



**Australian Government**

**Financial Regulator  
Assessment Authority**

# Effectiveness and Capability Review of the Australian Prudential Regulation Authority

**Financial Regulator  
Assessment Authority**

June 2023



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30 June 2023

The Hon Stephen Jones MP  
Assistant Treasurer and  
Minister for Financial Services  
Parliament House  
Canberra ACT 2600

Dear Assistant Treasurer and Minister for Financial Services

**Financial Regulator Assessment Authority Effectiveness and Capability Review of the Australian Prudential Regulation Authority**

In accordance with the *Financial Regulator Assessment Authority Act 2021*, we are pleased to present to you the Financial Regulator Assessment Authority (FRAA) report – *Effectiveness and Capability Review of the Australian Prudential Regulation Authority (APRA)*.

Our review has assessed the effectiveness and capability of APRA’s supervision and resolution of the superannuation industry. Our assessment has been informed by the evidence gathered from a range of sources, including: a public consultation, roundtables, bilateral meetings, an external stakeholder survey, an APRA staff survey, focus groups with APRA staff and ASIC superannuation staff, interviews with APRA leadership, and APRA’s self-assessment. We would like to thank APRA’s leadership and its staff for their engagement and openness in the preparation of this report.

The FRAA notes APRA’s successful regulation of the banking, insurance, and superannuation industries through complex challenges and crises in recent years. We generally agree with APRA’s self-assessment that its supervision function within superannuation is effective and capable, while its resolution function is significantly less developed. We are of the view that there are opportunities to enhance APRA’s performance in both functions. In this report we make recommendations which we believe, if implemented, should make APRA’s regulation of the superannuation industry more forward looking, and better prepare the industry and broader financial system for future shocks.

We appreciate APRA’s receptiveness to our views, as discussed throughout this review, and acknowledge APRA’s prompt responsiveness to our points by establishing programs or prioritising initiatives already planned. We also recognise that APRA has recently intensified its efforts in superannuation regulation and initiated several projects in the areas identified by the 2019 APRA Capability Review and the 2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

This review recommends that APRA continue to work with the industry to develop, expand and refine regulation to ensure APRA and the industry are well placed to protect the retirement savings of more than 15.6 million Australians who hold superannuation assets.

We commend the report to you.

Yours sincerely

Nicholas Moore AO  
Chair

Fiona Crosbie  
Member

Craig Drummond  
Member

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# Acknowledgments

The Financial Regulator Assessment Authority (FRAA) would like to thank the Australian Prudential Regulation Authority (APRA) Chair, deputy chairs, members, senior executive leaders, and staff for their engagement and openness throughout this review and in the preparation of this report.

The FRAA would also like to thank everyone who generously gave their thoughts, insights, and time throughout the consultation process, particularly through participation in meetings, roundtables, surveys, and preparation of submissions.

Finally, the FRAA wishes to acknowledge the support provided by members of the Treasury secretariat.

# Outline of this report

This report begins with an executive summary of the FRAA's assessment of the effectiveness and capability of APRA's supervision and resolution of the superannuation industry. The executive summary outlines 5 recommendations that the FRAA has identified as opportunities for APRA to enhance its effectiveness and capability across the areas reviewed.

Chapter 1 'FRAA objectives and methodology' provides an overview of the FRAA, its approach and the methodology for this review. Chapter 2 'APRA's role in the Australian financial system' outlines the regulatory architecture of the Australian financial system, including APRA's role, funding and resourcing. This chapter also explains the regulation of the superannuation industry, its evolution, the changes driven by APRA, and the maturity of the industry and its regulation. Chapter 3 'Supervision' and Chapter 4 'Resolution' outline the respective functions, considers APRA's self-assessment, details the evidence gathered, identifies APRA's current and planned initiatives, and provides the FRAA's assessment and recommendations.

Appendix A 'Methodology of this review' outlines the process the FRAA adopted for gathering evidence and information for its review. Appendix B 'Evolution of superannuation regulation' outlines in detail some of the changes to superannuation regulation.



# Executive summary and recommendations

As Australia's prudential regulator, APRA plays a key role in ensuring Australia has a safe and stable financial system. APRA has successfully regulated the banking, insurance, and superannuation industries through complex challenges and responses to crises in recent years. APRA's approach is well regarded by its stakeholders and is acknowledged to have made an important contribution to Australia's world-leading financial system.<sup>1</sup>

Throughout this review, the FRAA has been particularly encouraged by APRA's honest self-reflection and evaluation. APRA prepared a detailed self-assessment at the start of this review and, in meetings with the FRAA, APRA staff have candidly identified those areas deserving of greater attention. APRA's self-assessment is referred to throughout this report (see Figure 2.3). The FRAA is optimistic about APRA's ability and commitment to implement the recommendations.

In this review, the FRAA has assessed the effectiveness and capability of APRA's supervision and resolution functions of the superannuation industry. Supervision is the primary tool of prudential regulation and involves a range of activities to identify and respond to risks to regulated entities, industries, and the financial system. These risks can be financial, operational, or behavioural. APRA's resolution function involves planning for and responding to stresses specific to a regulated entity and systemic to an industry and, where required, resolving entities at the point of failure.

For 30 years, Australians have contributed money to their retirement through compulsory employer-based contributions and additional voluntary contributions. Annual contributions to superannuation are around \$121 billion.<sup>2</sup> Driven by mandated contributions, the pool of Australian superannuation assets has grown significantly. From an estimated \$148 billion (approximately 34 per cent of gross domestic product (GDP)) in 1992 it has grown to \$3,387 billion (approximately 138 per cent of GDP) in 2022.<sup>3</sup> By 2061, the superannuation industry is projected to grow to over 244 per cent of GDP.<sup>4</sup> Superannuation is, therefore, critical to funding the retirement of millions of Australians and is an increasingly important source of capital for the Australian economy. Its performance is integral to the wealth and wellbeing of Australians and the nation's economy.

APRA has focused its supervision activities in superannuation on ensuring trustees meet their legal obligations, including the reasonable expectation of members. This differs from the more typical prudential approach that APRA applies to banking and insurance entities, which focuses on risks that could impact the ability of an entity to pay out a fixed contractual commitment to depositors and policyholders. The differing approach is a corollary of the trust structure of superannuation funds and the mandated nature of contributions, coupled with the fact that members have limited ability to withdraw funds before retirement but can freely switch their monies between products, and the absence of an obligation to deliver fixed returns to members at retirement.

- 
- 1 In the external stakeholder survey, 98% of respondents agreed that APRA supervision positively impacts their industry, and 90% agreed that APRA helped protect the financial wellbeing of the Australian community. APRA, [APRA 2023 Stakeholder Survey](#), APRA website, 2023, accessed 23 June 2023.
  - 2 Treasury, [Your Future, Your Super reforms to make your super work harder for you](#), Australian Government, 2020, p 12.
  - 3 APRA, [Superannuation in Australia: A timeline](#), APRA website, n.d., accessed 20 March 2023. APRA [Quarterly superannuation performance statistics highlights](#), APRA website, 2022, accessed 20 March 2023. ABS, [Australian National Accounts: National Income, Expenditure and Product](#), ABS website, 2023, accessed 20 March 2023.
  - 4 Treasury, [2021 Intergenerational Report](#), Australian Government, 2021, p 13.

APRA uses common frameworks and tools to apply a consistent supervision philosophy across all regulated industries. However, the unique characteristics of the superannuation system require APRA's supervisory activity and toolset to have some distinct elements.

The difference in regulatory approach extends to recovery and resolution activities which are relatively new concepts in the superannuation industry, but well established and understood in the banking and insurance contexts.

## Review outcome

The FRAA generally agrees with APRA's self-assessment that its supervision function within superannuation is effective and capable, while its resolution function is significantly less developed. In comparing APRA's regulation of superannuation with its regulation of banking and insurance, APRA needs to enhance its regulation of superannuation to be more risk based, forward looking and outcomes focused, particularly at the systemic level.

The FRAA notes the generally positive feedback received from a broad range of stakeholders and APRA's achievement in meeting its legislated objectives, and the expectations of the government and community. There has been significant growth and change in the regulation of the superannuation industry. As a result, APRA has had to continually adapt its approach to regulation in response to these changes.

The FRAA acknowledges APRA's progress in improving its superannuation capabilities following the 2019 APRA Capability Review (APRA Capability Review) and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission). The FRAA also notes APRA's progress in addressing sub-standard industry practices and improving trustees' delivery of outcomes for members. This has been done through new reporting standards (for example, data collections) and prudential standards (for example, prudential standards to uplift strategic planning and member outcomes, and the robustness of investment governance), and the publication of Heatmaps.

The FRAA appreciates APRA's receptiveness to the FRAA's views, as discussed with APRA throughout this review. The FRAA also acknowledges APRA's prompt responsiveness to the FRAA's points by establishing programs or prioritising initiatives already planned.

The FRAA considers it imperative that the superannuation industry and APRA continue to cooperate to develop their regulatory practices to further safeguard superannuation member outcomes and build industry resilience.

## Recommendations

The FRAA contends there are 5 key areas of opportunity for APRA to enhance its effectiveness and capability. Several of these recommendations build on findings from the APRA Capability Review. These recommendations, when implemented, should see APRA enhance its effectiveness and capability in its supervision and resolution functions, within superannuation.

Recommendations 1 to 4 focus on APRA's approach to supervision. Recommendation 5 addresses APRA's implementation of recovery and exit planning requirements, and APRA's preparedness to effectively resolve a superannuation entity.

## Proactive identification and understanding of risks in superannuation

APRA's focus on emerging and industry-specific risks relevant to superannuation, is not yet as well-developed compared with its more mature regulation of the banking and insurance industries. Given the characteristics of the superannuation industry, APRA should direct greater attention to proactively identifying and comprehensively understanding risks, such as:

- conversion of unlisted or illiquid assets to cash
- unlisted asset valuation practices
- more members moving to the retirement phase
- increasingly complex investment strategies undertaken by trustees (who are increasingly sourcing investment strategies in-house), and the development of complex income-stream products
- severe market downturn, exacerbation by financial instability and member switching requests
- failure or industry exit of administration service providers.

APRA should also continue its focus on supervision of industry's preparedness to manage and respond to risks arising from cyber-attacks on regulated entities or third-party service providers, data breaches and fraud.

APRA has undertaken some work in assessing and requiring trustees to respond to these risks at an entity-level and has started exploring issues more deeply through thematic reviews. However, the FRAA is concerned APRA has, at times, been reactive and focused on a limited number of risks facing the sector, which may have significant implications for how trustees are delivering outcomes for members and the broader financial system.

