review of the role played by the Australian Prudential Regulation Authority and the Insurance and Superannuation Commission in the collapse of the HIH Group of companies.

While AIST supports a greater emphasis on enforcement in order to address misconduct, our member funds were also concerned that this not disturb the efficient and iterative elements of the current supervisory model. Funds appreciated having an open relationship with APRA where they can share their thinking about emerging issues and risks.

APRA oversight was recognised as an important factor in the stability and security of the profit-to-member sector, and funds appreciated APRA's role in steering funds away from problems before they developed into serious problems.

Until very recently, the legislative emphasis however has been on prudential supervision and less on ensuring quality member outcomes, and this has been reflected in the approaches taken by APRA. Some funds observed to AIST that their recent prudential review appeared to largely be about educating APRA staff about their operations and relationship, with there seeming to be limited attention paid to meeting prudential requirements or on member outcomes. This was most likely to occur where the supervisory teams were largely made up of inexperienced members. Other funds however observed that their supervisory teams have been discussing member outcomes requirements for almost two years.

Discussions with funds identified several common themes where funds felt that APRA could be more effective both in their engagement with funds, and in the delivery of their statutory mandate:

- In some instances, it was observed that APRA did not delve below the representations of management in their reviews, and some funds felt that APRA should display more insight, depth and challenge in their engagement with funds.
- There was an unrealised expectation from some respondents that APRA's prudential inquiry that examined the frameworks and practices in relation to the governance, culture and accountability within the CBA group would provide the template for their ongoing prudential activities, but this does not seem to be the case.
- Prior to the Financial Service Royal Commission, some (but not all) funds reported that member outcomes assessment was not a consideration in the prudential reviews of their funds undertaken by APRA.
- While APRA staff are highly qualified, supervisory staff often have limited financial services experience. Where they do have this experience, it tends to be more banking than superannuation-specific experience and is often quite generalist in nature. There are some noteworthy exceptions to this.
- The lack of financial services experience also meant (in the view of all respondents) that staff had limited real-world commercial experience and understanding of operational frameworks. This was probably the loudest and most consistent theme that was reported by the funds AIST consulted with.

- This is sometimes compounded by teams supervising only a small number of funds (sometimes as few as two). While there is demonstrable value in members of a supervisory team being familiar with a fund, conversely teams responsible for a small number of funds may only have a limited appreciation of the superannuation system, and the diversity of super fund models.

Respondents suggested this could be addressed by:

- Supervisory teams to contain a mix of more and less experienced staff, including staff who had been involved with other superannuation supervisory teams, as well as in banking and insurance teams.
- Short-term exchanges of staff between trustee offices, industry associations and other super entities. These exchanges currently occur between arms of government and industry, and can be managed with confidentiality agreements and the like.
- Respondents provided various suggestions about how the traditional prudential review model could be supplemented by other forms of engagement such as
  - Greater engagement with funds' external and internal audit functions;
  - Pro-active information sharing with ASIC in relation to the fund overall and about specific issues.
- APRA could also apply more targeted questions of internal audit processes and reports. For example, in considering Investment Management Agreements, there could be a greater focus on the efficacy of the process to be followed as an established process rather than having to provide internal audit attestation in each case. Internal and external audit capability should be better aligned to managing risk, rather than box-ticking on business as usual processes.
- All respondents felt that APRA should provide a far greater and ongoing level of feedback to funds about their performance, areas for improvement and comparison with other industry participants. In particular, it was suggested by some funds that APRA share their rolling annual supervisory plan with funds.
  - APRA used to have regular Industry Liaison sessions that provided an opportunity for first hand discussion and feedback. These no longer appear to be held.
- There are some important areas where APRA does not seem to have undertaken extensive prudential supervision in support of the legislative regime.  
For example, funds reported limited engagement with APRA about:
  - The scale test. This was implemented from 2013 as part of the Stronger Super reform package and was intended to ensure that funds were realising economies of scale and passing these on to members. Despite the realisation of scale benefits being an important policy consideration for governments both past and present, funds did not generally report being questioned about this.
  - Intra-fund consolidation. This was part of SuperStream implementation as one measure to reduce the proliferation of multiple accounts.

