

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2016 - 2017

Division/Agency: Australian Prudential Regulation Authority
Question No: 142
Topic: For-Profit Sector Superannuation - Fund Performance
Reference: Hansard page 28-29 (02 March 2017)
Senator: Gallagher, Katy

Question:

Senator GALLAGHER: Do you know how much profit has been earned from superannuation products by the banks in the last financial year?

Mrs Rowell: I don't, no.

Senator GALLAGHER: Does APRA know that information or would you have that information?

Mr Byres: We could take on notice to see if we have that information. I suspect it would be a very difficult question, because it would require a lot of estimation and assumptions about cost allocations and various things, but we can take the question on notice.

Answer:

The following is in response to Questions on Notice:

- 142 (SQ17-000150)
- 143 (SQ17-000151)
- 151 (SQ17-000185)
- 152 (SQ17-000192)

1. Banks' profits earned from superannuation entities and products

- APRA's superannuation data collection does not include information that would enable the 'profit' that a bank-owned group may earn from its superannuation funds and products to be determined.
- RSE licensees report 'profit after tax' under *Reporting Standard SRS 330.0 Statement of Financial Performance* however this measurement primarily reflects earnings on fund assets (i.e. on investments made on behalf of members), rather than the amount that an RSE licensee may potentially pay from the fund as a 'dividend' or 'profit' to a parent or other associated entity.
- Further, APRA's authorised deposit-taking institution data collection does not require separate reporting of data on profit obtained by bank-owned groups from their superannuation funds and products. The bank groups' public financial statements are likely to be the most reliable source in obtaining an overall picture of revenue and profit from superannuation. Nonetheless, it is likely to be difficult to accurately attribute profit to superannuation funds and products, particularly when various subsidiaries (e.g. insurance, financial planning, investment management) may provide products or services to the business operations of group RSE licensees or directly to fund members.
- As discussed further in part 6 of this response, APRA's focus in assessing the performance of RSE licensees is to consider their performance in delivering outcomes for the membership of funds within their business operations. This encompasses not just

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investment returns, but also includes factors such as fees and costs, insurance, services and governance of the RSE licensee.

2. Limitations of rate of return (ROR) as a comparator

- Parts 3 – 5 of this response provide APRA data on ROR, which represents the net earnings on superannuation assets and measures the combined earnings of a superannuation fund's assets across all its products and investment options. The majority of RSE licensees offer, from within their funds, both default and choice products. This is particularly the case for larger retail funds such as the bank owned public offer funds.
- As APRA has noted in many forums previously, whole of fund investment performance comparisons between funds with substantially different levels of default and choice members/assets are less meaningful than more “like for like” comparisons at product or investment option level. This issue is expanded on in part 6 of this response.

3. Major bank owned funds

- Major bank owned funds represent the majority of retail fund assets at \$316 billion, or 58 per cent (at 30 June 2016).
- There are six major bank owned funds with a 10 year rate of return (ROR) above the median for all APRA regulated funds. Five of these funds are non-public offer funds and one is a public offer fund. The 10 year ROR performance of these funds exceeded the 10 year median ROR of all APRA regulated funds by a range of 0.2% to 1.9% pa.

4. Median 10 year rate of return for all funds

- The industry-wide ten year median ROR for the period ending June 2016 was 4.3% pa.
- There are 27 major bank owned funds with a 10 year ROR. Of these, 21 had a 10 year ROR below the median.
- Four funds owned by non-majors (AMP, Citibank and Macquarie) have a ten year ROR. The ROR of one of these funds is above the median. As a consequence, in total seven major and non-major owned funds have a 10 year ROR above median and 24 have a 10 year ROR below the median.
- There are 41 industry funds with a 10 year rate of return (ROR). Of these, 30 have a 10 year ROR above the industry-wide median return and the ROR for the remaining 11 industry funds is below the industry-wide median ROR.

5. Average 10 year rate of return for all funds

- The industry-wide ten year average ROR for the period ending June 2016 as published in the *Annual Super Bulletin* was 4.6% pa.
- Five funds owned by the major banks have a 10-year ROR above the average for the period ending June 2016. None of these funds are public-offer funds.
- Six funds owned by major and non-majors have a 10-year ROR above the average for the period ending June 2016. None of these funds are public offer.
- 25 industry funds have a 10 year ROR for the period ending June 2016 above the industry-wide average return. 16 industry funds have a 10 year ROR for the period ending June 2016 below the industry-wide average return.