In assessing these and other risks, which may be interrelated and cumulative, APRA should use all available tools to understand the implications at a member, entity, industry and financial system level. This includes APRA applying to superannuation its skill and long-standing experience gained in conducting APRA-led stress testing in the more mature banking and insurance industries. The outputs of these assessments should inform APRA's ongoing supervisory activities and help direct recovery and resolution planning.

### Recommendation 1

The FRAA recommends APRA should increase its efforts to identify risks in superannuation, including emerging and systemic risks, and their potential consequences. APRA could then better perform its supervisory activities and recovery and resolution planning.

## Develop its staff capabilities

In recent years, APRA has focused on lifting capability across the whole organisation. APRA's senior staff are generally well regarded by the superannuation industry. However, some trustees identified variability in supervisory staff's industry knowledge and technical expertise. Such variability may constrain the effectiveness of APRA's supervision.

APRA should prioritise and invest in initiatives to recruit, train, retain and develop its staff. This will ensure APRA builds and maintains the skills and knowledge needed to proactively identify, understand and respond to emerging and systemic risks. Trustees are bringing more functions in-house, engaging in more complex investment strategies and offering more complex products.

Therefore, APRA will need to continue to build specialist expertise in investment management, asset allocation, product understanding and liquidity risk. To help build the skill set and industry understanding, APRA's leadership should encourage and facilitate more innovative thinking, including increasing its cross-divisional knowledge sharing and staff mobility. The FRAA notes that APRA's March 2023 restructure presents an opportunity to increasingly share specialist resources across industry divisions, such as those within the Macroeconomic and Industry Insights team responsible for stress testing.

**Recommendation 2**

The FRAA recommends APRA should prioritise and invest in initiatives to recruit, train, retain and develop its staff to build appropriate skills and industry knowledge, to drive deeper understanding and build stronger capability to manage and respond to emerging and systemic risks.

**Invest in data and technology capabilities**

APRA acknowledges that its data and technology strategy, including its investment in building systems and process capabilities, has not progressed sufficiently to enable it to deliver its vision for data-enabled supervision. These technology challenges are faced by many large organisations, including other regulators.

APRA's leadership should continue to prioritise the uplift and investment of its data and technology capabilities. This includes securing sufficient funding, staff resourcing, and time for senior stakeholders to ensure capability and practices evolve and are embedded to maximise the benefits of lifting its data and technology capabilities. APRA should continue to work with the superannuation industry to build a more data-focused culture.

APRA recognises it underestimated the complexity of technology changes and data collection in its data strategy and the Superannuation Data Transformation (SDT) project. APRA should provide greater clarity, internally and externally, about the objectives and intended purpose of the SDT and its data and technology strategy.

APRA should invest in systems and processes to promote better internal collaboration and coordination between frontline supervision and specialist teams to ensure data and information requests issued to regulated entities have a well-defined purpose. This will help reduce duplicative data collections and to the extent appropriate, minimise regulatory burden. APRA will need to ensure its internal systems and processes support collaboration and coordination and address existing issues such as the limited integration of different systems and constrained tracking of workflows and status updates across functional areas.

The FRAA acknowledges APRA's progress in this area particularly the recent appointment of an executive director to lead a dedicated data and technology division. The key external and internal reviews underway will provide APRA with options on the timing, funding and resources required to uplift its data and technology capabilities.

**Recommendation 3**

The FRAA recommends APRA should continue to invest in its data and technology capabilities and processes to provide timely insights, allow effective internal collaboration, and to the extent appropriate, minimise regulatory burden associated with data and information requests.

## Improve transparency for trustees, industry and consumers

APRA has increased its transparency with industry and the community in recent years by:

- increasing communications in relation to its annual supervisory and policy priorities and the conduct of formal enforcement actions
- sharing insights from thematic reviews and work on emerging risks.

Notwithstanding, some trustees believe APRA should further improve its transparency. Many stakeholders noted that improved communication would enable industry participants, and the broader public, to derive greater benefits from APRA's data requests, thematic reviews, and ongoing supervision.<sup>5</sup>

For example, trustees noted that they do not always have an adequate understanding of information regarding APRA's focus areas and timeframes. A suggested annual calendar of supervisory activities would encourage more effective planning and reduce the stakeholder perception that APRA operates on a reactive basis. Consumer advocacy bodies also noted that APRA should consider providing more information on thematic methodology and outcomes. This would build public awareness and enable interested parties to comment.

Beyond its direct supervisory work, many trustees noted an opportunity for APRA to use its networks across the superannuation industry to communicate timely insights from recent incidents, and emerging risks across the industry, including cyber-attacks. The FRAA acknowledges that issues around cyber incident confidentiality, the sharing of case studies and emerging studies, are considered at a whole-of-government level. Where appropriate APRA should proactively and promptly alert industry to information about cyber incidents. This could empower trustees to take immediate measures to enhance their systems and processes to mitigate potential risks.

### Recommendation 4

The FRAA recommends APRA should provide trustees with annual plans of proposed supervisory activity. APRA should keep trustees informed of the status of reviews, information requests and other supervisory activities.

In relation to thematic reviews, APRA should consider publishing its methodologies and more detailed insights to build public awareness and enable interested parties to comment.

APRA should consider communicating more timely and detailed insights across industry to increase awareness of risks and promote better practices.

## Delivery of recovery and resolution plans

If trustee-led recovery and exit plans are ineffective in responding to stress, APRA should be ready to resolve trustees at the point of failure. To date, APRA has successfully overseen trustee-led recovery plans and facilitated the exit of certain smaller superannuation trustees. Further work by APRA is needed to ensure it is well equipped to resolve more complex or large trustees, or simultaneous failures in the event of a systemic superannuation crisis.

APRA's ability to execute an orderly resolution activity benefits from trustees' early planning, and trustees having sound governance and operational frameworks before stress events emerge.

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5 These stakeholders included superannuation trustees, industry associations and consumer advocacy bodies.

Trustees currently have a very low understanding of recovery and exit and resolution planning requirements. The FRAA notes this low awareness may heighten the challenge for APRA to achieve orderly resolution activity in more complex circumstances.

APRA has established a small team dedicated to superannuation resolution. APRA will need to continue to invest in building its resources and its depth of capability (including by internal staff training) beyond this dedicated team. This will ensure it is well placed to support trustees in preparation for credible recovery and exit plans, and to ensure APRA can effectively resolve trustees when necessary.

For APRA to reach its self-assessed target of 'mature' for resolution, it should work towards enhancing industry's understanding of resolution and its own capability. This will improve APRA's ability to identify trustees at risk of failure and support live resolution responses.

APRA has identified limitations in its current suite of superannuation resolution powers. These relate to the complexities and costs borne by members when APRA appoints an Acting Trustee. These limitations may need to be addressed so APRA is well-placed to facilitate orderly resolution in more complex environments.

### **Recommendation 5**

The FRAA recommends APRA should prioritise developing its resolution capability and work closely with industry to lift awareness of recovery and resolution planning requirements, to ensure APRA is able to support recovery and exit, and resolve failing superannuation trustees. Doing so will also serve to enhance its supervisory function.

## **Review approach and methodology**

The FRAA assessed APRA's supervision and resolution functions in superannuation against several operational indicators considered key attributes of an effective and capable regulator. These indicators are demonstrated ability to achieve objectives, efficiency, organisational capability, fairness, and transparency.

The FRAA's assessment has been informed by a wide range of views and sources.

- The FRAA gathered evidence and information from internal and external stakeholders. Externals included industry experts, regulated entities, industry associations, consumer advocacy bodies, think tanks and peer regulators.
- The FRAA used different channels to engage a diverse cross-section of stakeholders including public consultation, roundtables, targeted bilateral meetings and APRA's regulated entity survey.
- The FRAA was informed by APRA's self-assessment, supporting information received, staff survey results (including commentary), and discussions with APRA staff focus groups and senior APRA management.

# Chapter 1: FRAA objectives and methodology

## Overview of the FRAA

- 1.1 The FRAA was established in response to recommendations of the Royal Commission to establish an independent oversight authority to assess the effectiveness and capability of APRA and the Australian Securities and Investments Commission (ASIC) (together, the regulators).<sup>6</sup> The FRAA is composed of 3 part-time members appointed by the Minister and is supported by a permanent secretariat of Treasury staff.
- 1.2 Under the *Financial Regulator Assessment Authority 2021* (FRAA Act), the FRAA is mandated to assess and report on the effectiveness and capability of the regulators, with the report to be delivered to the Minister and tabled in Parliament.<sup>7</sup> The Minister can also direct the FRAA to prepare a report on any matter related to the regulators' effectiveness and capability.<sup>8</sup> The FRAA's statutory authority precludes it from assessing or reporting on single cases.<sup>9</sup> Additionally, the FRAA will take as given the legislation the regulators administer and will not review the adequacy of the law and policies or make suggestions on reforms.

## FRAA's approach to assessing effectiveness and capability

### Overview

- 1.3 In the inaugural review of ASIC, the FRAA established an approach to assess a select set of regulatory functions and operations in each review, envisaging that the full breadth of the regulators' activities would be assessed over successive reviews. The FRAA assessed the regulators' functions by reference to a number of operational indicators that are considered key attributes of an effective and capable regulator. However, the approach for future reviews may evolve as the regulatory landscape changes (for example, changes to the remits, objectives or structures of the regulators, or the FRAA itself).
- 1.4 The FRAA also indicated its intention to develop an enduring metrics set to assist with assessing the effectiveness and capability of the regulators. In June 2023, the FRAA published a consultation paper that set out the development of its metrics framework<sup>10</sup>. The metrics framework has not been applied in this review of APRA. The FRAA may draw on the metrics framework in future reviews.

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6 KM Hayne, *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Final Report*, Australian Government, 2019, p 41.

7 FRAA Act, s 12, 13.

8 FRAA Act, s 12(1).

9 FRAA Act, s 12(2).

10 FRAA, [Draft Financial System and Regulator Metrics Framework](#), FRAA website, 2023, accessed 15 June 2023.

## Operational indicators

1.5 The operational indicators seek to identify key attributes of an effective and capable regulator and have been informed by a range of domestic and international sources.<sup>11</sup>

- **Demonstrated ability to achieve objectives:** The assessment of a regulator's ability to achieve objectives considers the extent to which it fulfills its statutory mandate and stated objectives. This assessment may also consider the appropriateness of objectives and the effectiveness of measures used to assess and report on performance.
- **Efficiency:** The assessment of a regulator's efficiency considers the allocation and coordination of resources, the effectiveness of risk management, and the timeliness of decision making to minimise the regulatory burden experienced by regulated entities. This assessment may also consider a regulator's use of data and technology as a means of enhancing efficiency.
- **Organisational capability:** The assessment of a regulator's organisational capability considers whether the organisational culture, people, processes, systems, and resources enable the regulator to engage constructively with stakeholders, drive continuous improvement, and fulfill its statutory mandate in a timely, fair, and efficient manner.
- **Fairness:** The assessment of a regulator's fairness considers whether those engaging with the regulator are treated impartially and are provided with adequate opportunity to engage and raise matters of concern.
- **Transparency:** The assessment of a regulator's transparency considers the communication of objectives, procedures, approaches and decisions, and the extent to which these are conveyed and understood internally and externally.
- **Accountability:** The assessment of a regulator's accountability considers whether the regulator takes responsibility for its decisions and actions by assessing and reporting on outcomes, as well as actively seeking to continually improve its performance.

