



Investment & Financial Services Association Ltd

ACN 080 744 163

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Dear Sirs

Re: IFSA submission to APRA's Discussion Paper: Fund level disclosure from the APRA superannuation statistics collections

The Investment and Financial Services Association (IFSA) represents the retail and wholesale funds management, superannuation and life insurance industries. In the context of superannuation, IFSA's members are trustees of products in the Corporate, Industry and Retail sectors as well as fund managers that provide services to trustees across the superannuation industry.

We welcome the opportunity to comment on APRA's plan to "expand its publications covering the superannuation industry to include fund level disclosure of returns", as outlined in APRA's November Discussion Paper.

APRA's paper sought feedback on what data items and calculations should be included in the new comprehensive reference publication and how these items should be presented. It also requested industry views on whether APRA should also publish compilation tables, and that data that should be included in any compilation.

Given the past experience with sector level return on assets (**RoA**) reporting and the current appetite for superannuation data fuelled by volatile markets, the industry is concerned that there is real risk that APRA's publication will misrepresent the industry, be misinterpreted by the media and mislead superannuation members. It is therefore difficult for the industry to respond directly to the questions posed in the Discussion Paper.

IFSA's paper presents the industry's concerns and highlights the benefit of APRA focusing on developing the capacity to publish investment performance data that would better inform member decision making by presenting comparisons at an investment option level.

IFSA's submission is presented in the following sections:

- 1.0 BACKGROUND**
- 2.0 GLOSSARY AND HIERARCHY**
- 3.0 WHAT IS ROA? WHY AND HOW DOES APRA PLAN TO USE IT?**
- 4.0 INDUSTRY CONCERNS**
 - 4.1 The potential for trust level RoA data to mislead superannuation members
 - 4.2 Lessons from the publication of sector level RoA data
 - 4.3 Assessing risks and putting in place mitigation strategies
 - 4.4 Ensuring that information is fit for purpose
- 5.0 INVESTMENT OPTION PERFORMANCE DATA: AN OBJECTIVE THAT MEETS A NEED**
 - 5.1 What superannuation members want
 - 5.2 What investment option performance comparisons are currently available
 - 5.3 The objectives and principles for publicly available league tables
 - 5.4 Comparability
 - 5.4.1 Definitions of growth and defensive assets
 - 5.4.2 Consistent categorisation of multi sector investment options
 - 5.4.3 Calculation of past performance and the treatment of fees
 - 5.5 The role APRA should play
- 6.0 RECOMMENDATIONS**
 - 6.1 APRA should review its intention to publish aggregated trust level RoA data
 - 6.2 If it is deemed necessary, APRA should considers another way to meet the demand for trust level RoA data from policymakers
 - 6.3 APRA should focus on the publication of investment option performance comparisons as a major priority for 2009.
- 7.0 CONCLUSION**

If you have any questions about this submission, the concerns raised by IFSA's member or our proposals for investment option performance comparisons, please don't hesitate to contact Emma Grainge, Senior Policy Manager on 02 8235 2517 or by email at egrainge@ifsa.com.au

We look forward to engaging with APRA further on this very important issue and hope we can work together on delivering investment option performance comparisons in the near future.

Yours faithfully



David O'Reilly
Policy Director
Investment and Financial Services Association

1.0 BACKGROUND

In addition to being a prudential regulatory body, APRA is the Government's statistical agency for superannuation, banking, insurance and a number of other sectors. As such APRA publishes some of the information it collects in the course of undertaking its prudential responsibilities.

APRA currently publishes quarterly and annual superannuation statistics reports which segment the industry into sectors and provides industry aggregate summaries of the financial performance, financial position and key ratios for each sector¹. One of the key ratios is a sector RoA ratio.

The RoA is calculated and presented at a sector level, aggregating the performance of the individual trusts within that sector. Over the years the sector level RoA information has resulted in much interest and caused much debate across the industry and the media.

APRA's November 2008 Discussion Paper, 'Fund level disclosure from APRA's superannuation statistics collections' outlines APRA's plan to publish RoA data at an individual trust level.

According to the Discussion Paper APRA's plan addresses a suggestion by industry, the media and academics that there is merit in presenting further information about the 'performance of individual superannuation funds'. It also follows a request by the Minister for Superannuation and Corporate Law for APRA to publish performance data which is disaggregated to the individual fund level.

In today's 'choice of fund' and investment choice environment, the concept of informed choice is crucial. As such IFSA's members fully support the publication of reliable and relevant performance data which reflects the investment experience of members and helps them make informed decisions.

The information that would be of most value to members and the market is investment option performance data which will allow superannuation members to compare the performance of their option within their product, with that of similar options within other products.

Within this paper IFSA will demonstrate that the publication of RoA data may be a dangerous compromise between the information that APRA holds and the information superannuation members need.

¹ Over recent years IFSA has raised concerns about APRA's segmentation of the industry into sectors and the transparency of the allocation of trustees into the various sectors. The sectors used by APRA are based on the traditional membership profile and characteristics of funds. The industry is now openly contested with public offer funds bringing in members from across the market. The details of the industry's concerns are out of the scope of this paper and for the sake of consistency this paper uses the same terminology and segmentation as APRA's statistical publications.

2.0 GLOSSARY AND HIERARCHY

Below is a glossary of the terms used within this paper. It also details the hierarchy in the industry and indicates the impact of aggregating performance figures.