These two examples are very relevant as they go to the two key issues identified in the Productivity Commission's recent report into superannuation<sup>7</sup>: underperforming funds and fee erosion caused by multiple accounts.

- Beyond receiving and responding to the post-prudential review letter from APRA, funds also expressed a desire to receive more and more regular feedback from APRA.
- While funds recognized and supported the primary responsibilities that trustees have for the prudent operation of super funds, they also noted that significant parts of many funds' operations were outsourced to third parties, including administrators, custodians, asset consultants, fund managers, insurers and gateways.
  - While APRA has undertaken an administrator review (eg, into insurance), there was commentary that only limited ongoing feedback was provided to funds and the industry generally about how the findings of the review were to be used.
  - If there are legal constraints to full disclosure of third-party issues, the reasons for this and alternate means of raising and addressing issues should be developed.
  - While the result of ad hoc thematic reviews are generally well-reported, APRA should supplement these with ongoing updates.
  - Funds also reported that information about their administration arrangements were obtained directly from the fund and that prudential reviews did not involve any direct involvement with the fund's administrators, notwithstanding APRA's look-through powers in relation to outsourced providers.

In common with many funds, AIST has also observed that the number and frequency of APRA's industry-wide consultations has reduced in recent years. Following the Stronger Super package of reforms, APRA consulted with industry on a regular and widespread basis, but recent consultation has been more limited. We acknowledge the consultations on such matters as the review of prudential standards and the new data collection solutions. However, we have also observed that these consultations have tended to be fairly narrow and technical, and less concerned with the strategic and policy questions they raise.

The previous broader-based consultations were often useful in providing both guidance to participating funds for their one-on-one engagement with APRA, and efficient iterative communications with the industry as a whole.

With APRA's recently increased focus on improving member outcomes, including improved strategic and business planning and expenditure management, there is the opportunity to use consultations and industry-wide tools to help achieve this result.

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<sup>7</sup> <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report>

Outcomes assessment also requires funds to benchmark themselves annually and evaluate their performance in delivering quality outcomes. For funds to be able to meaningfully do this, there is a need for a comprehensive data reporting framework that articulates the information needed to benchmark fund and system performance, and whether members' needs are being met.

This would involve building broader industry benchmarks based on the guidance contained in Prudential practice Guide SPG 516 – Outcomes Assessment. AIST has suggested this to APRA without success but suggests this again to the Capability Review.

While APRA's more recent focus on Outcomes Assessment is a welcome development, it should not just be overlaid on APRA's existing prudential approach to regulation. It cannot simply be assumed that measures to protect the security and stability of the superannuation system will necessarily improve members outcomes. The most stable and secure superannuation fund for example may not necessarily promote members outcomes by optimising risk-adjusted net returns. While AIST is not suggesting that these objectives are in conflict, they nonetheless require careful management.

AIST suggests that the Capability Review apply the OECD's principles for role clarity to assess how these dual requirements are complementary and not in conflict. Principle 5 is particularly relevant:

*Where a regulator is assigned competing functions, the legislation should provide a framework to guide the regulator in making trade-offs between the functions, or require the regulator to develop such a framework with the necessary bodies (e.g. legislature, executive, and judiciary).<sup>8</sup>*

Regulated entities will only be able to manage and properly meet these requirements themselves if they are clearly articulated by Government and the regulator.

***AIST recommends that the APRA Capability Review recommend that:***

- ***APRA make greater and regular use of consultative forums with the superannuation industry to both improve efficiency and provide informed input into strategy development;***
- ***APRA re-establish regular Industry Liaison meetings;***
- ***APRA clarify its expectations and risk tolerances on a pro-active basis, both with APRA-regulated entities and with the community;***
- ***APRA's strategy-setting process be more transparent and explicitly aligned with fulfilment of its statutory responsibilities;***

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<sup>8</sup> P.30, [https://www.oecd-ilibrary.org/governance/the-governance-of-regulators\\_9789264209015-en](https://www.oecd-ilibrary.org/governance/the-governance-of-regulators_9789264209015-en)