1.6 The FRAA may draw on and assign relative importance to the operational indicators it considers to be the most relevant for the specific functions that are under review. For this review the FRAA has focused on the first 5 operational indicators: demonstrated ability to achieve objectives, efficiency, organisational capability, fairness and transparency. The accountability indicator has not been used for this review, as it is more relevant to assessing regulatory functions such as governance and decision-making processes which fall outside the scope of this review.

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11 These sources include the regulator's establishing legislation (that is, the *Australian Prudential Regulation Authority Act 1998* (APRA Act) and *Australian Securities and Investments Commission Act 2001* (ASIC Act)) and service charters, the Resource Management Guide – Regulator Performance (RMG 128) issued by the Department of Finance, Financial Conduct Authority's (United Kingdom) regulatory principles and functions, and the Oxford Handbook of Regulation.



# Scope and methodology of this review

## Scope

1.7 This review assessed the effectiveness and capability of APRA's supervision and resolution of the superannuation industry. In examining these scope areas, this review also considered APRA's data and technology capabilities where appropriate. Policy matters are excluded from this review.

## Focus on superannuation

1.8 The superannuation industry is a key element of the Australian retirement income system, which has 3 pillars: a means-tested age pension, compulsory superannuation, and private or voluntary savings. Compulsory superannuation was first introduced through the *Superannuation Guarantee (Administration) Act 1992*, which required employers to contribute a portion of their employees' earnings into a superannuation fund. The compulsory contribution rate has gradually increased from the initial 3 per cent in 1992 to a legislated 12 per cent by 2025. Prior to compulsory superannuation, employer-based superannuation was not widespread or transferrable between employers.

1.9 The Australian retirement system is unique. Key distinctive features of the system include the:

- compulsory nature of contributions
- dominance of defined contribution schemes (as opposed to defined benefit schemes, which are more prevalent internationally)
- management of the superannuation funds by private entities, rather than public authorities
- fiduciary obligations of superannuation trustees to manage the funds in the best financial interests of members
- strict limitations on members accessing their superannuation funds prior to retirement, although they can freely switch their monies between products
- flexibility to access lump sums or an income stream during retirement.

1.10 Retirement systems in comparable jurisdictions such as the United Kingdom (UK), United States of America (US) or Canada are different.<sup>12</sup> The retirement system in these countries includes a pension type program for individuals who qualify. Unlike Australia's means-tested age pension, to be eligible an individual must have contributed to the program for a minimum period. Contributions are automatically deducted from an individual's earnings or included as an additional taxation on earnings. An individual will receive a monthly, taxable pension once they meet the retirement age. The pension amount is based on a complicated calculation of average earnings throughout the individual's working life, the amount they contribute to the program, and the age they commence receiving the payments.<sup>13</sup>

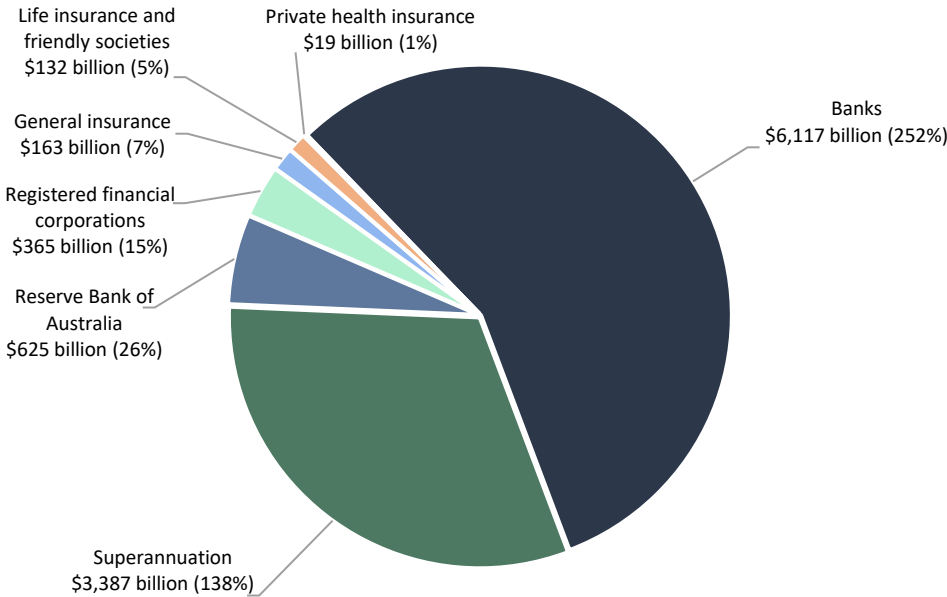
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12 The information discussed here is general in nature, not intended to be all-inclusive and has been selected for relevance to the discussion on Australia's retirement system.

13 Government of Canada, [Canada Pension Plan Retirement Pension](#), Government of Canada website, n.d., accessed 14 April 2023. United States Government, [Plan for retirement](#), Social Security website, n.d., accessed 14 April 2023.

- 1.11 The UK, US and Canada also encourage individuals to make voluntary contributions to private retirement savings plans through tax incentives, which are held in a separate vehicle.<sup>14</sup> Compared to Australia, the US and Canada allow significantly more flexibility to individuals to access the private retirement savings prior to retirement where funds can be withdrawn at any time subject to taxation penalties.<sup>15</sup>
- 1.12 The defined contribution nature of the Australian system means that while all Australian workers are required to contribute a set percentage of their salary to their superannuation, the returns received by members in retirement are not set. This means members will be exposed to lower returns during retirement if economic conditions are unfavourable or their investment products do not deliver the expected returns. Alternatively, members will receive higher returns where economic conditions are more favourable or when their products perform well.
- 1.13 Superannuation is the second largest industry within the Australian financial system following the banking industry and is projected to grow significantly. Figure 1.1 illustrates industries within the Australian financial system by total assets. The superannuation industry is comprised of APRA-regulated entities (such as, corporate, industry, retail and public sector and small APRA funds), self-managed super funds (SMSFs), exempt public sector superannuation schemes and life office statutory funds.

**Figure 1.1: Size of the financial system by industry and percentage of GDP at December 2022<sup>16</sup>**

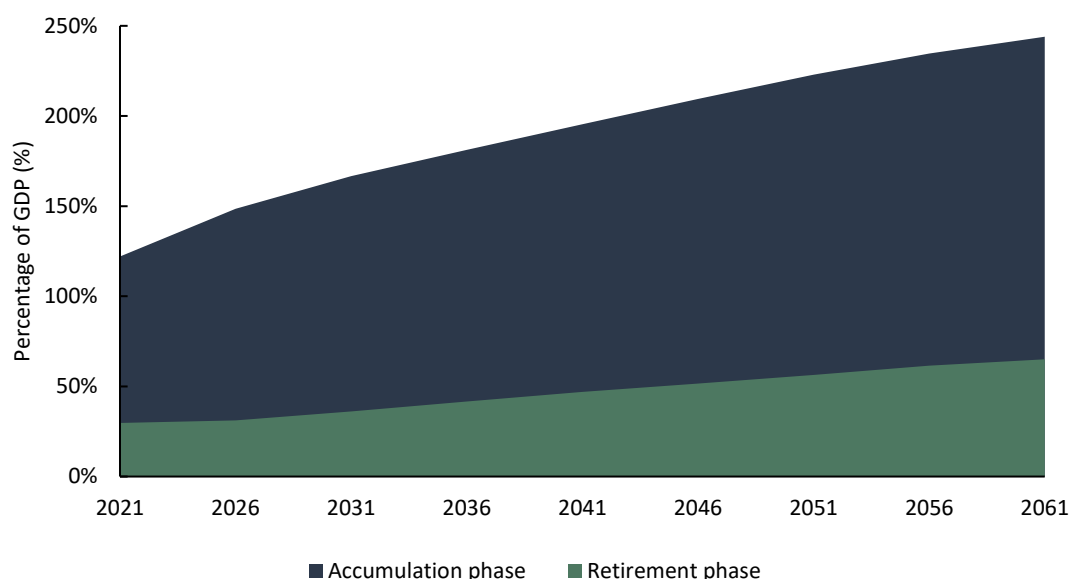


Source: APRA, [Statistical publications](#), APRA website, 2023, accessed 18 April 2023. Reserve Bank of Australia (RBA), [Statistical Tables: Assets of Financial Institutions – B1](#), RBA website, 2023, accessed 18 April 2023.

- 14 The UK has tax benefits for the insured personal pension plans, and self-invested personal pension plans. The US has tax advantaged programs such as, Individual Retirement Arrangement. In Canada, individuals may reduce their annual tax through a voluntary contribution to a Registered Retirement Savings Plan.
- 15 Government of Canada, [Making withdrawals](#), Canada website, n.d., accessed 14 April 2023. Internal Revenue Service, [Hardships, Early Withdrawals and Loans](#), United States Government, n.d., accessed 14 April 2023.
- 16 The total assets figure for banking institutions has been sourced from the Economic and Financial Statistics data collection which reports on a domestic books basis.

1.14 After owner-occupied housing, superannuation is the second largest major asset for many Australians, making up over 18 per cent of total household assets. Over 15.6 million Australians have at least one superannuation account.<sup>17</sup> Since 1992, Australia’s pool of superannuation assets has grown from \$148 billion (approximately 34 per cent of GDP) to \$3,387 billion in 2022 (approximately 138 per cent of GDP).<sup>18</sup> Figure 1.2 shows that the total pool of assets is projected to grow to around 244 per cent of GDP by 2061. Almost three-quarters of assets are estimated to be held in the accumulation phase.<sup>19</sup>

**Figure 1.2: Projected growth of the superannuation industry as a percentage of GDP from 2021 to 2061**



Source: Treasury, *2021 Intergenerational Report – Chart Data*, Australian Government, 2021.