Industry The Australian superannuation industry valued at \$1145.1bn at September 2008 ² (\$752bn of which is segmented by APRA into sectors)

Sector APRA segments the industry by trusts or 'fund' type: ³

Corporate	\$58.9bn
Industry	\$196.9bn
Public	\$164.6bn
Retail	\$331.6bn

Trust (fund) The company or brand that is responsible and registered as a super trust. APRA's discussion paper uses this term interchangeably with 'fund'. The following are examples of trusts:

Licensees/trustees	Trust
Sunsuper Pty Ltd	Sunsuper Superannuation Fund Sunsuper Pooled Superannuation Trust
Colonial First State Investments Ltd	CFS FirstChoice Superannuation Trust CFS Rollover and Superannuation fund CFS Pooled Superannuation Trust
ING Custodians Pty Ltd	ING Masterfund Retirement Portfolio Service ING Corporate Superannuation Master Trust

Product While some trusts only have one product, others offer a range of products to customers. The industry often uses the term 'fund' to describe product. It should be noted that many trusts include legacy products that are closed to new business and which may be whole of life endowments or defined benefit structure products. The following are examples of products:

Trust	Product (s)
Sunsuper Superannuation Fund	Sunsuper Solutions Sunsuper Pension Options Sunsuper Corporate
CFS FirstChoice Superannuation Trust	FirstChoice Employer Super FirstChoice Personal Super FirstChoice Allocated Pension FirstChoice WS Super First Choice WS Pension
ING Masterfund	OneAnswer Personal Super Select OneAnswer Pension Select Corporate Super ANZ Personal Super ANZ Pension

Investment option Within each super product there may be 100s investment options that are available to superannuation members. The number of options will vary from one product to another (even within the same trust). Superannuation members may choose from this range of options, one of which will be the 'default' option.

Default option Those members that do not make a decision are automatically placed in the 'default' option. The asset profile will vary from one product to another, dependent on the member profile for that product.

Member Superannuation members are those people invested in superannuation products. Whether they select their own trust and product or are part of a corporate scheme, their return depends on the investment performance of the investment option they choose.

SECTOR LEVEL ROA AGGREGATES THE AFFECT OF THESE LAYERS

TRUST LEVEL ROA AGGREGATES THE AFFECT OF THESE LAYERS

² APRA, Statistics: Quarterly Superannuation Performance, September 2008, Page 7

³ APRA, Statistics: Quarterly Superannuation Performance, September 2008, Page 7
IFSA response to APRA Discussion Paper on fund level disclosure, 23rd January 2009

3.0 WHAT IS THE ROA? WHY AND HOW DOES APRA PLAN TO USE IT?

APRA's statistical collections currently request aggregated information at a trust level because this is the data it requires to assess the financial strength of the trust and its ability to meet its regulatory obligations.

The RoA is the *net earnings after tax* divided by the average assets for the period⁴.

- The net return provided by the trust reflects the aggregated experience of all members across all products, less costs, insurance and tax.
- The average assets are calculated by APRA and are the average of the opening and closing balance of total assets provided by the trust over the period.

APRA has been asked to consider how it can produce more detailed superannuation fund performance data and, as the Government's statistical agency for the superannuation industry, how it plans to deliver as much information as it is able to.

APRA's ability to deliver meaningful performance data however, is limited by the fact that the data it currently collects does not include information about asset allocation and investment performance at either a product or an investment option level. This means the RoA of an individual trust is limited but as detailed as APRA can be at this time based on its current data collections.

APRA has signalled its intention to consult with the industry in 2009 on future collections with a particular focus on asset allocation and investment option level collections.

In the meantime, APRA is planning to publish an annual reference table which details the RoA for all APRA registered trusts that exist at the time of publication.

The reference table is intended to include details of the trust (name, ABN, public offer status etc), the information used to construct the RoA (year end total assets for the past six years, net earnings after tax for the past five years) as well as the RoA figures (RoA for each of the past five years, average RoA and minimum RoA).

APRA's publication will be compiled using the audited data provided by trusts on an annual basis.

The RoA data that will be presented in APRA's publication every March will relate to the previous financial year. The data is thereby nine months out of date and will appear approximately six months after the trusts publish their own RoA data within their annual reports which is provided directly to their members and available to other interested parties.

⁴ APRA, Discussion Paper: Fund level disclosure from the APRA superannuation statistics collections, Page 11

4.0 INDUSTRY CONCERNS

4.1 The potential for trust level RoA data to mislead superannuation members.

While the fees charged by the products within a trust will impact on the RoA of the trust, there are three key variables that have a more profound impact on any trust's aggregated RoA data. They are:

1. The number and type of products offered by the trust.
2. The age and risk profile of the members of those products.
3. The extent to which those members exercise investment choice or remain with the default option.

All the above factors combine to affect the asset allocation of the trust.

While specific impact of these factors varies depending on the individual trust, there are some general trends that can be observed at a sector level (these also explain the RoA differentials at a sector level). The following table demonstrates the impact of the variables at a sector level.

Sector	1. Typical products offered	2. Member profile	3. Choice
Corporate	One or two structures (eg DB/DC) <ul style="list-style-type: none"> ▪ Simple offerings with 5-20 investment options ▪ Lower fees⁵ that do not include access to advice ▪ Default insurance cover 	Current and past employees of the same corporate entity	51% of the assets in the Corporate sector are placed in the default investment option ⁶
Retail	Large and small corporate master trusts <ul style="list-style-type: none"> ▪ Large number of investment options ▪ Lower fees for large corporate master trusts and some access to advice⁷ ▪ Default insurance cover ▪ Smaller corporate master trusts often share the tailored characteristics of personal super and where this is the case the costs reflect this 	Employees of a range of small or large schemes	10% of the assets in the Retail sector are placed in the default investment option (typically this is driven by flows in the corporate master trust funds) ⁸
	Personal super <ul style="list-style-type: none"> ▪ 100s of investment options ▪ Investment decision follows professional advice ▪ Higher fees⁹ include access to an adviser ▪ Tailored insurance cover 	Mass affluent individuals, typically 45-65 years	
	Pension products <ul style="list-style-type: none"> ▪ Multiple product offerings ▪ Conservatively invested ▪ Guarantees offered ▪ Product decision follows professional advice ▪ Higher fees¹⁰ include access to an adviser 	Self funded retirees	
Industry	One or two structures (eg super/pension) <ul style="list-style-type: none"> ▪ Simple offerings with 5-20 investment options ▪ Lower fees¹¹ that generally do not include access to advice ▪ Default insurance cover 	Traditionally member segmentation was based on the employees of a particular industry	70% of the assets in the Industry sector are in the default investment option ¹²

⁵ IFSA analysis of APRA data, Please see Appendix A

⁶ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

⁷ IFSA analysis of APRA data, Please see Appendix A

⁸ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

⁹ IFSA analysis of APRA data, Please see Appendix A

¹⁰ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹¹ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹² IFSA response to APRA Discussion Paper on fund level disclosure, 23rd January 2009

As the table illustrates, the members of products offered by trusts in the industry sector rarely choose to invest outside the default investment option. This means that the RoA for trusts in this sector will be more reflective of the performance of the default investment option than will be the case for trusts were a majority of members choose their own investment options.

