

## House of Representatives Standing Committee on Economics

### ANSWERS TO QUESTIONS ON NOTICE

Review of the APRA Annual Report (Second Report) 2019

**Division/Agency:** Australian Prudential Regulation Authority

**Question No:** APRA03QW

**Topic:** Expenditure Review

**Member:** Andrew Leigh MP

#### Question:

Deputy Chair Helen Rowell noted in media comments that APRA's current review process "will consider the framework and decision-making process of boards pertaining to certain areas of expenditure, including a review of the metrics and approach to assessment of benefits to members".

- (a) Does APRA consider strategies around the generation of profit (other than that which accrues to member accounts) to be an area of expenditure?
- (b) Will APRA be requiring RSEs to justify their strategies not just in the context of their own business models, but in relation to the business models of alternative funds that would provide their members with equivalent or better outcomes?

#### Answer:

All significant and extraordinary expenditure is subject to requirements outlined in Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515). As indicated in the accompanying prudential guidance, SPG 515 Strategic and Business Planning, this includes instances where an RSE licensee operates under a business model that enables a return (e.g. dividend) to be paid to a parent company.

In such circumstances, APRA expects the RSE licensee would be able to demonstrate that the level of return is consistent with the provision of quality member outcomes. Under SPS 515, RSE licensees are required to demonstrate through the outcomes assessment and business performance review processes how they are delivering on their strategic objectives and that their products promote the financial interests of members.

The outcomes ultimately delivered to members are required to be benchmarked against other comparable products. The outcomes assessment required by both legislation and APRA's prudential framework are key accountability and transparency obligations on the RSE licensees that offer MySuper and choice products. As part of our supervision, APRA engages with the RSE licensees to ensure that RSE licensees undertake comprehensive, reliable and comparable outcomes assessments focusing on the promotion of financial interests to members.

APRA has issued FAQs to industry on the outcomes assessment stating that we expect that RSE licensees would undertake relevant benchmarking and comparison, including the use of appropriate peer groups, to assist it in assessing the relative performance of its products.

APRA's MySuper heatmap has provided a tool for a comparison of MySuper products. Since being first released in December 2019:

- 11 of the MySuper products that underperformed the investment benchmarks have exited the industry;

- 71 per cent of MySuper members (10 million members) are paying less in total fees and costs; and
- an estimated \$408 million annual saving in total fees and costs has been achieved.

In late 2021, APRA will also look to publish the heatmap for a segment of the choice sector; we will publish a preview of our thinking on how we will do this in the first half of this year.