- ***APRA provide additional skilled staff resources in order to meet its prudential supervision responsibilities in light of the increased size and complexity of the superannuation sector;***
- ***APRA establish a two-way secondment program across the superannuation industry to support understanding of industry and address critical skill gaps; and develops mechanisms for interpreting conflicting signals from different benchmarks – without resorting to tick-box solutions;***
- ***APRA undertake a skills gap assessment to support future recruitment, with reference to the structure and operation of the superannuation sector and future operating environment in financial services;***
- ***APRA supplement the skills of its highly-qualified staff with superannuation-industry specific training;***
- ***APRA develop industry benchmarks as an efficient means of supporting an increased focus on outcomes assessment;***
- ***The Government in consultation with APRA should clearly articulate the framework within which APRA will be able to balance its prudential regulation and member outcomes assessment responsibilities; and***
- ***The Assistant Treasurer assess the effectiveness and performance of APRA on an annual basis, with particular reference to the alignment of its activities with its statutory responsibilities.***

### Data collection and reporting

APRA's ability to oversight regulated super funds and its capacity to identify current and emerging risks depends in large part on the quality of the data that is reported to it and the tools available to it to interrogate and analyse the data.

Based on our engagement with APRA on data collection and use since the Super System Review in 2010, it is our view that APRA's data management capabilities are in need of significant improvement, and that APRA's activities have fallen short of good practice.

- **Need for data architecture and strategy**

It appears that APRA has also tended to structure its approach to reporting, data collection, analysis, publication and dissemination as separate and largely unconnected projects: it appears to operate without reference to an overarching data architecture or strategy.

This may be a consequence of resource limitations and capability shortfalls. It also reflects the absence of a data reporting framework, and limited articulation of the way in which the data will be used to fulfill statutory obligations and improve the system for members and the community.



AIST has made numerous submissions about this most recently submitting that implementation of new data collection arrangements should be integrated with a review of existing documentation and forms. It should also form part of a whole of government approach to financial services reporting, which incorporates consistent controls and protocols to avoid multiple requests of similar data from multiple government agencies.<sup>9</sup>

In numerous statements over the past decade, APRA has acknowledged it needs to develop better data collection, management and analytical capabilities. While APRA has a current program of work to improve its data collection, this has been delayed for many years, and still does not include more sophisticated tools for the public dissemination and analysis of data. Details of these delays are set out in the following paragraphs.

Recommendation 10.3 of the 2010 Super System Review was *“that APRA's mandate be broadened to include the collection and publication of data aimed at the efficiency and outcomes of superannuation funds and research into issues arising from that data to assist trustees in achieving better outcomes for members”*.

This recommendation was supported by the then government, that undertook to broaden APRA's ability to collect and publish information on the operation and efficiency of superannuation funds. While funds have always provided data reporting to APRA, this was greatly expanded in 2013 as part of the Stronger Super package of reforms. As a consequence, super funds now report detailed information about investments, investment performance, insurance, financial position and MySuper.

However, there remains little transparency about how (and to what extent) the data is being used, and the benefit of data analysis. While data is now being used to inform APRA's emerging position on how it will administer new Outcomes Assessment requirements, this is a recent development and the overall use of reported data still appears to be limited. While additional data is being published, the level of analysis appears limited, and there appears to be ongoing regulator reliance on ratings agency data.

The absence of a data reporting framework has also meant that there appears to be limited appreciation of data gaps. For example, AIST suggests that the Capability Review review the extent and quality of investment options level data, APRA's capacity to understand different levels of risk associated with different investment allocations, and its capacity to compare insurance information. In particular, the Capability review should consider if APRA should have more

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<sup>9</sup> [http://www.aist.asn.au/media/1235788/apra\\_new\\_data\\_collection\\_consultation\\_20.4.18.pdf](http://www.aist.asn.au/media/1235788/apra_new_data_collection_consultation_20.4.18.pdf)



efficiently gathered and analysed data that could have prevented it from identifying under-performing funds sooner.