6. Assessing and comparing fund performance

- Fund performance should be assessed in a multifaceted way over the medium to long term, and not just by reference to investment returns. As noted above, factors such as fees and costs, insurance, services, and governance of the RSE licensee are also relevant to the outcomes achieved for members over the medium to long term.
- As noted in part 2 above, whole of fund ROR comparisons between funds with significantly different business models will not necessarily provide a meaningful assessment of performance.
- In particular, public offer funds offered by RSE licensees within banking groups typically have diverse membership with a much higher proportion of choice (vs default) members. This means that the ROR at fund level substantially reflects the asset allocation/investment option choices made by those members. In comparison, staff funds are typically relatively small with a high proportion of default members and limited investment options. By way of example, a higher proportion of the assets of bank public offer funds are in fixed income investments relative to staff funds.
- Further, the member demographic profiles of the different funds are likely to be significantly different (i.e. age, salary, account balances, member risk preferences), which also results in differences in the RSE licensee's investment strategy.
- **Attachment A** contains a table that provides APRA data on ROR, number of investment options, asset allocation and age profile of ANZ and CBA public offer and staff funds. This data highlights the differences in composition, options and asset allocation between staff funds and public offer funds.
- In assessing the performance of bank public offer funds, it is more appropriate to compare them to other similar public offer funds in respect of size (membership numbers, assets), default member flows, composition of choice and default members, average account balances and demographics of membership base. Similarly, in considering the performance of a bank staff fund, it is more appropriate to compare it to non-public offer funds than a public offer funds.

Attachment A – CBA and ANZ public offer and staff funds

		Rate-of-return (%)				Asset allocation (%)							Member account profile (age)				
Fund	Fund type	One-year ROR	Five-year ROR	Ten-year ROR	Number of investment options	Cash	Fixed Income	Equity	Property	Infrastructure	Commodities	Other	<35	35 to 54	55 to 64	65+	Age not available
ANZ and OnePath																	
ANZ Australian Staff	Corporate	4.80%	7.99%	5.26%	7	12.00%	14.00%	56.00%	11.00%	5.00%		3.00%	29.88%	54.58%	12.94%	2.59%	
Oasis Superannuation Master	Retail	0.70%	6.11%	2.42%	901	11.00%	29.00%	49.00%	7.00%	2.00%	0.00%	2.00%	11.35%	37.11%	24.46%	26.96%	0.12%
OnePath Masterfund	Retail	1.70%	5.85%	3.26%	142	13.00%	29.00%	49.00%	7.00%	1.00%	0.00%	0.00%	41.05%	40.01%	11.71%	7.22%	
Retirement Portfolio Service	Retail	0.10%	6.18%	3.76%	886	15.00%	21.00%	56.00%	5.00%	1.00%	0.00%	3.00%	0.41%	9.06%	17.07%	73.45%	
CBA and Colonial																	
Commonwealth Bank Group Super	Corporate	3.90%	7.73%	6.21%	10	6.00%	44.00%	38.00%	7.00%	4.00%		1.00%	33.14%	49.73%	10.61%	6.52%	
Avanteos Superannuation Trust	Retail	1.30%	5.82%	2.76%	1,967	17.00%	26.00%	47.00%	5.00%	2.00%	0.00%	2.00%	4.20%	26.26%	28.41%	40.99%	0.15%
Colonial First State FirstChoice	Retail	1.80%	6.31%	3.38%	734	18.00%	24.00%	43.00%	6.00%	3.00%		6.00%	26.83%	36.90%	17.84%	18.42%	0.00%
Colonial First State Rollover &	Retail	2.80%	7.14%	3.83%	46	19.00%	10.00%	66.00%	4.00%	1.00%			1.78%	50.46%	23.57%	24.19%	
Colonial Super Retirement Fund	Retail	1.50%	6.04%	4.01%	590	23.00%	17.00%	47.00%	2.00%	11.00%		1.00%	8.14%	56.69%	26.01%	9.16%	0.00%
Commonwealth Essential Super	Retail	2.70%			9	17.00%	16.00%	55.00%	6.00%	6.00%			77.42%	18.14%	3.33%	1.10%	
Encircle Superannuation Fund	Retail	1.90%	6.36%		258	13.00%	47.00%	25.00%	7.00%	3.00%	0.00%	5.00%	1.22%	9.94%	31.22%	57.57%	0.05%
Star Portfolio Superannuation	Retail	3.20%			404	15.00%	27.00%	41.00%	8.00%	5.00%	0.00%	4.00%	2.57%	17.56%	40.38%	39.49%	
Symetry Personal Retirement Fund	Retail	1.60%	5.12%	2.41%	1,055	18.00%	27.00%	44.00%	9.00%	0.00%	0.00%	2.00%	1.17%	26.48%	24.74%	47.56%	0.05%
Ultimate Superannuation Fund	Retail	1.60%			161	12.00%	24.00%	49.00%	8.00%	0.00%	0.00%	7.00%	4.28%	23.95%	27.33%	44.44%	