Effectiveness and capability review of the Australian Prudential Regulation Authority

Australian Retirement Trust

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Dear Sir / Madam

Australian Retirement Trust welcomes the opportunity to provide input to the first review by the Financial Regulator Assessment Authority of the effectiveness and capability of APRA's supervision and resolution functions within the superannuation industry.

About Australian Retirement Trust

Australian Retirement Trust (**ART**) is a superannuation fund established on 28 February 2022.

It was created following the merger of two of Australia's largest super funds, QSuper and Sunsuper. The merger was implemented by:

- Successor fund transfer of the interests of the Sunsuper beneficiaries into QSuper and a transfer of Sunsuper assets into QSuper; and
- Resignation of the QSuper Board, as the trustee of QSuper and the appointment of Sunsuper Pty Ltd as trustee of the combined fund. Sunsuper Pty Ltd has been renamed Australian Retirement Trust Pty Ltd.

ART has two Divisions: the legacy QSuper products are within the Government Division of ART; and the Public Offer Division of ART reflects the legacy Sunsuper products.

Our submission

ART engages with APRA on a routine basis both on an individual entity supervision level and through making submissions to various consultations, engages in industry roundtables, forums and provides information to APRA to assist in understanding industry trends and issues.

This submission has been structured to align with the Authority's key questions, through the lens of our most recent experience with APRA and having regard to our considerable engagement during the merger process.

We thank the Authority for considering this submission in its review and would be pleased to provide further information if required.

Yours sincerely,

AL Browne

Anne Browne
Chief Risk Officer

Assessment of the effectiveness and capability of APRA's supervision function in superannuation

1. Are APRA's supervisory priorities clearly communicated by APRA staff to the regulated population and external stakeholders?

Yes. The regular publication of APRA Policy and Supervision Priorities and updates to its Corporate Plan provides a useful view of the intended focus of APRA at an industry level.

ART actively reflects on this information in day-to-day management of the business as this provides a tangible roadmap of industry level regulator activity.

APRA actively adjusts and updates the timetable of planned activity, noting that in some cases the proposed timing of activity is quite broad, and this diminishes the usefulness somewhat.

Providing this information in an accessible digital format that can be used to integrate with other information sources (such as ASIC's priorities and Corporate Plan) would be welcomed.

2. Does APRA clearly communicate and implement its supervision activities, and are supervision activities appropriately targeted?

ART has more recently observed a shift whereby a future focussed supervisory plan is being provided at an entity level. This identifies planned formal engagements such as Prudential Reviews and Prudential Meetings on a forward basis. This is a welcome shift that allows for better resource planning and more meaningful engagement to be achieved.

There is a lack of visibility to the way APRAs entity level view of risk (i.e., that sits behind the entity Supervision Risk Intensity or SRI rating) aligns to supervision activity.

Entities are often left to 'presume' APRAs view of their relative risk profile by drawing a conclusion between supervisory focus and the elements that comprise the SRI model. It is unclear the rationale for this lack of transparency as a candid engagement with APRAs view of the entity risk profile and the view of the entity itself would result in more meaningful dialogue and action that would ultimately drive better member outcomes.

3. How effective is APRA's supervision in achieving APRA's objectives? Are there any gaps in APRA's supervisory activities in superannuation?

Supervisory activity in the investment space is less targeted than might be expected, given the size and scale of the superannuation industry and the role of entities as asset managers. ART acknowledges and supports APRA's principles-based approach to regulation but would expect a more prescriptive approach to independent investment risk oversight, including an expectation of deep asset management experience in risk functions commensurate with the nature of investment activities of funds.

Whilst ARTs experience during its recent merger was largely positive, as the consolidation of the superannuation industry continues, it would be beneficial for APRA and other regulators to come together to develop a merger 'play book' to better guide Trustees on obligations and expectations in merger considerations.

In many cases, consolidation activity through successor fund transfers can be relatively straightforward but can be complicated by a misaligned view of the obligations that must be met to demonstrate equivalency and members best financial interests.

APRA may benefit from more deeply understanding the due diligence process that precedes mergers, the degree of confidence and certainty that Boards require that potential regulatory hurdles can be overcome and be prepared to engage in direct dialogue with Boards as required.

ART welcomes APRAs current consultation on transfer planning in superannuation and intends to provide a detailed response to this consultation.

The process involved in identifying and actioning applications for relief as it relates to mergers can be costly, time consuming and – once lodged – can take a good deal of time for APRA to assess and provide a directional view.

4. To what extent does APRA have the appropriate organisational capabilities (including, people, data, technology, and systems) for detecting prudential risks, prioritising issues, and conducting its supervisory activities to achieve the right outcomes?

The 2019 Treasury APRA Capability Review saw the re-structure of APRA organisational structure across industry lines. The creation of the Superannuation Division has improved APRA's focus of the superannuation system.

ART has been fortunate to have personnel involved in its frontline supervisory team that are experienced and knowledgeable in superannuation.

Throughout the merger, there was also benefit gained from having some common supervisory personnel across the two merging funds that no doubt greatly assisted.

Ensuring there is depth of industry specific experience in the frontline supervisory teams and appropriate, practical specialist industry experience in specialist teams is critical to drive meaningful outcomes and avoid an overly prescriptive or 'academic' approach to regulation.