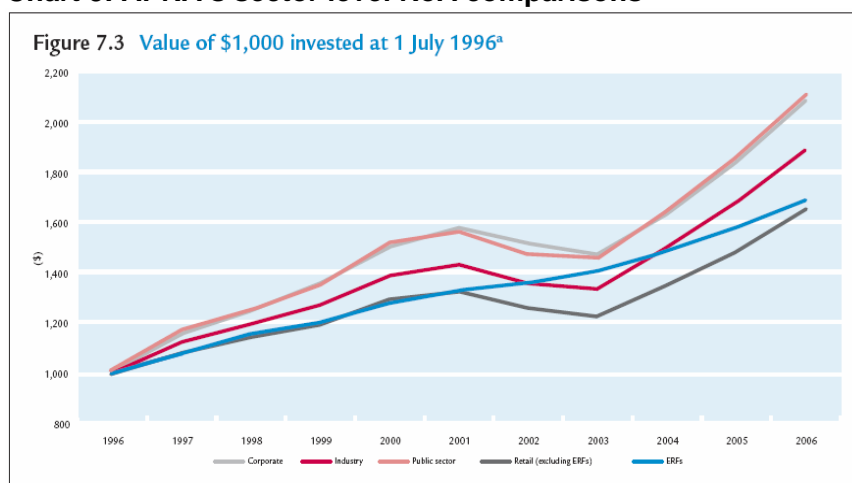
Conversely, only 10% of the assets invested in retail sector trusts are invested in the default option. The RoA for these trusts is merely an aggregate of the returns experienced by all members across the range of products and investment options. The RoA of the trust, therefore, does not reflect the investment experience of any single member or group of members within products operated by that trust.

4.2 Lessons from the publication of sector level RoA data

Over recent years, IFSA has made a series of representations to APRA highlighting concerns regarding the publication of sector level RoA data. IFSA members have been concerned that the data has been published in a way that has the potential to mislead superannuation members.

In the June 2007 publication *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*, APRA published the following chart, illustrating the growth of \$1000 invested in July 1996 within each sector.

Chart 3: APRA's sector level RoA comparisons¹³



^a Entities with at least \$100 million in assets.

APRA's publication included the following commentary.

Figure 7.3 shows that there were systematic differences in return by functional classification during the 1996 through 2006 decade. Corporate funds performed a little better, and retail funds and ERFs much worse, than public sector and industry funds. This performance is calculated after expenses and taxes. Over the decade, \$1,000 invested in the average public sector fund rose to \$2,109, compared to \$2,087 for a corporate fund, \$1,888 for an industry fund, \$1,687 for an ERF and \$1,650 for a retail fund.¹⁴

Both the chart and the commentary implied that the aggregated sector level RoA is reflective of the investment experience of members invested in products within those

¹¹ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹² IFSA analysis of APRA data, Please see Appendix A

¹³ APRA, *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*. Page 40

¹⁴ APRA, *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*. Page 14
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sectors. The media coverage that resulted further suggested that investors within one sector may be better off than investors in other sectors. Moreover, the sector level RoA data published by APRA has been used by trustees within various sectors to promote their own products.

Chart 4: Collection of media reports following the publication of *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*

GOOD REASON TO GO NOT-FOR-PROFIT
 Publication: *AFR Summary*, Page 54 (Mon 13 Aug 2007)
 Author: **Barrie Dunstan**

Dunstan column. Opinion on Peter Dutton's statement on not-for-profit funds being union-run. Perhaps he should consult statistics from APRA on not-for-profit superannuation funds. Mentions FuturePlus Financial Services, Fund Executives Association.

The Sydney Morning Herald

SUPER BOOMING, BUT NOT ALL FUNDS SEE HAPPY RETURNS
 Publication: *Sydney Morning Herald*, Page 18 (Fri 27 Jul 2007)
 Author: **Jacob Saulwick**

AUSTRALIA'S \$1 trillion superannuation industry is booming, but there are significant differences in performance across the various types of funds.

Public sector and corporate funds outstripped industry and retail funds in the past 10 years, a report released yesterday by the Australian Prudential Regulation Authority showed.

THE AUSTRALIAN

RETAIL SUPER FUNDS UNDERPERFORM ALL THE REST IN PAST DECADE: APRA
 Publication: *The Australian*, Page 019 (Fri 27 Jul 2007)
 Author: **Anna Fenech**

Superannuation

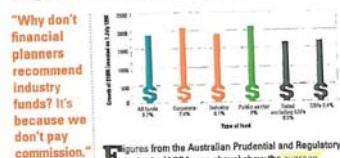
MEMBERS of public sector, corporate or not-for-profit industry superannuation funds reaped the highest investment returns over the past decade, while retail super funds underperformed overall, according to the industry regulator.

The West Australian

RETAIL SUPER FUNDS FARE POORLY IN 10-YEAR SURVEY
 Publication: *The West Australian*, Page 12 (Fri 27 Jul 2007)
 Author: **SHANE WRIGHT**

Industry superannuation funds have outperformed retail funds by more than 14 per cent over the past decade, a new independent review has found as millions of people short-change their retirement by losing track of small accounts

Super fund returns compared



Figures from the Australian Prudential and Regulatory Authority (APRA, see above) show the average annual returns for the five main types of super fund over 10 years from June 1996 to June 2006. It's notable that retail funds, open to any investor, were the worst-performing, at 5.3% pa. They were even slightly worse than eligible rollover funds, which hold lost and unclaimed super.