The gaps and limitations in APRA's data capacity were also identified throughout the Productivity Commission's recent superannuation report, and the following quote is provided in support of the data recommendations made by AIST:

*"Foremost among many issues has been the lack of disclosure by funds to the regulator. Non-reporting appears to characterise a material portion of retail funds of various sizes as well as smaller not-for-profit funds — and overall affects a quarter of funds in the system (table 3.2). Non-reporting has been apparent in APRA data at least since 2004. Given the regulator appears to have enabled this non-reporting, the behaviour is to some extent a function of the regulatory guidance provided (chapter 10).*

*Further, indirect investment management costs (that come out of a member's investment return) appear to be effectively absent from APRA data (figure 3.19). These gaps in data make it nearly impossible to get a true sense of the full costs that funds are incurring and have broader implications for the governance of the superannuation system (chapter 10)."<sup>10</sup>*

- **D2A upgrade and systems investment issues**

In November 2014, APRA advised that its capacity to receive the additional volume and details of superannuation data had placed its IT systems under stress. Data is reported to APRA using a portal called D2A and it required a major and expensive upgrade. APRA indicated to AIST at the time that a significant part of its capital budget for 2014/2015 would be diverted for this purpose.

At the same time, APRA stated that it would not be releasing its new Data Dissemination Tool (DDT) by 2015, despite having previously planned to do so. Following a tender process, APRA has found that the cost was substantial, and beyond its current financial capacity. APRA responded to this by intending to proceed with implementation over three years. The DDT was being designed for banking and insurance, as well as superannuation, and was to be Standard Business reporting (SBR) compliant.

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<sup>10</sup> P.182 Productivity Commission (2019). Superannuation: Assessing Efficiency and Competitiveness, Report no. 91. Available at: <https://tinyurl.com/y9ylxoll>

## APRA Capability Review

In 2014, AIST expressed its concerns to APRA that, despite the super industry investing many millions of dollars in meeting the new APRA reporting requirements, the new superannuation data will not be as accessible and useable for some years.

As it happened, neither the new arrangements for data collection or dissemination were realised by 2017. In December 2017, the process was restarted when APRA wrote to RSE licensees advising that they were about to commence *“a new era for data collection. Central to that program of work is the replacement of APRA’s long-time data collection tool, Direct to APRA (D2A), with a new Data Collection Solution.”*

In March 2018, APRA commenced a new engagement program to identify the most desirable features for the new system, and how best to transition to it. In July 2018, APRA released their formal response to industry on the Data Collection Solution, including their preferred approach to implementation.

Although AIST was involved with APRA in facilitating consultation with the superannuation industry, AIST was concerned that APRA was mainly wanting to consult with fund representatives who had a strong technical background and were less interested in consulting with representatives who had a strategy or business focus.

- **New Data Collection Solution**

APRA have stated their intention<sup>11</sup> to finalise the selection of the new Data Collection Solution in 2019 with roll-out expected to start in the first quarter of 2020. While APRA’s 2018 reset may demonstrate improved capabilities, related projects remain unintegrated and without a strategic framework.

APRA has undertaken a separate post-implementation review of the Prudential Data and Reporting for Superannuation. While AIST’s primary response to this consultation<sup>12</sup> (in January 2019) is that the reporting framework does not presently meet its objectives and APRA needs to change its focus to include members’ best interest, we also expressed concerns about APRA’s capabilities. This is manifest in both poor understanding of data requirements and inefficient processes.

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<sup>11</sup> <https://www.apra.gov.au/apra-replacing-d2a>

<sup>12</sup> [http://www.aist.asn.au/media/1258884/postimplementation\\_review\\_of\\_the\\_prudential\\_framework\\_for\\_superannuation.pdf](http://www.aist.asn.au/media/1258884/postimplementation_review_of_the_prudential_framework_for_superannuation.pdf)

- **Interpretation of forms and data requirements**

It is very difficult for either funds or their custodian to gain a clear interpretation of the forms from APRA. Because of this, custodians are sometimes required to re-lodge information over multiple periods. Further, many APRA queries seem to be derived from percentage or dollar movements from period to period with APRA provides little or no context around queries. This is not efficient and does not assist funds in providing data.