1.15 Despite the size of the Australian superannuation industry, it is not as mature as the banking and insurance industries. Prudential supervision for the banking and insurance industries have their origins in the *Banking Act 1945* and *Insurance (Deposits) Act 1932* respectively. Nationally consistent prudential requirements for the life insurance industry commenced with the *Life Insurance Act 1945*, while the superannuation industry commenced with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) (see Chapter 2).<sup>20</sup>

17 Australian Bureau of Statistics (ABS), [Household income and wealth](#), Australia, ABS website, 2022, accessed 19 April 2023. Australian Taxation Office (ATO), [Trend towards single accounts](#), ATO website, 2023, accessed 21 March 2023.

18 APRA, [Superannuation in Australia: A timeline](#), APRA website, n.d., accessed 20 March 2023. APRA, [Quarterly superannuation statistics](#), APRA website, 2022, accessed 20 March 2023. ABS, [Australian National Accounts: National Income, Expenditure and Product](#), ABS website, 2023, accessed 20 March 2023.

19 The retirement phase refers to the period in which members have transitioned to retirement and are eligible to withdraw funds. Treasury, [2021 Intergenerational Report – Chart Data](#), Australian Government, 2021.

20 The banking industry was regulated by the RBA and the insurance industry was regulated by the Insurance and Superannuation Commission prior to the establishment of APRA in 1998.

## Supervision

- 1.16 As the prudential regulator, APRA uses supervision as its primary tool to ensure the safety, soundness and stability of regulated entities and the broader financial system. APRA's supervision function involves a broad range of activities to identify and respond to risks to regulated entities, industries, and the financial system. APRA focuses on risks that threaten the ability of an entity to meet its financial promises and obligations to beneficiaries. These include financial, operational, and behavioural risks in relation to governance, risk management, financial resilience, business operations and recovery and resolution.
- 1.17 This review examines the effectiveness and capability of APRA's frontline supervision and the specialist and risk functions relevant to superannuation. Where appropriate, the FRAA has also considered the data and technology employed to conduct supervisory activities. It does not examine APRA's enforcement activity in superannuation.

## Resolution

- 1.18 APRA's resolution function manages the process where an APRA-regulated entity has become non-viable. In superannuation, the objective of resolution is to protect members, promote financial stability and maintain critical functions. In May 2023, APRA finalised a new *Prudential Standard CPS 900 Resolution Planning* (CPS 900), which introduces new formal requirements for large and complex trustees to support APRA in developing bespoke resolutions plans.
- 1.19 Resolution plans are an important complement to a trustee's recovery and exit plans, which are required under APRA's *Prudential Standard CPS 190 Recovery and Exit Planning* (CPS 190). APRA requires trustees to plan for how they would restore their financial resilience in stress ('recovery') or exit regulated activity in an orderly manner before becoming non-viable ('exit'). As the 'first line of defence', strong recovery and exit plans reduce the likelihood of resolution.
- 1.20 This review examines the effectiveness and capability of APRA's resolution function relevant to superannuation and considers APRA-led resolution and trustees' recovery and exit planning requirements.

## Methodology

- 1.21 The FRAA's assessments are intended to complement existing external accountability mechanisms and, over time, enhance the operation of these mechanisms through evidence-based and transparent assessments of effectiveness and capability.
- 1.22 APRA is subject to a range of external accountability and oversight mechanisms and in recent years has been involved in several reviews. For example, the Royal Commission and the APRA Capability Review.<sup>21</sup> Figure 1.3 sets out APRA's accountability mechanisms, including the various sources of its responsibilities, its reporting requirements, how its performance is currently assessed, and the external review mechanisms available to hold it to account.

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21 KM Hayne, *Final Report Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Australian Government, 2019. G Samuel, D Smith-Gander and G Spencer, *APRA Capability Review*, Australian Government, 2020.

**Figure 1.3: APRA’s accountability mechanisms**

Objective setting	Reporting	Performance assessment	Reviews
<p><b>Legislation and standards</b></p> <p>Statutory objectives in legislation – for example, the APRA Act</p> <p>International standards – for example, the Basel Committee Framework</p> <p><b>Government</b></p> <p>Government’s Statement of Expectations and APRA’s Statement of Intent</p> <p>Ministerial directions</p> <p>Guidance on Regulator Performance (RMG 128)</p> <p>Australian Government Charging Framework</p>	<p><b>Statutory reporting</b></p> <p>APRA Act – for example, Annual Reports</p> <p>Industry Acts – for example, <i>Banking Act 1959</i>, <i>Insurance Act 1973</i>, <i>Life Insurance Act 1995</i>, <i>Private Health Insurance (Prudential Supervision) Act 2015</i> and <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act)</p> <p><i>Public Governance, Performance and Accountability Act 2013</i>, Public Governance, Performance and Accountability Rule and related guidance – for example, Annual Reports and Corporate Reports</p> <p><b>Other reporting</b></p> <p>Cost Recovery Implementation Statement</p>	<p><b>Parliamentary appearances</b></p> <p>Senate Estimates</p> <p>Senate Standing Committee on Economics</p> <p>House of Representatives Standing Committee on Economics</p> <p>Other committees as requested</p>	<p><b>International</b></p> <p>Basel Committee of Banking Supervision Regulatory Consistency Assessment Program</p> <p>International Monetary Fund Financial Sector Assessment Program</p> <p>Financial Stability Board peer reviews</p> <p><b>Governance or review of decisions</b></p> <p>Australian Commission for Law Enforcement Integrity</p> <p>Australian National Audit Office – Performance and financial audits</p> <p>Courts and Administrative Appeals Tribunal – Exercise of powers subject to judicial review</p> <p>Office of Impact Analysis – Impact Analysis</p> <p>Ombudsman, Information Commissioner, Privacy Commissioner – Assessment of individual complaints</p> <p><b>Government and independent review</b></p> <p>Reviews – for example, Productivity Commission inquiries or independent capability reviews including the FRAA</p> <p>House of Representatives of Senate Committee Reviews</p> <p>Royal Commissions</p> <p>Treasury Portfolio Charging Reviews</p>

Source: APRA Act. *Public Governance, Performance and Accountability Act 2013*. APRA, [Accountability and reporting](#), APRA website, 2023, accessed 10 March 2023. APRA, [Statement of Expectations](#), APRA website, n.d., accessed 7 June 2023. APRA, [Statement of Intent](#), APRA website, n.d., accessed 7 June 2023. Department of Finance, [Resource Management Guide – Regulator Performance \(RMG 128\)](#), Australian Government, 2022. Department of Finance, [Australian Government Charging Framework Resource Management Guide No. 302](#), Australian Government, 2015.

1.23 The FRAA’s assessment of the effectiveness and capability of APRA has been guided by several sources including:

- APRA’s statutory purpose, objectives, and responsibilities<sup>22</sup>
- APRA’s Annual Report and Corporate Plan<sup>23</sup>

22 APRA Act, s 8.

23 APRA, [Annual Report 2021-22](#), APRA website, 2022. [APRA Corporate Plan 2022-23](#), APRA website, 2022.

- the Government’s Statement of Expectations and APRA’s response through the Statement of Intent<sup>24</sup>
- the Resource Management Guide – Regulator Performance (RMG 128) issued by the Department of Finance.<sup>25</sup>

1.24 The FRAA’s approach has been informed by the following considerations:

- the importance of engagement with APRA
- the need to consult broadly with a wide range of stakeholders to arrive at an evidence-based assessment
- the desirability of creating an approach replicable across subsequent reviews to arrive at transparent indicators over time.

1.25 The FRAA has gathered data and information from a wide range of sources and channels. Feedback was received from a broad cross-section of APRA’s internal and external stakeholders (see Appendix A), including:

- a public consultation open for 6 weeks from 3 November 2022 to 15 December 2022, which received 8 public submissions (4 from trustees, 2 industry associations and 2 consumer advocacy bodies) and 6 confidential submissions
- 4 stakeholder roundtables with 27 stakeholders (34 per cent acceptance rate), including 20 superannuation trustees, 4 industry associations, 2 consumer advocacy bodies and a think tank
- bilateral meetings with 6 industry experts and 4 superannuation trustees of large funds
- an APRA external stakeholder survey with 282 respondents (67 per cent completion rate), including 51 superannuation trustees (48 per cent completion rate)
- an APRA staff survey with 661 respondents (77 per cent completion rate), including 75 superannuation staff
- 5 focus groups with APRA supervisors and specialist teams and a focus group with ASIC superannuation staff
- interviews with 4 APRA board members and 3 executive directors
- APRA’s self-assessment and supporting information in response to the FRAA’s request for information.

1.26 The FRAA has formed an objective view on the feedback gathered as part of this review and has carefully considered factors such as the possible vested interest of the source.

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24 During the course of this review, a new Statement of Expectations was issued to APRA by the Treasurer on 7 June 2023. APRA, [Statement of Expectations](#), APRA website, n.d., accessed 7 June 2023. APRA responded through a Statement of Intent published also on 7 June 2023. APRA, [Statement of Intent](#), APRA website, n.d., accessed 7 June 2023.

25 Department of Finance, [Resource Management Guide – Regulator Performance \(RMG 128\)](#), Australian Government, 2022.

# Chapter 2: APRA's role in the Australian financial system

## Introduction

- 2.1 This chapter provides an overview of the regulatory architecture for the Australian financial system including APRA's role, with international comparisons. It then discusses the regulation of the superannuation industry, its evolution, the changes driven by APRA, and the maturity of the industry and its regulation. The chapter concludes with a summary of APRA's funding and resourcing.

## Financial system regulation

- 2.2 The current regulatory architecture for the Australian financial system is comprised of distinct agencies operating on functional lines, as recommended by the 1996 Financial System Inquiry.<sup>26</sup> APRA and ASIC operate under the 'twin peaks' model, where financial regulation is separated between prudential and conduct regulation. Prudential regulation by APRA is focused on the financial safety and stability of regulated entities, and the broader financial system (see Box 2.1). Conduct regulation by ASIC is concerned with market integrity, business conduct, disclosure, and consumer protection. The smooth operation of the 'twin peaks' model requires proactive cooperation, coordination and engagement between APRA and ASIC to strengthen their effectiveness and contribute to efficient regulatory outcomes in the financial system. The RBA is responsible for monetary policy, financial system stability and payments system regulation.
- 2.3 The Council of Financial Regulators (CFR) is the coordinating body for Australia's main financial regulatory agencies: APRA, ASIC, the RBA, and Treasury. CFR's objectives are to promote stability of the Australian financial system and support effective and efficient regulation by Australia's financial regulatory agencies. The CFR has no legislative backing or formal regulatory and policy decision-making powers. These powers rest with the regulators under their respective acts.<sup>27</sup>

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26 S Wallis, B Beerworth, J Carmichael, I Harper and L Nicholls, *Financial System Inquiry Final Report*, Australian Government, 1996, p 31.