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Source: IFSA 2007

APRA has recognised the potential for the sector RoA data to be misinterpreted and in September 2008 introduced the following disclaimer into its Quarterly Superannuation Performance Statistics publication:

'The ROA measures the *combined* earnings of all the individual investment options and products offered by trustees. Some trustees provide a wide range of investment options and superannuation products, with equally wide ranging investment goals, from which members may choose. APRA's statistics are not designed to provide individual members with information to compare the investment options offered. The *Australian Securities and Investment Commission's* FIDO website provides guidance on how to compare superannuation investment options and links to other sources of information for this purpose.¹⁵

The November 2008 Discussion Paper offers a brief indication that APRA is aware that the same risks exist with the publication of the RoA for individual trustees, yet the Discussion Paper fails to explore those risks fully or suggest ways to mitigate those risks.

4.3 Assessing risks and putting in place mitigation strategies

While the Discussion Paper outlines a brief cost/benefit assessment for the plan, APRA does not appear to have conducted a thorough risk assessment.

One of the main risks is that, like the sector level RoA data, trust level data will be used in such a way that it will misrepresent the industry and mislead members.

In the Discussion Paper, APRA highlighted that it intends to publish appropriate clarification about how trust level RoA data should be interpreted and guidance that

¹⁵ APRA, Statistics: Quarterly Superannuation Performance, September and December 2008, Page 4
 IFSA response to APRA Discussion Paper on fund level disclosure, 23rd January 2009

investors should seek out performance information at the investment option level, which reflects their preferred asset allocation,

While such warnings are important, it does not appear that APRA has considered other ways to mitigate the risks or the impact on member behavior if those warnings are not heeded. The plan would benefit from the following considerations:

i. Mitigation – use of language

As highlighted earlier in this paper, terminology and language are crucial to ensure understanding of this issue.

Throughout the Discussion Paper, APRA uses the word ‘return’ and ‘performance’ interchangeably when referring to RoA, yet these terms are most often used by the industry when referring to the investment experience of members. The word ‘fund’ is used by APRA when referring to a superannuation trust. The word fund is most often used by the industry when referring to product.

If APRA wishes to minimise the risks of readers misinterpreting the data it presents, it should use terminology that will not be confused and that puts the meaning of the information beyond doubt. This paper has used the phrase ‘trust level RoA’ to do just that.

ii. Risk assessment

The Global Financial Crisis and volatility in the Australian markets has been well covered by the media and is broadly understood by superannuation members, many of whom would be keenly interested in information that purports to provide comparative data on investment performance.

The media understands this appetite and has been quick to cover any stories relating to superannuation and investment performance. It is, therefore, conceivable that the media and other commentators will turn the data provided within the publication into an APRA sponsored league table, ranking trusts and misrepresenting their RoA as the investment experience of members of products operated by those trusts.

Such an outcome risks leading members to inaccurate conclusions about the comparative performance of their superannuation. At best, it risks further eroding confidence in the superannuation system, and at worst may lead to widespread switching on the basis of data that is not intended for this purpose.

Further, any damage to the reputation of trusts that comes from the publication of this data may have an impact on the share price of the listed companies managing those trusts.

Ultimately the data, if it not presented effectively, risks creating market distortions.

One of the most effective ways of assessing communication risks is to test how the information being delivered will be interpreted and used by the intended audience. User testing is widely used by the industry and industry associations to ensure that the information being delivered is fit for purpose and effective in meeting clear objectives.

4.4 Ensuring information is fit for purpose

While the motivation for APRA publishing trust level RoA data is clearly stated within the Discussion Paper, the objective of publishing the data is not clear.

As already outlined, before publishing any information it would be beneficial to consider who the audience is and the information needs of the audience. Having done that, it is important to set clear objectives for the presentation of the data to ensure that the data is fit for purpose.

Within the media release that accompanied the Discussion Paper, APRA stated that the audience for the new publication is ‘*fund members, trustees and the wider industry*’¹⁶ and within the Discussion Paper there was some commentary on the benefits these stakeholders would derive from the new publication.

The tables below outline the intended audience, the benefits APRA believes they will derive¹⁷ and the industry’s assessment of whether the RoA data is of relevance or fit for purpose for each audience.

Audience	<i>Fund members</i>
Purpose/Benefit	<i>Fund members and interested members of the general public will also have access to a new source of fund performance data. However, investors would be advised to also seek performance information at the investment option level, which reflects their preferred asset allocation.</i>
Fit for purpose?	As acknowledged by APRA, the RoA of a trust does not reflect the investment experience of any single member or group of members within its products, particularly for trusts in the retail sector. It is unclear how members or interested members or the general public might otherwise benefit from a publication that allows them to compare the aggregated RoA of one trust with that of another on an annual basis. It is also unclear how APRA considers they might find the data within the publication useful.

Audience	<i>Trustees</i>
Purpose/Benefit	<i>Trustees will be able to assess their relative success at generating member returns at the whole fund level, compared to other funds and trustees.</i>
Fit for purpose?	Trustees interested in assessing their relative success at generating member returns will already be comparing the performance of all their investment options with those of other trustees within their peer group. Most trusts purchase monthly research from the commercial research provider who collect, rate and compare the performance of investment options across the industry. Few trusts would be interested in comparing the aggregate RoA of their trusts on an annual basis with their competitors and those that are will already be accessing this information from the annual reports.

Audience	<i>Wider industry (policy analysts, financial planners, consultants, accountants and other informed observers)</i>
Purpose/Benefit	<i>The wider industry will benefit from a disinterested, comprehensive, and authoritative source of fund performance data.</i>
Fit for purpose?	While informed observers may be able to draw some conclusions about a trusts financial strength from trend analysis of the RoA, any attempt to do so in the absence of fulsome information may lead to the wrong conclusions being drawn. Responsibility for the prudential oversight of the industry and the financial strength of trusts lies with APRA, not the wider industry. It is unclear how APRA considers the wider industry might find the data within the publication useful.

