

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ANNUAL REPORT 2018

2: Superannuation – Correlation Between Fees and Returns

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Dr LEIGH: By definition we have one average—that is, a single metric. We also know that the correlation between returns and fees is weak, at best. I'm surprised you don't have a view as to what would be a good average level of fees for the Australian superannuation sector to be charging.

Mrs Rowell: I'll simply repeat the comment that I made before. You need to look at the different types of fees, whether it's investment expenditure, administration expenditure or other costs, and assess what is being provided for those, and there are different business models that have different costs associated with them. I think focusing on a single average across the whole industry doesn't necessarily tell you anything meaningful about whether the industry is delivering good value for members. I have said that there is room to improve efficiency and reduce costs in the system, and that is something that we are looking at. Certainly our supervisory work and our focus on member outcomes have a strong fee and cost element to them, but we are not driving the industry to a single average number.

Dr LEIGH: There is a single average number. We can split hairs on this, but do you believe that, for example, if we could maintain returns and bring costs down to, say, a Canadian pension fund level—half a per cent—that would be a better outcome for the system?

Mrs Rowell: I think there is no argument that having a lower average than we have presently is worth achieving. I would say two things in response to your comment. One, it's actually quite challenging to prepare costs of different systems because they're very different and the nature of the costs that are incurred in operating those systems well can be very different and so, whether you're looking at Canada or Denmark or any other country, you're not necessarily comparing apples with apples. I would also make the point that an undue focus on cost that drives costs down to the point where the system is not operating robustly with the right controls, systems and processes in place is not a good thing. There is a limit, I think, to the degree of focus and emphasis that should be placed on costs.

Dr LEIGH: Can you point me to any research that suggests a positive correlation between fees and returns?
Mrs Rowell: I'll take that on notice.

Answer:

APRA has not conducted an exhaustive search of academic literature, but APRA's MySuper data shows that investing in higher risk asset classes (which in many cases involve higher investment fees) also generally generates higher long term net investment returns. As APRA has previously indicated, it is important to be clear on the nature and components of fees that are included in any analysis of the relationship between fees and returns, to ensure like for like comparisons are made. Similarly, it is also important to consider the level at which any such analysis is undertaken (i.e. whether it is at a fund, product, asset class or other level) in order to understand the conclusions that can be drawn from it. Nevertheless, APRA agrees that there is scope for fees and costs in the Australian superannuation system to be reduced, and achieving this is a key component of our supervision focus on enhancing member outcomes for superannuation members.