27 CFR, [About](#), CFR website, n.d., accessed 29 March 2023.

**Box 2.1: What is prudential regulation?**

Prudential regulation of Australia’s financial system focuses on maintaining the safety, soundness, and stability of the regulated entities, and the broader financial system. Prudential regulation is considered to be the most common form of ‘preventative regulation’ that promotes financial safety.<sup>28</sup> A key objective of prudential regulation is to minimise systemic risk.<sup>29</sup> Therefore, prudential regulation is inherently forward looking and emphasises preventative measures for supervising entities. This approach is considered a highly efficient and cost-effective method to reduce the impact of a crisis and may prevent it from occurring in the first place. For example, prudential regulators have traditionally focused on financial metrics, such as whether entities hold enough capital and liquidity to cope with an economic downturn, and whether they are managing financial risks appropriately.

APRA’s supervision approach considers a broad spectrum of risks including financial, operational, and behavioural risks relating to governance, risk management, financial resilience, business operations and recovery and resolution.

In the banking and insurance industries, prudential regulation seeks to ensure that entities can meet their financial promises to depositors and policyholders. In superannuation, there is no promise to pay out a fixed sum to members. APRA’s prudential regulation of superannuation is focused on a trustee’s obligation to manage the funds in the best financial interests of members solely for their retirement and meet the reasonable expectations of its members. Recently, APRA has focused on the efficiency and effectiveness of how trustees operate the funds and their ability to sustainably deliver sound outcomes for members over the medium to long-term.

APRA takes a principles-based approach to regulation which provides regulated entities with the flexibility to develop processes and practices most appropriate to their business operations. This requires supervisory judgement in assessing the adequacy of compliance by a regulated entity.

APRA’s prudential framework has 3 pillars: prudential standards, reporting standards and prudential guidance. APRA applies an industry specific prudential framework to each industry it regulates. APRA also applies standards and guidance to multiple industries which are known as cross-industry standards and cross-industry guidance.<sup>30</sup>

**APRA’s prudential framework**

Prudential standards	Reporting standards	Prudential guidance
<i>Legally binding</i>		<i>Not legally binding</i>
Sets out the minimum requirements in relation to governance, risk management, financial resilience, business operations and recovery and resolution.	Sets out the data that regulated entities must report to APRA and when they must report it.	Provides direction to regulated entities by setting out the practices and steps they can follow to comply with APRA’s prudential standards.

Source: APRA, [What is prudential regulation?](#), APRA website, n.d., accessed 22 March 2023.

28 S Wallis, B Beerworth, J Carmichael, I Harper and L Nicholls, *Financial System Inquiry Final Report*, Australian Government, 1996, p 194.  
 29 S Wallis, B Beerworth, J Carmichael, I Harper and L Nicholls, *Financial System Inquiry Final Report*, Australian Government, 1996, p 277.  
 30 APRA, [What is prudential regulation?](#), APRA website, n.d., accessed 22 March 2023.



## APRA's role

2.4 The APRA Act established APRA as an independent statutory authority. APRA is required to protect the interests of depositors, insurance policyholders, and superannuation fund members. APRA seeks to ensure that regulated entities can meet their financial promises to their customers, under all reasonable circumstances, within a stable, efficient, and competitive financial system. Superannuation was included in APRA's regulatory remit at APRA's establishment. There have been several significant regulatory changes since (see paragraph 2.16).

2.5 Box 2.2 is an extract of APRA's statutory purpose under the APRA Act (s 8).

### Box 2.2: Purpose for establishing APRA

1. APRA exists primarily to:
  - a. regulate bodies in the financial sector in accordance with other laws of the Commonwealth that provide for prudential regulation or for retirement income standards
  - b. administer the financial claims schemes provided for in the *Banking Act 1959* and the *Insurance Act 1973*
  - c. develop the administrative practices and procedures to be applied in performing that regulatory role and administration.

In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability, and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

2.6 APRA supervises regulated entities under 5 industry acts: *Banking Act 1959*, *Insurance Act 1973*, *Life Insurance Act 1995*, *Private Health Insurance (Prudential Supervision) Act 2015* and the SIS Act. These acts provide for the licensing and regulatory oversight of the following industries: banks (authorised deposit-taking institutions), general insurers, life insurers and friendly societies, private health insurers, and superannuation trustees. APRA's approach to supervision focuses on addressing issues before they reach the point where an entity's ability to meet its financial promises and obligations to beneficiaries may be compromised.

2.7 At 31 December 2022, APRA supervised 1,825 regulated entities holding \$8,792 billion in assets for depositors, policyholders and superannuation fund members.<sup>31</sup> This included:

- 142 banks holding \$6,177 billion in assets<sup>32</sup>
- 82 trustees (or registrable superannuation entity (RSE) licensees) managing \$2,300 billion in assets in 1,527 RSEs<sup>33</sup>
- 156 insurers with a total of \$315 billion in assets.<sup>34</sup>

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31 The 1,825 regulated entities include entities that had commenced the process of de-registration or wind-up but remained regulated entities as of 31 December 2022 and may be revised in APRA's Annual Report to reflect final figures. This data only includes APRA regulated entities.

32 APRA, *Material prepared for this review*, 2023.

33 APRA, *Material prepared for this review*, 2023.

34 APRA, *Material prepared for this review*, 2023.

- 2.8 APRA collects, analyses, and publishes data for the Australian financial sector including on behalf of the RBA and the Australian Bureau of Statistics (ABS). The legislative framework underpinning APRA's data collection powers is the *Financial Sector (Collection of Data) Act 2001*.

### International comparison

- 2.9 APRA's remit differs from other international prudential regulators in its regulation of compulsory retirement savings (that is, superannuation). Other international jurisdictions generally have a separate supervisory authority with responsibility for the pension system, such as the Pensions Regulator in the United Kingdom, or the Office of the Superintendent of Financial Institutions in Canada.<sup>35</sup>
- 2.10 APRA also differs to most of its international peers in its role as both a prudential regulator and resolution authority. Resolution, as a function within a regulatory authority, is well established for the banking and insurance industries. Internationally, most jurisdictions have a separate resolution authority or house the resolution function for banking and insurance within the central bank. For example, the United States Federal Deposit Insurance Corporation and the Bank of Canada have responsibility for the orderly resolution of failing banks in those jurisdictions.<sup>36</sup> APRA is also unique in having the role of a resolution authority for superannuation.

## Superannuation industry regulation

- 2.11 APRA, ASIC, and the Australian Taxation Office (ATO) are the 3 main bodies responsible for regulating the superannuation industry. The acts and regulations underpinning the regulation of the superannuation industry include the SIS Act, *Retirement Savings Accounts Act 1997*, Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations), and Retirement Savings Accounts Regulations 1997.
- 2.12 APRA is responsible for the prudential regulation of trustees of superannuation funds (other than SMSFs) in compliance with the SIS Act and SIS Regulations. ASIC is responsible for protecting consumer rights and enforces the *Corporations Act 2001* (Corporations Act) which regulates the conduct and disclosure obligations of superannuation trustees to their fund members. APRA and ASIC co-regulate the SIS Act provisions that are directed to protect consumers and member outcomes. The ATO is responsible for SMSFs. Figure 2.1 provides further information on each regulator's responsibilities and their regulated population.

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35 The Pensions Regulator, [About us](#), The Pensions Regulator website, n.d., accessed 17 April 2023. Office of the Superintendent of Financial Institutions, [Pension Plans](#), Office of the Superintendent of Financial Institutions website, n.d., accessed 17 April 2023.

36 Federal Deposit Insurance Corporation, [Resolutions](#), Federal Deposit Insurance Corporation website, n.d., accessed 17 April 2023. Bank of Canada, [Financial System](#), Bank of Canada website, n.d., accessed 17 April 2023.

**Figure 2.1: Superannuation industry regulators<sup>37</sup>**

	APRA	ASIC	ATO
Responsibilities	Regulates trustees which are responsible for superannuation funds, approved deposit funds, pooled superannuation trusts and small APRA funds (that is, funds with fewer than 7 members, excluding SMSFs). The SIS Act stipulates that APRA must grant an RSE licence to a body corporate, or group of individual trustees, that have applied for an RSE licence if certain requirements are met, otherwise APRA must refuse the application. <sup>38</sup>	As the regulator responsible for the Corporations Act and ASIC Act, ASIC oversees the conduct and disclosure obligations of superannuation trustees of RSEs. In 2021, ASIC's role under the SIS Act expanded to include responsibility for consumer protection, market integrity, disclosure and record-keeping requirements under the SIS Act.	SMSFs are funds with fewer than 7 members and are regulated by the ATO in accordance with the SIS Act. <sup>39</sup> Additionally, all superannuation entities have important reporting and administrative obligations to the ATO. The ATO also regulates and enforces compulsory superannuation guarantee payments.
Number of regulated entities	82 trustees		602,883 funds
Total assets of regulated entities	\$2,300 billion		\$880.6 billion
Total number of member accounts	21.51 million		1.1 million

Source: APRA, *Quarterly superannuation performance statistics – September 2004 to December 2022*, APRA website, 2023, accessed 24 March 2023. ASIC, *Material provided to this review*, 2023. ATO, *Self-managed super fund quarterly statistical report – December 2022*, ATO website, 2023, accessed 20 April 2023.

2.13 Close regulation of superannuation in Australia is important for several reasons:

- the superannuation industry has been designed for individuals to take on the risk with no guarantee of a fixed return at retirement
- the government has mandated compulsory contributions
- the superannuation industry has substantial variability in trustee business models and regulatory capital is not required as it is in the banking and insurance industries<sup>40</sup>
- members' typically have a low level of engagement with their superannuation.

37 All information is at 31 December 2022, except for the total number of member accounts regulated by APRA which is sourced from annual returns submitted to APRA with information as at each RSE's financial year-end.

38 SIS Act, s 29D.

39 SIS Act, s 6.

40 Regulatory capital is a measure of the funds available to an institution to absorb any unexpected costs and losses it experiences in running its business. Where a trustee does not have capital, costs may arise due to regulatory enforcement action that trustees cannot indemnify from the fund. The absence of regulatory capital is a live issue facing APRA, ASIC and the superannuation industry.

2.14 The Royal Commission noted that the

*'promise of the superannuation trustee is to manage the member's account in a particular way, in accordance with the covenants provided under the SIS Act. No particular outcome is promised.'*<sup>41</sup>

Box 2.3 describes the statutory obligations that form the basis of this promise of the superannuation trustees. APRA's role, as the prudential regulator, is to then take those statutory obligations, and supplement through prudential standards, the regulation of this promise.

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41 KM Hayne, *Final Report Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Australian Government, 2019, p 445.