¹⁶ APRA, Media Release 20th November 2008

¹⁷ APRA, Discussion Paper: Fund level disclosure from the APRA superannuation statistics collections, Page 9

5.0 INVESTMENT OPTION PERFORMANCE DATA: AN OBJECTIVE THAT MEETS A NEED

In today's 'choice of fund' and investment choice environment, the concept of informed choice is crucial.

While superannuation members are easily able to assess the performance of their own investment option via statements, call centres or trust websites, those members without a financial planner are not easily able to compare that performance with similar investment options from other products.

The market and superannuation members would, therefore, benefit from the publication of comprehensive investment option league tables, which provide members with access to timely information and which allows them to compare performance over the medium to long term.

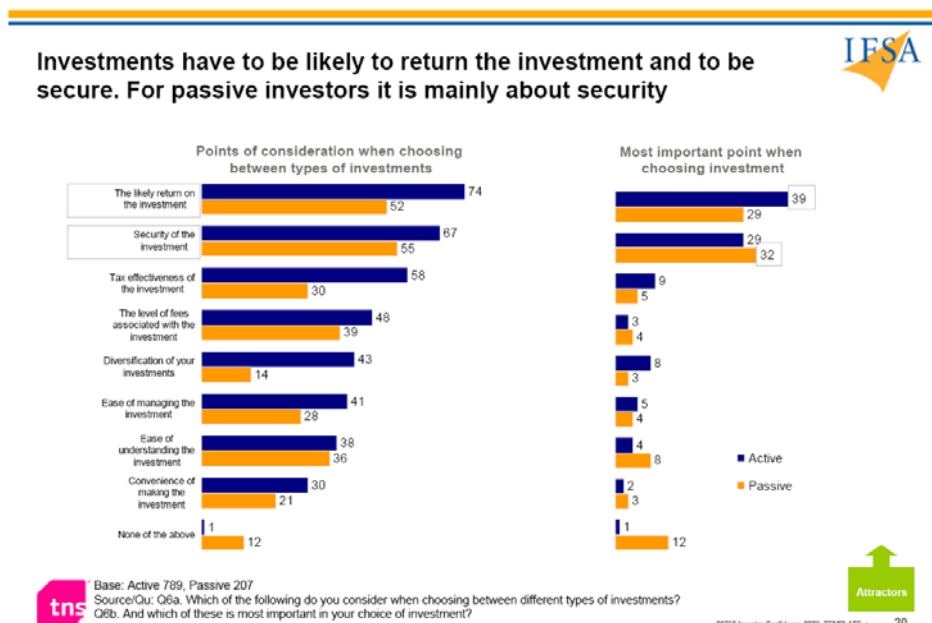
5.1 What superannuation members want

Since 2004, IFSA has sponsored four investor sentiment research projects to benchmark how Australians feel about their investments and assess what factors are important in guiding their decisions.

Over the years 'the likely return on the investment' and 'security of the investment' are consistently rated as the most important considerations when choosing between different investments.

The following chart shows the importance placed in a number of different factors by 'Active' investors (those who contribute more than 9% into super) and 'Passive' investors (those who are SG contributors only).

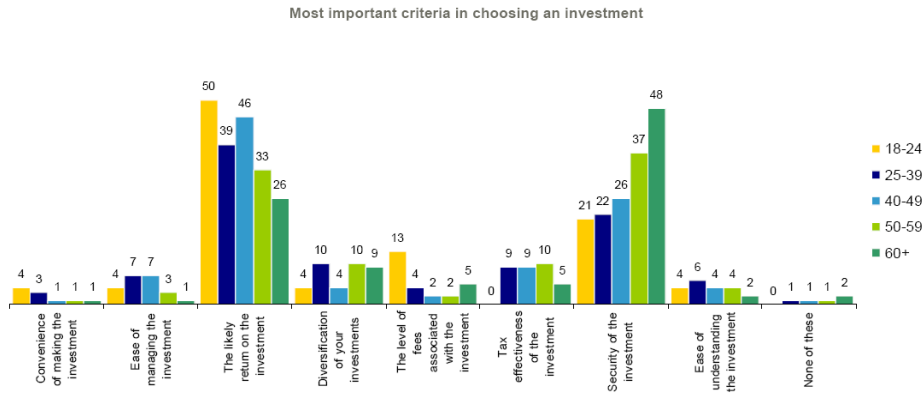
The chart demonstrates that returns and security are the most important considerations for both active and passive investors – significantly more important than fees, tax or convenience.



Source: Investor Sentiment Research, conducted for IFSA by TNS in June 2008

When looking at the importance of the same factors by age, it is possible to see that performance is of critical importance to those aged 18 – 49 years, where as security is more important to those aged 50 plus.

Across all ages, the likely return on investment and security are the most important criteria when choosing an investment



Base: Active 789
Source/Qu: Q6b. And which of these is most important in your choice of investment?

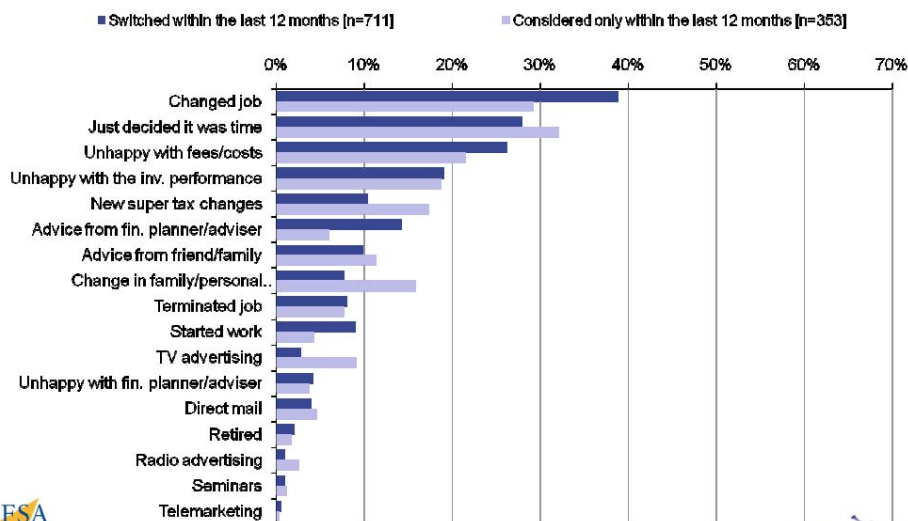


Source: Investor Sentiment Research, conducted for IFSA by TNS in June 2008

The focus on performance and security was echoed in IFSA's June 2007 research into why people decide to switch their superannuation and what information is important to them in making that switching decision.