Our member funds have also given AIST feedback on the lack of clarity and inconsistencies in the instructions supporting the forms and data fields. Our member funds are concerned with various inconsistencies, such as that the financial statement forms do not reflect the format of the AASB 1056 forms. Such inconsistencies cause additional work through reconstructing the AASB 1056 format into APRA reporting format.

From both a high-level and a detailed perspective, AIST does not have confidence that APRA has the skills, resources or overall capability to manage its current data reporting and use responsibilities, let alone meet emerging data requirements.

The absence of a true reporting framework means that there is insufficient information to assess the performance of the superannuation system. This is a major omission in APRA's prudential framework for superannuation.

APRA must ensure data is easily accessible and usable, both internally and externally, to inform action and decision-making as well as inform accountability and improve efficiency.

***AIST recommends that the APRA Capability Review recommend that:***

- ***APRA undertake a project to integrate its reporting, data collection, analysis, publication and dissemination responsibilities and develop a comprehensive forward-looking data reporting framework;***
- ***APRA undertake an audit to identify the weaknesses in its data infrastructure and prepare a proposal to Government for the funding needed to close the identified gaps; and***
- ***APRA resurrect the development of a Data Dissemination Tool that provides the functionality for external parties to interrogate APRA's superannuation database and contribute to improvements in the superannuation system.***

- **Better use of data held by APRA**

APRA should take a whole of government approach in relation to data management and take an active role in promoting more open government data sharing across financial regulators and the ATO. Superannuation funds already provide a large amount of data to regulators, and simplification should consider what data is being collected at other points to minimise data collection inconsistencies.

APRA holds large amounts of superannuation data that has only been subject to limited analysis . Government policy-making and APRA decision making would directly benefit from rating agencies, academics and others undertaking research and analysis on APRA data held by APRA. Given that they provide new perspectives, they could provide alternative insights on developments, and would be able to improve the quality of the data through advising on anomalies or limitations in the data.

APRA has largely dismantled its dedicated research capabilities, and this has diminished its ability to provide detailed analysis and observations. Previous research, such as that comparing the behaviour of the profit-to-member and the for-profit sector in relation to outsourcing provided valuable insights.

The inability to replicate this research has had consequences, as poor management of and misconduct in relation to related party arrangements has featured in the case studies considered by the Financial Services Royal Commission. APRA occasionally issues Industry Insights which provide useful observations on the state of the industry. However, they lack the depth and rigor that a dedicate research capability can provide.

Even before the 2013 data reporting changes, APRA had access to a unique dataset about the superannuation system, and the additional data collected since then offers enormous opportunities for greater and deeper analysis. For the most part, these opportunities have not been realised and it has been noteworthy that APRA has resisted calls to undertake research that has contrasted the performance of the retail and the profit-to-member sectors.

While greater partnering with universities and private sector research teams could be an alternative or supplement to in-house research, AIST sees little evidence of these alternatives being utilised.

***AIST recommends that the APRA Capability Review recommend that:***

- ***The Council of Financial Regulators consult with its constituent regulators and the ATO on the design of an integrated data framework; and***
- ***APRA re-establish its dedicated research capabilities with a brief to provide long term insights on the superannuation sector.***

### SuperStream

APRA-regulated funds must be able to send and receive electronic messages and payments using the SuperStream data standard and be able to allocate contributions to a member's account within three business days. The standard was issued by the Commissioner of Taxation, who was required to consult with APRA. While the ATO has general responsibility for the standard, APRA has general responsibility about infringements (for example, in relation to meet the three-day time requirements for transaction processing).

APRA has dedicated only limited (albeit highly skilled) resources to the management of its SuperStream responsibilities and relies heavily on resources within the ATO. Additional resources should be made available to assist AIST fulfil these responsibilities.

***AIST recommends that the APRA Capability Review recommend that:***

- ***APRA provide additional skilled staff resources in order to meet its SuperStream responsibilities***