### Box 2.3: APRA's regulation of a superannuation trustees' legal obligations

APRA seeks to ensure that, under all reasonable circumstances, financial institutions meet their promises to their beneficiaries. In superannuation, the SIS Act and the SIS Regulations require trustees to operate funds to the benefit of members. The SIS Act sets out complex covenants, or obligations, which include, but are not limited to, that trustees:

- act as a prudent superannuation trustee (s 52(2)(b))
- prioritise the interest of members over all other interests (s 52(2)(d))
- act in the best financial interests of beneficiaries (s 52(2)i)
- have a retirement income strategy (s 52(8A)).

These duties are general in nature and provide a minimum standard of behaviour for a trustee administering a fund. The SIS Act and the SIS Regulations do not prescribe how trustees are to comply with these obligations. The SIS Act provides APRA the authority to develop and implement a prudential standard that 'elaborates, supplements, or otherwise deals with any aspect of a prudential matter to which a covenant relates' (s 34D(1)(a)).

APRA also has the authority to make prudential standards that impose separate, additional requirements to the obligations (s 34C of the SIS Act). Prudential standards are intended to provide the market with confidence that trustees will operate their businesses in a sound manner and that members' reasonable expectations will be met. Prudential standards set out detailed obligations that help facilitate trustee compliance with their legislative duties. However, compliance with the prudential standards alone, does not necessarily mean a trustee has complied with the content of the duties under the covenants and non-compliance with a requirement in a prudential standard may not result in a breach of the covenants. APRA's supervision of the superannuation industry focuses on compliance as a minimum, but also seeks to identify and encourage best practice to benefit superannuation members.

All the requirements in APRA's prudential standards are intended to supplement both the obligation to act as a prudent superannuation trustee, and to act in the best financial interest of beneficiaries. Examples of prudential standards that supplement the obligations include APRA's prudential standards *SPS 515 Strategic Planning and Member Outcomes* (SPS 515), *SPS 530 Investment Governance* (SPS 530) and *SPS 521 Conflicts of Interest* (SPS 521). There are also other prudential standards supplementing other obligations.

Collectively, APRA's prudential standards are designed to put into effect its supervision philosophy, which is designed to be risk based, forward looking and outcomes focused, and to manage risks at the entity, industry, and system level (see Chapter 3).<sup>42</sup> APRA's prudential standards are principles-based, and generally not prescriptive. The combination of the principles-based standards, and the general nature of some of the covenants means that industry may still have some uncertainty in the interpretation of the obligations set out by the SIS Act.

## Regulatory evolution

2.15 Prior to 1998, the framework for prudential regulation in Australia was institutionally based with separate agencies regulating the activities of each class of institution. The RBA was responsible for regulating the banking industry and the Insurance and Superannuation Commission had regulatory responsibility for the insurance and superannuation industries. In 1998, the institutional framework was replaced with an 'objectives based' model of regulation.

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42 APRA, *Material prepared for this review*, 2023.

Under this model, APRA was established with responsibility for financial safety across all sectors requiring prudential regulation, including superannuation.<sup>43</sup>

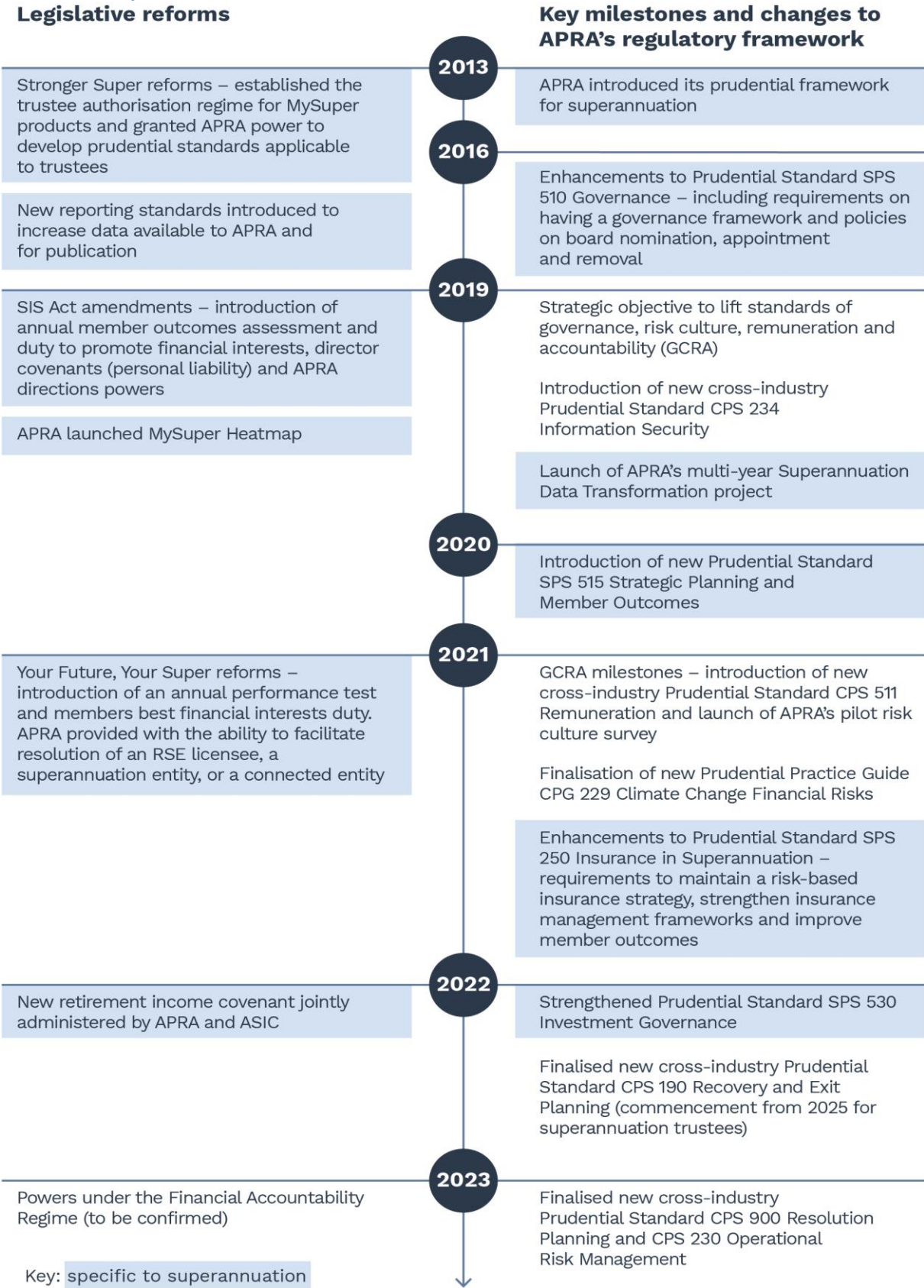
- 2.16 APRA's mandate has not changed since its inception. There has been significant growth and change in the regulation of the superannuation industry. APRA has had to continually adapt its approach to regulation in response to these changes. Legislative amendments have introduced licensing requirements, MySuper products, a retirement income covenant, strengthened obligations on superannuation trustees to assess the appropriateness of their offerings with an annual member outcomes assessment, and provided APRA with powers to issue directions.<sup>44</sup> Through the YFYS measures, APRA was granted a resolution planning prudential standard making power for trustees. These changes are outlined in more detail in Appendix B.
- 2.17 Figure 2.2 provides a timeline of key changes to APRA's regulatory framework from 2013 to 2023, with a focus on those relevant to the superannuation industry and includes resolution and cross-industry changes.

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43 Parliament of Australia, [Australian Prudential Regulation Authority Bill 1998 Explanatory Memorandum](#), Parliament of Australia website, n.d., accessed 30 March 2023.

44 MySuper products refers to superannuation funds where an individual has become a member through their employer's nomination.

**Figure 2.2: Changes to APRA’s regulatory framework from 2013 to 2023, focusing on key changes relevant to superannuation**



Source: APRA, *Material prepared for this review*, 2023.

2.18 Three significant reviews were recently published that also drove changes to APRA’s focus and operations and the regulatory landscape for superannuation.

- In 2018, the Productivity Commission’s report examined the efficiency and competitiveness of the Australian superannuation system.  
*‘APRA [was] steadfastly [regulating] through a prudential lens – focused primarily on ‘accounting for the money’ – when super is not a market characterised by prudential risk (most members and taxpayers underwrite the risks) nor one of ‘caveat emptor’ (buyer beware). [APRA and ASIC appeared] focused on funds and their interests, and not on whether members’ needs are being met and their interests unharmed.’<sup>45</sup>*
- In 2019, the Royal Commission recommended an adjustment to the roles of APRA and ASIC in relation to superannuation to accord with the principles that APRA is the prudential regulator and ASIC is the conduct and disclosure regulator (see Chapter 3).<sup>46</sup>
- In 2019, the APRA Capability Review was completed following recommendations of the Royal Commission. The review found that variability in leadership, a conformist culture and an aversion to transparency were constraining APRA. It further noted that APRA *‘has been slow to broaden its perspective on superannuation.’<sup>47</sup>* The review found that superannuation did not have a strong enough voice in APRA and suggested that consolidating the superannuation expertise to a dedicated senior executive would encourage greater consideration of superannuation in APRA’s internal decision-making, including the prioritisation of APRA’s resources. APRA subsequently restructured its organisation across industry lines and increased the resources dedicated to superannuation.

## APRA-driven regulatory change

2.19 In addition to legislative amendments and independent reviews, APRA has driven several regulatory reforms across all APRA-regulated industries in response to emerging risks. These include requirements for operational risk management relating to cyber security, external provision of critical services and climate change related financial risk.

- **Operational resilience:** APRA has recently finalised its new prudential standard *CPS 230 Operational Risk* (CPS 230) to commence on 1 July 2025 for all regulated entities. CPS 230 should strengthen operational risk management by introducing new minimum requirements relating to end-to-end understanding of critical operations, control testing and scenario development. Further, CPS 230 should enhance the requirements for business continuity management, requiring that regulated entities plan to mitigate, manage, and recover from a range of disruptions (including cyber incidents). CPS 230 should also enhance requirements to effectively manage the risks associated with service providers.<sup>48</sup>
- **Cyber and technology resilience:** APRA has required all regulated entities to undergo an independent assessment of their compliance with prudential standard

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45 Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, Productivity Commission website, n.d., accessed 14 April 2023, p 27.

46 KM Hayne, *Final Report Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Australian Government, 2019, Recommendations 3.8, 6.3, 6.4 and 6.5.