7% of working Australian's switched their superannuation between October 2005 and October 2006, while 12% considered switching. Switchers were more likely to be aged 25 – 35 years and 50 – 60 years.

**Q4 What triggered this specific change or consideration?
(Multiple responses permitted)**

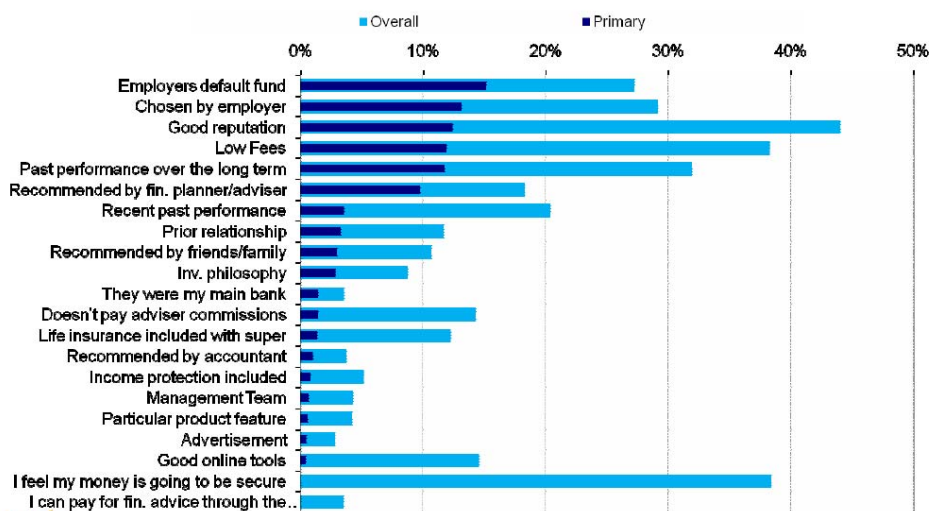


Investment Trends 32

Source: Super Decisions: Communicating with customers and effective disclosure. Research conducted for IFSA by Investment Trends in June 2007

While poor investment performance of their super was only listed as a trigger for switching by 19% of switchers and 18% of those that considered switching, investment performance was a key factor that influenced their decision about the product they switched to (along with reputation, security and fees).

Q16 When making your decision, what were the influential/single most influential factors in your selection



Source: Super Decisions: Communicating with customers and effective disclosure. Research conducted for IFSA by Investment Trends in June 2007

The lesson here is that meaningful and relevant investment data is of value to members, particularly those that are young (whether they are engaged with their superannuation or not) and those that are actively engaged in their superannuation.

Older members are more concerned with security of their investment, and may be more interested in factors such as brand, reputation, size of fund, product structure (capital guarantees) and the presence of capital backing.

Switching experience to date shows that it is the younger and older age groups that are most active in exercising choice – younger people because they change employer more frequently – older people because they are approaching retirement and considering their product options.

The industry and the Government wish to see more Australians actively engage with their superannuation, making choices and driving competition in the market.

Unless they choose to use a financial planner, those Australians that are taking an interest in their super are doing so in an information vacuum. While they have access to data on their existing trust, product and investments, they lack information on the alternative options that are available.

The key to engaging with Australians is to ensure they have access to the information that is important to them at the time they need it.

5.2 What investment option performance comparisons are currently available

As is well known, there are a number of specialist research companies currently collecting and publishing investment option level comparisons. The researchers use this data to support their consulting businesses as well as provide additional value to their clients.

The researchers are sent investment option level performance data from trusts on a monthly basis and, to varying degrees, interrogate and publish the data in a way that allows their clients to compare their performance with their peer groups.

The researchers offer significant expertise and capability in this area and their data is both relevant and reliable to Australians in supporting informed choice. Unfortunately there are limitations with their publications which mean that they don't currently offer a solution to the information needs of superannuation members. They are:

- **Limited accessibility:**
 - With the exception of Morningstar, at this stage these researchers only publish their full data on a commercial basis.
 - Chant West recently¹⁸ made public the ten best and ten worst performing 'Growth' options in the one, three and five years to December 2008.
 - SuperRatings also publish the mean return for each peer group on their website.
- **Incomplete:** None of the researchers collect and publish data for all the trusts and products that operate in the market.
- **Inconsistency:** Currently, each company uses a different basis for classifying the investment options they rate and developing peer groupings.

5.3 The objectives for and principles of publicly available league tables

It is important that the objectives of publishing the performance data in league tables are agreed and clearly stated. Clear objectives will help ensure that the information is fit for purpose and help guide some of the decisions that will need to be made regarding definitions, peer groups and presentation.

The following objectives may be considered a good starting point for discussion:

Investment option performance league tables should:

- provide relevant and reliable information about the performance of the range of investment options with in public offer funds;
- compare investment option performance on a like for like basis;
- support members in making an informed choice about their superannuation; and
- be easy to use and interpret.

IFSA's members believe that there are three core principles that investment option performance league tables should adhere to in order to meet these objectives.

1. Timeliness

Regardless of the frequency of publication, the data should be as accurate as possible at the time it is published. Performance information that is out-dated at the time of publication will be meaningless to members and has the potential to mislead.

