

Financial Regulator Assessment Authority

Via email: FRAA@treasury.gov.au

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Subject: **Effectiveness and capability review of the Australian Prudential Regulation Authority**

Dear Sir / Madam

Thank you for the opportunity to provide feedback in response to the FRAA effectiveness and capability review of the Australian Prudential Regulation Authority). This response has focussed on questions relating to APRA's supervision of the Superannuation Industry.

Executive Summary

APRA plays an integral role in ensuring a market that operates in the interests of the members that it serves. In recent times, APRA's open dialogue, clear regulatory objectives and positive supervisory steps have no doubt shaped the superannuation industry for the better.

As APRA continues to execute on its role, Mercer believes that further thought could be given to the role that industry can play in supporting the design of specific implementation steps for new initiatives. Such engagement may avoid unintended consequences that arise through decision making processes or redundant costs that may ultimately be passed through to members. A useful example which is articulated in further detail in response to questions four and five is APRA's Superannuation Data Transformation effort, an important project but not without complexity in its implementation.

Responses to specific questions from the Discussion Paper

Our responses to the specific questions raised in the Discussion Paper are set out in the Appendix.

About Mercer

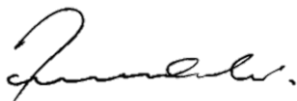
[Mercer](#) believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of [Marsh McLennan](#) (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 83,000 colleagues and annual revenue of over \$20 billion. Through its market-leading businesses including [Marsh](#), [Guy Carpenter](#) and [Oliver Wyman](#), Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

In the Pacific region, Mercer Australia is a trusted adviser and guardian to our clients and members. We look after the superannuation benefits of over two million members in over 30 corporate stand-alone,

public sector funds and industry funds and approximately 230 corporate clients in the Mercer Super Trust. We provide customised administration, technology and total benefits outsourcing solutions to our clients, and our expertise in administering and managing the investments of diverse, complex superannuation benefit designs is well recognised. Our clients include some of the world's leading organisations in both the public and private sectors, as well as many smaller rapidly growing organisations seeking best practices in order to gain competitive advantage.

We would be happy to discuss this submission in more detail at your convenience. Please do not hesitate to contact me to arrange.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Bryant', written in a cursive style.

David Bryant

CEO Mercer Australia and President Pacific Region.

APPENDIX

Feedback responses

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

APRA's supervisory priorities are clear to regulated entities and the market at large. The communication methods play an equally if not more important role than the priorities themselves in shaping market conduct. APRA's Corporate Plan provides the foundation however public dialogue through forums, press releases and other media set the tone for industry to follow and it's important therefore that APRA is clear and consistent across all mediums. A relevant example was APRA and ASICs joint letter on Retirement Income Strategies issued in March 2022. Whilst well intended, industry took this letter as firm guidance which created additional compliance effort that perhaps did not align with the intentions of the regulators.

Mercer has observed APRA paying close attention to the tone set through these various communications and as industry responds unequivocally to communicated words. APRA has a powerful platform to be navigated thoughtfully as stakeholders and the regulated population make strategic movements based on literal interpretation of APRA's messages. If messages are not carefully crafted it could result in unintended consequences or market activity.

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

APRA's supervision priorities are widely communicated and published to provide clarity to industry. At a principle level, these are reflective of desired outcomes for many in the industry and align with Mercer's own values. Improving transparency in the industry, improving outcomes for members and working more closely with ASIC for a streamlined and more effective supervisory approach will help industry deliver on its purpose of improving retirement outcomes for members.

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

Whilst Mercer is a firm believer in the outcomes that supervision is attempting to drive, there are opportunities to act in a more efficient manner through closer dialogue on implementation of APRA's objectives and planned changes.

As an example, APRA's Superannuation Data and Insights program provides an important mechanism to drive transparency in industry however in execution it can add duplication, effort and cost to members. There are examples where data is accessed, transformed and produced by multiple Trustees where an intermediary (e.g. a custodian) may be better placed to provide this, eliminating costs from the system that will ultimately be borne by its members. Further, instances of revision and resubmission at the request of the regulator where requirements change have added complexity. As APRA aspires to be more data led in its supervision efforts it will be important to balance that focus with the cost of compliance.

The MySuper product heatmap and performance tests are a useful benchmarking tool that builds on APRA's data collection program. However as human behaviour dictates and APRA recognises in its work on Governance, Culture, Remuneration and Accountability (GCRA), when floor benchmarks or targets are introduced, decisions made in industry may favour delivery of the short-term outcome (meeting the performance test) over longer term sustainability and better outcomes for members. We hope that the implementation of CPS511 – Remuneration, will act to balance this risk within industry and consideration is given to the construct of these tests to help best promote long term oriented decisions in the best financial interests of members.

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?*

APRA has evidenced its ability to quickly identify and adapt supervision activities as emerging risks arise as seen following recent well publicised cyber incidents in Australia. However, APRA faces the same challenges as industry in accessing appropriate talent and capability. APRA's focus on driving member value through economies of scale is clear although this in turn creates capacity pressures in the regulatory system (and in relevant administration and investment areas) as Trustees concurrently work through supervision and related processes to meet targeted merger timelines.

APRA's relationship-based model is helpful for both the regulator and industry in maintaining clarity on regulatory objectives and effectively shaping industry practice. Notwithstanding, there are instances where a lack of specific expertise on particular risks can slow the development of industry in line with targeted outcomes. The approach taken to regulatory oversight of CPS234 (the Tripartite Review), helped the regulator to access skillsets en masse and in support of its objectives. Applying and extending this approach in future will help both the regulator and industry to achieve the right outcomes in a timely manner.

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

The cost, financial or otherwise, of compliance should be an important consideration for all stakeholders noting that in many cases across industry these are borne by members. APRA's clear and ongoing dialogue about its priorities and supervisory agenda has helped to shape industry action ahead of implementation which will by its nature find market efficiencies.

The challenge arises if a prescriptive implementation methodology is chosen by the regulator. If APRA were to extend its consultation approach to consider implementation issues or work closely with parts of industry, it may be able to avoid situations that create redundancy cost in the system. The implementation of its data and insights program as noted above provides one example where industry, and by extension members, may have been better served with an ongoing working group tasked with identifying an appropriate implementation method that would achieve regulatory outcomes in an efficient way.

The move to rationalise standards across Financial Services, whilst logical in principle, is challenging in implementation. Often the base used for these new rationalised standards are derived from one industry sector with significantly more capital than other sectors and the rest of the industry is not well placed for the step change that follows. In rationalising standards, consideration should be given to industry specific compliance roadmaps to balance investment and focus required on compliance.

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

APRA's relationship based model means that it is uniquely placed to quickly implement different approaches with stakeholders as its needs change. Mercer has observed and welcomes APRA taking strong steps with industry in its ongoing supervision. Actions include but are not limited to;

- direct dialogue with Boards on a regular basis,
- communicating its priorities and hearing from Trustee Boards about the issues facing their memberships,
- an increase in targeted supervision activities in material risk areas; and
- greater collaboration with ASIC in the spirit of a stronger enforcement tone.