47 G Samuel, D Smith-Gander and G Spencer, *APRA Capability Review*, Australian Government, 2019, p xxi.

48 APRA, *Material provided to this review*, 2023.



*CPS 234 Information Security (CPS 234)* which requires adequate processes and controls to manage cyber risk. The CPS 234 tripartite assessments commenced in 2020, with most reports due to APRA for assessment by the end of 2023. APRA will provide information on common trends and observations from the independent assessment reports to internal industry groups and forums facilitated by industry bodies (including to the Association of Superannuation Funds of Australia). APRA has also engaged with the CFR to establish protocols to coordinate in the event of financial-system cyber incidents and system wide outages.<sup>49</sup>

- 2.20 APRA has also driven regulatory change for the superannuation industry by introducing new reporting standards, new prudential standards, and the publication of Heatmaps.
- **Reporting standards for data collections:** APRA first introduced reporting standards in 2013 and 2014 which substantially increased the data available to APRA including for use in producing and issuing publications about the superannuation industry. Access to better data enhanced APRA's ability to supervise and evaluate the performance of trustees. It also enhanced the transparency and disclosure on the operation of the industry for other stakeholders. Since the launch of the SDT project in 2019, APRA is upgrading the breadth, depth, and quality of its superannuation data collection (see Chapter 3).<sup>50</sup>
  - **Introduction of prudential standard SPS 515:** In January 2020, the introduction of SPS 515 represented a significant shift in APRA's regulatory philosophy for the superannuation industry. The regulatory philosophy shifted from focusing solely on trustee processes to requiring trustees to focus on the delivery of quality member outcomes, meeting the reasonable expectations of members, and ensuring that trustees are positioned for future resilience and viability in a competitive environment. SPS 515 was designed to ensure a minimum standard of practice across the industry in business planning, business performance and expenditure management.<sup>51</sup>
  - **Introduction of MySuper Heatmaps:** In December 2019 APRA launched its first MySuper Heatmap, a key tool in APRA's ongoing efforts to enhance member outcomes. In 2021, APRA extended the use of Heatmaps to a specific segment of Choice products (see Chapter 3).<sup>52</sup>
  - **Enhancements to prudential standard SPS 530 and prudential practice guide SPG 530:** Since its introduction in 2013, SPS 530 has required trustees to meet robust investment governance obligations. Informed by APRA's thematic reviews of frameworks for valuing unlisted assets an enhanced SPS 530 took effect on 1 January 2023. APRA has identified its intention to amend the related guidance, SPG 530, to further support trustees in their investment decision-making, with the final guidance to be published in mid-2023. These enhancements aim to increase trustee attention on valuation governance, greater use of holistic stress testing results as an input into the investment process, and more focus on liquidity management and stress testing processes.<sup>53</sup>

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49 APRA, *Material prepared for this review*, 2023.

50 APRA, *Material prepared for this review*, 2023.

51 APRA, *Material prepared for this review*, 2023.

52 Choice products refer to superannuation funds that an individual has not been defaulted into by their employer and needs to make an active decision to become a member.

53 APRA, *Material prepared for this review*, 2023.

- **Joint administration of the retirement income covenant:** APRA and ASIC are jointly responsible for administering the retirement income strategy requirements in the SIS Act. In March 2022, APRA and ASIC issued a joint letter outlining how they would collectively approach implementation of the new requirements, including their expectations for trustees. The joint letter clarified that neither APRA nor ASIC intend to issue detailed regulatory guidance on how trustees should implement the law. Instead, trustees were given time to drive the strategic direction of their retirement income strategies and to innovate on the implementation of the covenant for their membership.<sup>54</sup>

## Industry and regulator maturity

- 2.21 Superannuation is a maturing industry.<sup>55</sup> When an industry is not fully mature the role of a prudential regulator is particularly important to address issues such as financial safety and stability and crisis management to mitigate adverse outcomes for Australians.
- 2.22 Banking and insurance are well established industries in Australia. An indication of an industry's maturity may be its receptiveness to regulation. The results from the external survey identified a difference in how respondents felt about the balance between regulatory burden and industry benefit. Superannuation respondents gave much lower ratings compared to those in the banking and insurance industries. While some level of resistance to regulation can be expected, the results for superannuation compared to banking and insurance, warrant consideration.
- Among external superannuation respondents 39 per cent agreed there was a fair balance or high level of benefit to the industry for the level of regulatory burden. This compares to 69 per cent for banking, and 68 per cent for general insurance entities.<sup>56</sup>
  - Likewise, only 6 per cent of external superannuation respondents agreed that changes to APRA's prudential framework have sufficiently considered the regulatory impost on industry, compared to 36 per cent of banking respondents and 28 per cent of general insurance respondents.<sup>57</sup>
- 2.23 APRA prepared a detailed self-assessment of its effectiveness and capability in supervision and resolution functions for superannuation for this review. Self-assessments are a valuable tool that can assist a regulator to identify and understand its strengths and weaknesses. The self-assessment has been used to inform findings in this report. Although it did not set APRA's rating scale the FRAA did consider APRA's rating when assessing its effectiveness and capability in supervision and resolution for superannuation (see Chapter 3 and Chapter 4).
- 2.24 The self-assessment included a summary of APRA's views of its performance against the relevant FRAA operational indicators (see Chapter 1), using a rating scale from 'low' to

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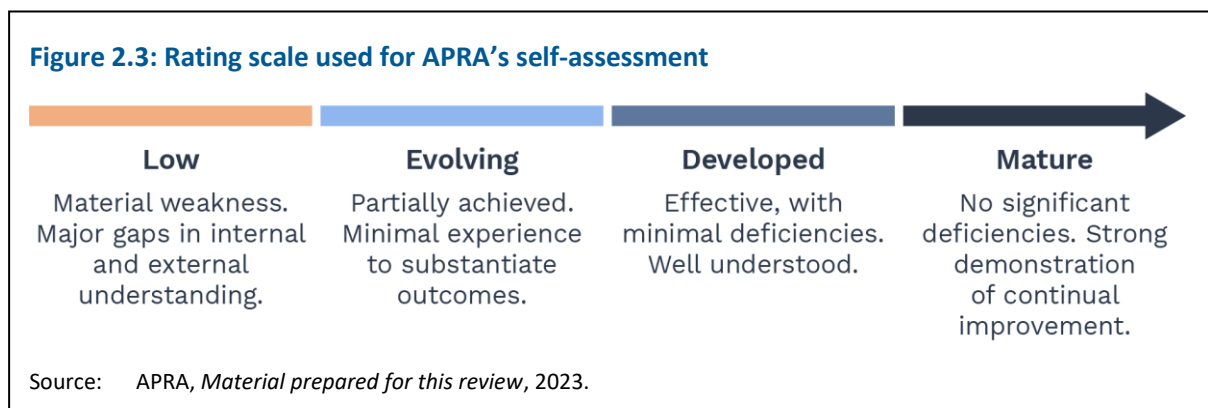
54 ASIC, [Implementation of the retirement income covenant](#), ASIC website, 2022, accessed 9 May 2023.

55 Treasury, [2021 Intergenerational Report](#), Australian Government, 2021, p 113.

56 Banking: 69% fairly balanced, 29% somewhat, 3% much too little and 0% cannot say or no opinion. General insurance: 68% fairly balanced, 28% somewhat, 4% much too little and 0% cannot say or no opinion. Superannuation: 39% fairly balanced, 47% somewhat, 14% much too little and 0% cannot say or no opinion.

57 Banking: 36% agree, 35% neutral, 26% disagree and 3% cannot say or no opinion. General insurance: 28% agree, 35% neutral, 26% disagree and 9% cannot say or no opinion. Superannuation: 6% agree, 27% neutral, 63% disagree and 4% cannot say or no opinion.

'mature' for its current and target states. Figure 2.3 illustrates the scale developed by APRA and includes the interpretation applied by APRA to each of the rating scales.



- 2.25 Generally, APRA rated its supervision function in superannuation as 'developed' in the current state and 'mature' for the target state. APRA rated its resolution function in superannuation as 'evolving' in the current state and 'developed' for the target state. These ratings appear consistent with the feedback from external stakeholders.
- 2.26 Compared to banking and insurance, superannuation respondents gave lower ratings for nearly all the questions asked in the external survey. Respondents from smaller superannuation entities gave APRA particularly low ratings.<sup>58</sup> The external survey responses align with the information gathered by the FRAA through submissions, roundtables, and bilateral meetings.
- Only 43 per cent of external superannuation respondents agreed that APRA effectively pursues financial safety, balanced with considerations of efficiency, competition, contestability and competitive neutrality, and promotes financial stability for the industry. This compared to 70 per cent of banking respondents and 74 per cent of general insurance entity respondents who agreed.<sup>59</sup>
  - The results for superannuation were similarly low in response to the question '*Over the last 2 years, how effective does your organisation believe APRA's supervision of your industry is?*' Only 33 per cent of superannuation respondents agreed APRA's supervision of their industry has been very or totally effective, compared to 74 per cent of banking respondents and 63 per cent of general insurance entity respondents.<sup>60</sup>
- 2.27 The low positive results from the external survey may reflect the superannuation industry adjusting to being regulated. Superannuation industry views about regulation appear not as mature as the banking and insurance industries' views. The results of APRA's self-assessment also support the FRAA's view that the superannuation industry is a maturing industry.

58 APRA, [APRA 2023 Stakeholder Survey](#), APRA website, 2023, accessed 23 June 2023.

59 Banking: 70% agree, 17% neutral, 10% disagree, 2% cannot say or no opinion. General insurance: 74% agree, 25% neutral, 2% disagree and 0% cannot say or no opinion. Superannuation: 43% agree, 37% neutral, 18% disagree, 2% cannot say or no opinion.

60 Banking: 74% agree, 25% neutral, 0% disagree and 1% cannot say or no opinion. General insurance: 63% agree, 23% neutral, 0% disagree and 14% cannot say or no opinion. Superannuation: 33% agree, 65% neutral, 2% disagree and 0% cannot say or no opinion.

## APRA's funding and resourcing

- 2.28 The Government provides funding to APRA through the annual budget process as appropriation revenue. In 2022–23, APRA received \$213.6 million in departmental appropriation revenue for its operating expenditure with an estimated average staffing level of 853.<sup>61</sup> Additionally, APRA received a capital expenditure budget of \$13.4 million to support critical infrastructure investments. APRA ultimately determines the internal allocation of funding and resources across its functional areas.
- 2.29 In 2022–23, APRA's total budget for data and technology is \$52.4 million. This is comprised of \$36.1 million for business-as-usual resourcing and \$16.3 million for various data and technology updates and initiatives, including the SDT project.<sup>62</sup>
- 2.30 Figure 2.4 illustrates APRA's total funding and average staffing level from 2014–15 to 2022–23. Notable funding provided through the annual budget process over this period included:
- In 2018–19, APRA received \$58.7 million over 4 years to increase the number of frontline supervisors and enhance its ability to identify and address new and emerging risk areas.<sup>63</sup>
  - In 2019–20, APRA received additional funding of approximately \$150 million over 4 years to upgrade supervisory and enforcement capabilities in response to recommendations of the Royal Commission.<sup>64</sup>
  - In 2020–21, APRA received \$31.7 million, comprised of \$2.85 million over 4 years to assist with implementing superannuation reforms and \$28.8 million over 2 years to respond to COVID-19 related risks.