¹⁸ Chant West, Media Release 23rd January 2009
IFSA response to APRA Discussion Paper on fund level disclosure, 23rd January 2009

2. Frequency

Investment option performance data should be published on a monthly basis to ensure that it is as relevant as possible to investors at the time they wish to make a decision.

3. Comparability

The data must be presented in way that compares like with like. Comparing a conservative option with a growth option means that the data may be misinterpreted.

4. Medium to long term focus

Superannuation is a long term investment which, because of the nature of the investment markets, will be subject to short term fluctuations. Publishing three, five, seven or ten year returns either monthly or quarterly will demonstrate how recent market movements play out over the longer term.

Timeliness, frequency and having a medium to long term focus is relatively easy to manage. Much can be learned from the process researchers currently undertake in this regard.

Comparability, however, requires industry alignment on the definitions used for growth or defensive assets, the categorisation for multi-sector options and consistency in the calculation of past performance.

5.4 Comparability

5.4.1 Definitions of growth and defensive assets

Researchers currently construct peer groups based on the information given to them regarding the growth and defensive split of the investment option. However, the increased use of alternative assets has resulted in trusts applying the growth/defensive label inconsistently.

IFSA and ASFA have convened a joint working party to identify and agree the characteristics of growth and defensive assets.

The joint working party will explore the views of a broad range of stakeholders – asset consultants, researchers and trusts – with a view to defining these assets and ensuring a consistent application of those definitions in the future.

5.4.2 Consistent categorisation of multi sector investment options

Having defined the characteristics of growth and defensive assets the challenge is to obtain agreement and consistency on how the funds should be categorised and the peer groups constructed.

Many members are invested in options that seek to diversify risk across asset classes, asset profiles (growth/defensive) and managers. These are called multi sector investment options and are currently classified into peer groups based on the percentage of growth assets in the portfolio.

The table below demonstrates the different approaches taken by three researchers and shows that each researcher uses different naming conventions for the peer groups.

Three different approaches to constructing and naming peer groups:

Chant West (Multi Manager Survey)		SuperRatings (Fund Crediting Rate Survey)		Morningstar (Online categories multi sector funds)	
Conservative Growth	21% - 41% Growth	Cons Balanced	41% - 59% Growth	Moderate	21%-40% Growth
Balanced Growth	41% - 60% Growth	Balanced	60% - 76% Growth	Balanced	41% - 60% Growth
Growth	61% - 80% Growth	Growth	77% - 90% Growth	Growth	61% - 80% Growth
High Growth	81% - 100% Growth	High Growth	91% - 100% Growth	Aggressive	81% + Growth

5.4.3 Calculation of past performance and the treatment of fees

In 2005, IFSA’s Standard No. 6 sought to ensure that all IFSA members applied a consistent approach to the calculation of past performance in promotional material. The aim of this was to ensure that investors are able to compare the past performance of investment options across the industry on a consistent basis.

The standard stipulates that past performance should be calculated net of all maximum payable fees – both investment fees and administration fees.

Standard No. 6 provides a good basis for investors to compare managed funds as most funds managers are members of IFSA and are required to comply with this standard. The standard is also used by researchers such as Morningstar and Standard and Poors’

Unfortunately the same level of consistency has not been delivered in the superannuation industry as many trusts outside of IFSA’s membership (particularly those that charge a dollar based administration fee) report performance net of investment fees but gross of administration fees.

While trusts that are IFSA members are reporting performance that is more reflective of the member experience, their performance looks poorer than those trusts not illustrating the effect of dollar based administration fees.

Chant West adjusts the performance it reports for each investment option to ensure that there is consistency. Morningstar’s peer groups typically compare the investment options offered by IFSA members. This ensures there is consistency.

IFSA is currently reviewing Standard No. 6 and considering its options in relation to superannuation so that the performance IFSA members report is directly comparable with the performance reported by the broader superannuation industry.

5.5 The role APRA should play

Within the November 2008 Discussion Paper APRA indicated it would consult with the industry in 2009 on future superannuation data collections with a particular focus on asset allocation and investment option level data.

Certainly the first step in developing the capability to deliver investment option performance comparisons or league tables is ensuring that the right data is collected. The industry looks forward to consulting with APRA on this crucial step.

Beyond this, we hope that APRA will engage with the industry on some of the other crucial steps and decisions that need to be made in order to ensure that the information that APRA publishes is fit for purpose. These include:

- **Assessing needs:** Considering what information members and other stakeholders require, what they currently have access to and what the gaps are.
- **Setting objectives:** What will access to the data achieve and how will that be measured
- **Assessing risk:** Are there any downsides to the publication of the data and how can they be managed.
- **Timeliness:** How can the data be provided in a timely way – insights can be gained from the commercial researchers in this space.
- **Comparability:** Ensuring the data is presented in a way that compares like with like.

6.0 RECOMMENDATIONS

6.1 APRA should review its intention to publish aggregated trust level RoA data

In reviewing its plan, APRA should give consideration to the following:

- Identifying the information needs of stakeholders
- Setting objectives for the publication of data
- Conducting a risk assessment and consider mitigation strategies (possibly including research to test how the data will be used and how the language will be interpreted).
- Ensuring that the data published is fit for purpose.

6.2 If it is deemed necessary, APRA should consider another way to meet the demand for trust level RoA data from policymakers

While there may be benefit in policymakers having access to the trust level RoA data, publishing it has significant risks that, in the industry's view, have not been taken into account. The industry is happy to work with APRA in considering options for making the data available for policymakers on a limited basis.

6.3 APRA should focus on the publication of investment option performance comparisons as a major priority for 2009

APRA has indicated that it will consult in 2009 on a review of the superannuation data it collects from funds, particularly focusing on asset allocation and investment option level collections.

In addition to the data collection there are a number of challenges associated with the publication of investment option performance data. While the industry has started working through these challenges, it is hoped that APRA will assist in that process.