Appropriate remuneration structures will obviously be key to ensuring talent acquisition and retention. The consolidation of the superannuation industry provides a potential talent source for APRA to tap into.

The volume, depth, and granularity of data that APRA receives provides a rich source of information that can improve supervisory activities.

In doing so, APRA should consider a focus on the big picture and continue to recognise the efficiencies that can potentially be gained through a cross-regulator approach to data insights and data gathering to reduce the regulatory burden on entities. There is some risk that systems are not designed adequately to cope with the vast volumes of data and pressures are already being experienced as the transition to APRA Connect continues.

5. What steps has APRA taken to effectively reduce the regulatory impost of its supervisory activities? How could APRA improve?

APRA actively consults on proposed regulatory change including seeking to identify the costs and impacts on entities.

The recent Superannuation Data Transformation Program is an example where APRA engaged at the earliest stages and throughout the program of work and made itself available for industry forums and ongoing discussions.

This is one area where the scale of investment in systems and the time needed to understand the technical requirements was considerable and by necessity, entities needed to draw on business as usual resources to plan and implement changes effectively. Whilst APRA did engage with industry and shifted some timelines to accommodate these pressures, this was burdensome for entities to manage and deliver to the requisite level of quality in a time bound manner. There was considerable benefit gain by having appropriate APRA subject matter experts engaged.

Ensuring appropriately skilled and experienced APRA personnel are engaged appropriately is important to ensure the regulatory burden is effectively balanced.

ART's experience is that specialist teams can be drawn upon as needed when specialist engagement is needed.

At times it can be challenging to secure time with these teams, and their expertise is increasingly drawn upon. These resource challenges will be a priority issue for APRA to continue to manage.

Further investment in targeted 'lessons learned' or post-implementation reviews would be beneficial.

6. How has APRA's supervisory activities and the nature of its relationship with stakeholders changed following recent independent inquiries and reviews?

It is apparent that closer and more collaborative engagement between ASIC and APRA is occurring in the day-to-day supervision of entities, which ART welcomes. Greater alignment creates efficiency in supervision and ultimately benefits consumers in driving the right outcomes through meaningful focus.

Over time, a shift to a greater focus on liaison style engagement with a regular cadence of face-to-face engagement has been beneficial. This has engendered a deeper understanding of entity level structures, teams and operations by APRA and is an area where ASIC might reconsider its approach to ongoing engagement.

Assessment of the effectiveness and capability of APRA's resolution function in superannuation

1. How well is APRA's resolution function communicated to and understood by the regulated population?

ART is not positioned to comment on this from a broader industry perspective, however from ART's perspective there is a clear understanding that APRA does not operate through the lens of 'zero failure' and has well-articulated expectation that some institutions will by potentially fail and need to exit the industry.

In the context of superannuation, there are considerations brought to bear through the performance test regime that increase the potential risk of 'orphan funds' emerging. This may arise where there are challenges for a potential successor trustee to demonstrate best financial interests of its members are achieved through a merger where a poorer performing fund has a declining member base. The importance of a swift and timely resolution and exit is heightened in these circumstances and APRA has an important role to play in facilitating this.

ART will be providing more fulsome commentary in its submission to APRAs Transfer Planning in Superannuation consultation.

2. How well has APRA prepared industry for the introduction of APRA's resolution framework?

APRA has undertaken a lengthy consultation process in respect to its new proposed cross prudential standards on financial resilience and crisis preparedness. Industry has considerable time to consider, prepare and plan to ensure frameworks are in place to respond appropriately. APRA has also been mindful to sequence these new standards with changes to operational risk prudential requirements which is important given their interconnectivity.

3. How effective is APRA's resolution function in promoting appropriate outcomes for members?

APRA has been vocal in its articulation of the expectations of providers of poorly performing products. This has resulted further consolidation of the industry.

APRA could be more proactive in seeking to better understand some of practical realities that are involved in undertaking a consolidation or merger activity – from due diligence through to execution.

This is an important area where active dialogue could potentially lead to greater alignment of expectations, both for the entities engaged in consolidation and APRA themselves. This would ultimately create efficiencies for the benefit of members.

Considering the expectations in the context of a 'rapid exit' circumstance would assist to sharpen the focus of activity in a scenario that is less time constrained and lead to greater efficiencies for members.

4. To what extent does APRA have the appropriate organisational capabilities (including, people, data, technology, and systems) for achieving the right outcomes?

There was considerable engagement with APRA during the recent Sunsuper / QSuper merger and APRA were very willing to engage and provide support during this process. The size, scale and complexity of this merger was unprecedented and there were many nuanced and unique issues that required active and collaborative management.

As a result, it was necessary to engage frequently with specialist teams within APRA and capacity constraints were apparent from time to time. The need to rely heavily on APRA Advice and Approvals and Legal teams resulted in some long timeframes to receive confirmation of critical decisions. Overall, the experience was very collaborative and supportive despite some challenges being experienced.

ART considers that APRA could benefit through leveraging the experience and capability that exists within the industry to better understand merger processes and the considerations of Trustees in practice.

APRA would benefit from a 'lessons learned' approach to refine, streamline and improve its processes and engagement in mergers and proactively look to provide guidance on merger issues and APRAs approach and insights through a practical, risk-based lens.