



# Town Hall

Risk and Compliance Round Table  
11 April 2019, Melbourne

# Agenda

- **Natasha Hall** – introductory comments
- **The Hon. Nick Sherry** – current superannuation industry environment, regulatory developments and the future outlook
- **Nerida Irving-Dusting** – facilitated roundtable discussion on strengthening superannuation member outcomes
- **Douglas Bucknell** – Trustee Tailored Super approach to cohorting and improving member outcomes, perspectives on current industry challenges and policy proposals
- **Leah Lovrek** – closing comments

# Strengthening Superannuation Member Outcomes

Nerida Irving-Dusting, Hall Advisory

# New Standard

## SPS 515 Strategic Planning and Member Outcomes

- New prudential standard that sets out requirements for an RSE licensee to:
  - regularly assess the outcomes provided to members;
  - identify opportunities for improving these outcomes, supported by sound strategic and business planning; and
  - categorise significant fund expenditure and consider decision-making processes around expenditure.
  
- Seeks to refocus strategic planning on member outcomes.

# Key Requirements

- Have strategic objectives that support an RSE Licensee in achieving the outcomes it seeks for beneficiaries and the sound and prudent management of its business operations;
- Maintain a Board-approved business plan that sets out the approach for implementation of the RSE licensee's strategic objectives;
- Ensure that decisions to incur significant fund expenditure support the RSE licensee achieving its strategic objectives and that those decisions are monitored against their expected outcomes; and
- As part of the annual review of its business plan, conduct an outcomes assessment and incorporate, where appropriate, any actions arising from that assessment.

# Existing Provisions

- The Board must approve strategic objectives for an RSE licensee's business operations (paragraph 7)
- The strategic objectives must be specific and measurable (paragraph 8 b, c, d and f)
- An RSE licensee must maintain a written plan for its business operations that sets out its approach for the implementation of its strategic objectives (para 9)
- The business plan must be a rolling plan of at least three years' duration that is reviewed at least annually, with the results of the review reported to the Board (para 10)
- An RSE licensee must monitor performance of the business plan against the key performance indicators under paragraph 11(d) (para 12)

# New Provisions

- The outcomes that the RSE licensee seeks to achieve for beneficiaries must be better enunciated and measurable - so that they can be tested (paragraph 8a)
- The results of the prior and current outcomes assessments must be factored into strategic planning (paragraph 8e)
- More granular specifications for the Business Plan (para 11)
- Expenditure management (paragraphs 13 and 14)
- Outcomes Assessment (paragraphs 16-19)

# Outcomes Assessment

*Paragraph 17. An RSE licensee's outcomes assessment must, at a minimum, include:*

**(a) the outcomes that the RSE licensee seeks to provide to beneficiaries**

Challenges:

- Choosing sufficient and appropriate metrics
- Linking outcomes to strategic objectives and the RAS in a meaningful way

# Outcomes Assessment

## APRA expectations

- Net investment returns, on an absolute basis, as well as relative to relevant benchmarks and risk/return targets over different time periods (e.g. one year, 3 years, 5 years and 10 years)
- Fee levels, including costs per member
- Administration and operating expenses as a percentage of average net assets (operating cost ratio)
- Level and cost of insurance cover (by type of insurance), including measures of account erosion such as the premium as a percentage of salary or superannuation guarantee contribution
- Retirement products
- Member services, engagement and education

# Outcomes Assessment

**b) an explanation of how the RSE licensee has designed its assessment, and in particular how it has decided to segment its business into cohorts such that:**

- (i) all beneficiaries are covered; and**
- (ii) the outcomes provided to different cohorts are able to be appropriately assessed**

Challenges:

- Determining meaningful cohorts of members (e.g. by product, or membership characteristics – current / projected balance size, demographic data, occupation, level of engagement)
- Attributing members to multiple cohorts

# Outcomes Assessment

**(c) the metrics that the RSE licensee uses in undertaking its assessment to measure the outcomes being provided to beneficiaries, including their calculation**

Challenges:

- Redesigning KRIs from a focus on fund-level performance to member outcomes
- Capturing new data and addressing system constraints
- Needing to set targets and goals that “are not likely to be very easily achieved based on existing forecasts”

# Outcomes Assessment

**(d) a comparison of the calculation of the metrics under paragraph (c) with reference to objective benchmarks and targets in both absolute and relative terms**

Challenges:

- Availability, accuracy, sufficiency and timeliness of data for benchmarking
- Cost of capturing more data, accessing benchmark information, conducting data analysis
- Which benchmarks to use and whether any prescribed benchmark is the most appropriate

# Outcomes Assessment

**(e) the key factors identified by the RSE licensee as having affected the results of the calculations under paragraph (d), including at a minimum:**

- (i) the investment strategy for each RSE and each investment option offered by the RSE licensee;
- (ii) the insured benefits available to beneficiaries, relative to the costs of those insured benefits;
- (iii) the options, benefits and facilities offered;
- (iv) the basis for the setting of fees;
- (v) the scale of, and within, the RSE licensee's business operations;
- (vi) the operating costs relating to the business operations of the RSE licensee; and
- (vii) any other relevant factors;

Challenges:

- Data analysis and attributing impact to each element

# Outcomes Assessment

**(f) analysis of the RSE licensee's ability to continue to provide the outcomes it seeks to provide to beneficiaries having regard to its performance against its business plan**

Challenges:

- Justifying assessment of future state
- Potential redevelopment of the scale test

# Outcomes Assessment

**(g) the RSE licensee's conclusions as to whether the outcomes it seeks to provide to beneficiaries have been provided over the period covered by the assessment and are expected to be provided over subsequent periods**

Challenges:

- Extending analysis of member outcomes beyond quantitative metrics to wider qualitative aspects of the business (e.g. adequacy of resourcing or sufficiency of policy frameworks)
- Determining when to complete the assessment

# Expenditure Management

*Paragraph 14. When making decisions relating to its business operations that will result in significant expenditure, an RSE licensee must be able to demonstrate:*

- (a) the purpose of the expenditure...**
- (b) how it will assess whether the expenditure is achieving its intended purpose...**
- (c) the circumstances that would trigger a review of the expenditure decision...and**
- (d) how the expenditure will be funded...**

Challenges:

- Weaknesses in existing policies for approval of expenditure
- Need to consider expenditure related to strategic initiatives/projects in a holistic sense (could be split between BAU and a specific project)
- Determining how to manage any changes to plans when this impacts on budgets and forecasts

# See you next time!

[www.halladvisory.com](http://www.halladvisory.com)

Hall Advisory Services Pty. Ltd.  
ABN: 63 615 549 909

**Melbourne:**

L27, 101 Collins Street,  
Melbourne VIC 3000  
(03) 9653 6493

**Sydney:**

L36, Gateway, 1 Macquarie Place,  
Sydney NSW 2000  
(02) 8035 4400

**Singapore:**

L24, CapitaGreen, 138 Market Street,  
Singapore 048946  
+65 6679 6146



from left: Natasha Hall, Nerida Irving-Dusting, Leah Lovrek & Liz Nguyen