7.0 CONCLUSION

In conclusion, IFSA's members fully support the publication of reliable and relevant performance data which will allow superannuation members to compare the performance of their investment option with that of similar options provided by other Trusts.

APRA has signalled its intention to collect asset allocation and investment option level data. The industry looks forward to supporting APRA in providing this level of information to superannuation members and hopes APRA will consider some of the key steps outlined within section 5.0 of this paper:

1. Understanding the information needs of the audience – members and other stakeholders
2. Setting clear and agreed objectives for the publication of the information – making sure the data will meet stakeholder needs
3. Ensuring the data is provided in a timely way with the most appropriate frequency given the objectives; and
4. Ensuring that the data is presented in a way that compares like with like.

Having been asked to provide more detailed information than is currently the case and limited in the level of data it can produce immediately, APRA intends to publish trust level RoA data.

As sections 2.00 and 4.00 demonstrate, the trust level RoA data is merely an aggregation of the investment experience of thousands of members in hundreds of investment options across multiple products. As APRA recognises, the RoA of a trust can not be seen as reflective of the investment experience of any one member of group of members.

Given the past experience with sector level RoA reporting and the current appetite for superannuation data fuelled by volatile markets, there is a real risk that APRA's publication will misrepresent the industry, be misinterpreted by the media and mislead superannuation members.

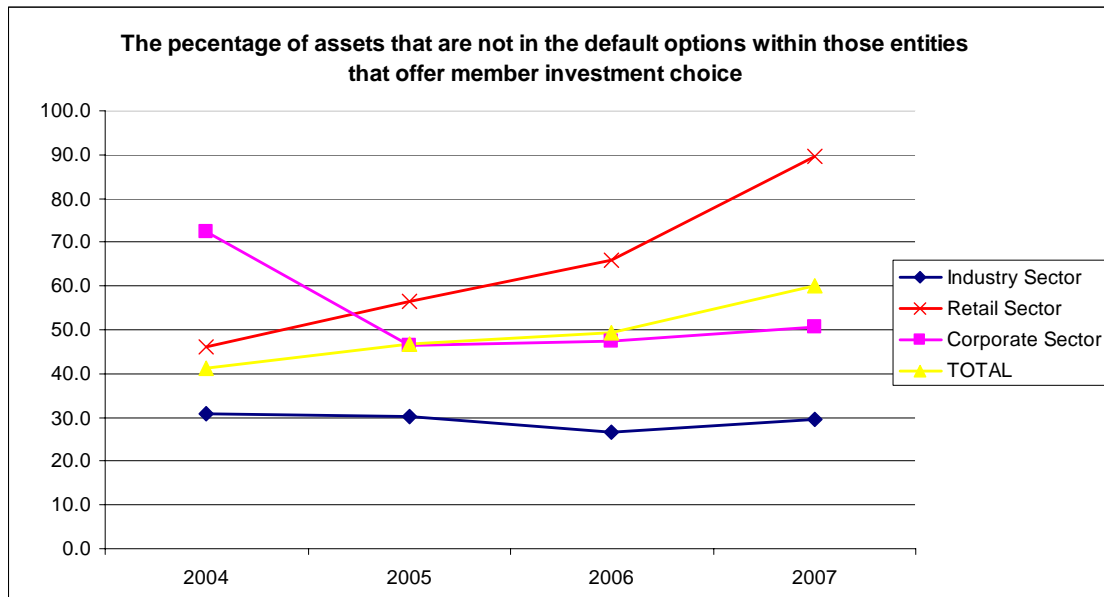
It does not appear that APRA has assessed the information needs of superannuation members and stakeholders or considered fully whether the data they intend to publish meets those needs. The plan also lacks a thorough risk assessment, considering how the information it publishes may be used and developing strategies to mitigate those risks.

APRA's plan to publish trust level RoA data is considered by the industry to be a dangerous compromise between the information that APRA holds and the information that superannuation members need.

The industry therefore recommends that APRA reviews its plan, if necessary considering more innovative ways to meeting the demand for trust level RoA data from policy makers, but ultimately focus its attention on collecting and publishing investment option performance data.

IFSA and the industry looks forward to working constructively with the industry on the new collections and publications in 2009.

APPENDIX B: IFSA analysis of APRA data



- IFSA analysis using APRA's Insight Issue 2, 2007 and APRA's Annual Superannuation Bulletin June 2007
- Years 2004 – 2006 use data which consists of entities that have at least \$100m in assets, 2007 is for entities regardless of size
- Retail sector excludes Eligible Rollover Funds. All entities includes Retail (excluding ERFs), Industry, Corporate and Public Sector Funds

APPENDIX B: Rice Warner Actuaries, Superannuation fees report 2008, Page 7

Table 1. Fees and Expenses 2008

Fees and Expenses By Superannuation Segment - Year to 30 June 2008							
Sector	Segment	Administration %	Platform %	Investment Management %	Administration, Platform & Investment Management	Cost of Advice %	Total Fees %
Wholesale	Corporate	0.24	-	0.47	0.71	0.02	0.73
	Corporate Super Master Trust ¹ (large)	0.20	0.01	0.56	0.78	0.02	0.79
	Industry	0.38	-	0.67	1.05	0.02	1.07
	Public Sector	0.21	-	0.46	0.67	0.02	0.69
Retail	Corporate Super Master Trust ² (small) [^]	0.41	0.43	0.81	1.66	0.46	2.12
	Personal Superannuation	0.17	0.61	0.70	1.47	0.53	2.00
	Retirement Income	0.20	0.42	0.69	1.31	0.53	1.84
	Retirement Savings Accounts	0.60	-	1.70	2.30	-	2.30
	Eligible Rollover Funds	2.03	-	0.47	2.49	-	2.49
Small Funds	Self Managed Super Funds	0.31	-	0.52	0.83	0.15	0.98
Total		0.28	0.14	0.59	1.02	0.19	1.21

* Expressed as a % of *average* assets over the year to 30 June 2008.

[^] The difference between the 2008 values and 2006 values is the result of better data.