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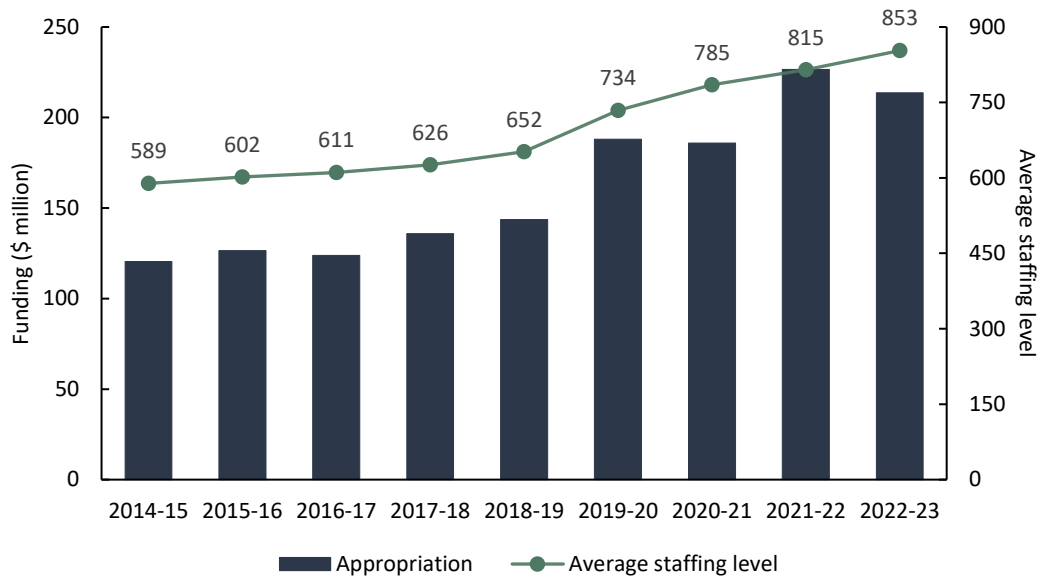
61 Average staffing level adjusts for casual and part-time staff in order to show the average number of full-time equivalent employees and is almost always a lower figure than a headcount of employees. Australian Government, *Portfolio Budget Statements 2023–24 Treasury Portfolio*, Australian Government, 2023, p 129.

62 APRA, *Material prepared for this review*, 2023.

63 Australian Government, *Mid-Year Economic and Fiscal Outlook 2018-19*, 2018, pp. 227, 228.

64 Australian Government, *Budget Measurers Budget Paper No. 2 2019-20*, 2020, p. 168.

**Figure 2.4: APRA’s funding and average staffing levels from 2014–15 to 2022–23**



Source: Australian Government, *Portfolio Budget Statements Treasury Portfolio*, 2015–16 to 2023–24.

- 2.31 APRA operates on a cost recovery model in accordance with the Australian Government Charging Framework, which requires that the cost of regulation should be met by those institutions that create the need for it. APRA’s cost base and corresponding source of funds is finalised through the annual budget process and published through the Cost Recovery Implementation Statement.<sup>65</sup>
- 2.32 APRA’s cost base is supported by various income streams with the largest being those funds that are recovered by industry levies collected from regulated entities. Industry levies are based on the costs expected to be incurred by APRA in discharging its duties with respect to each industry. In 2022–23, APRA’s budget is expected to recover \$214.8 million from industry levies and \$6.1 million from fee-for-service charges.<sup>66</sup>

### Internal resource allocation

- 2.33 Prior to 2019, APRA allocated significantly less resources to superannuation compared with banking and insurance. The APRA Capability Review stated that:

*‘[i]n an internal APRA document, APRA notes the “lower promissory intensity and the lower potential for financial sector contagion” as a reason for lower resourcing’.*<sup>67</sup>

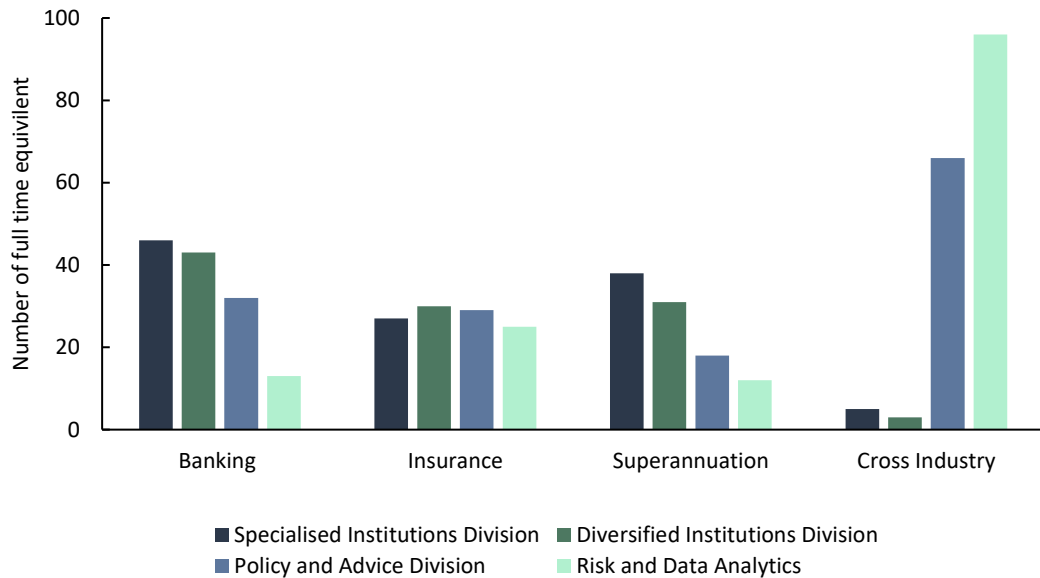
Figure 2.5 captures APRA staff by industry as represented in the 2019 APRA Capability Review.

65 APRA, [Cost Recovery Implementation Statement](#), APRA website, 30 June 2022, accessed 11 April 2023.

66 APRA, *Material prepared for this review*, 2023.

67 G Samuel, D Smith-Gander and G Spencer, [APRA Capability Review](#), Australian Government, 2019, p 106.

**Figure 2.5: APRA staff by industry as represented in the APRA Capability Review 2019**

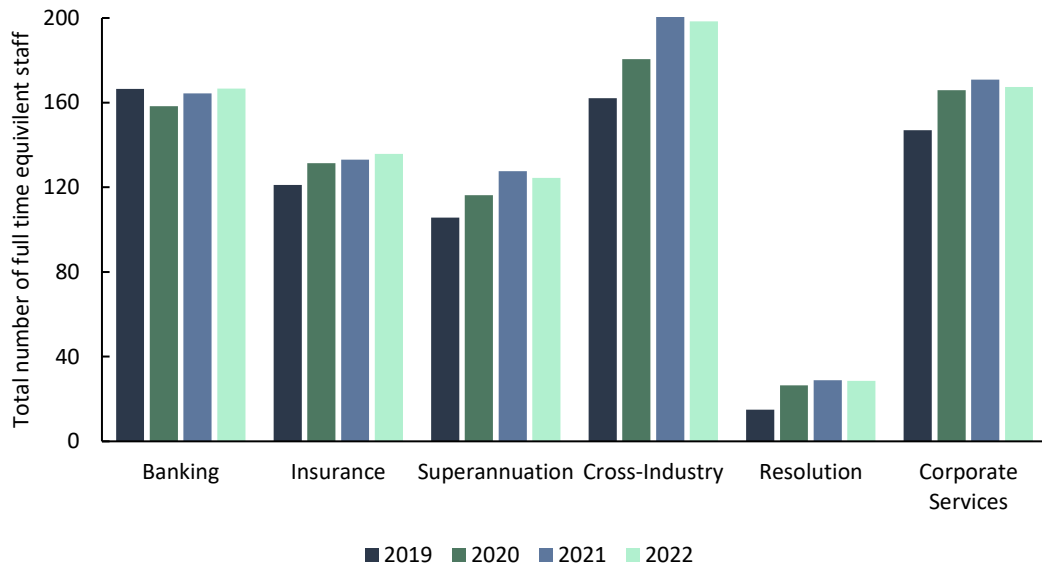


Source: G Samuel, D Smith-Gander and G Spencer, *APRA Capability Review*, Australian Government, 2019, p 106.

2.34 APRA resources were reorganised along industry lines on 1 December 2019. Figure 2.6 captures APRA’s resource allocation across industries and functional areas at 31 December from 2019 to 2022. The resources allocated to banking, insurance, and superannuation include supervisors and specialists. Supervisors have familiarity with a broad range of risk categories to identify, assess and respond to higher risk issues by engaging with regulated entities. Supervisors are supported by a range of risk, technical, legal and data specialist teams that have deeper experience in a risk category or regulation for a particular industry.<sup>68</sup>

68 For example, superannuation-aligned specialist teams include Legal, Policy Development, Advice and Approvals, Investment Risk, Member Outcomes, and dedicated analytics teams in superannuation strategic insights and SDT project.

**Figure 2.6: APRA’s resource allocation across industries from 2019 to 2022**



Source: APRA, *Material prepared for this review*, 2023.

- 2.35 APRA has continued to devote more resources to regulating the banking and insurance industries compared with superannuation. However, that gap is closing. APRA advised that resource allocation between industries is generally driven by their systemic importance within the financial system. Resource allocation is informed by the priorities outlined in APRA’s Corporate Plan, including APRA’s views of the risks common to all industries, the range of industry-specific risks and entity-level risk assessments.<sup>69</sup>
- 2.36 APRA advised that banking continues to have a larger share of staff resources because of its long-standing systemic importance, and the possible speed and greater potential for financial sector contagion of a banking crisis. Marginal differences in the allocation of resources between superannuation and insurance reflect the variation in the number of regulated entities (insurance has twice as many regulated entities) and that insurance supervision covers issues across 3 sectors: general, life and private health insurance.<sup>70</sup>
- 2.37 The industry supervision divisions are supported by several cross-industry divisions as needed. Specialists progress cross-industry priorities in APRA’s Corporate Plan and provide capacity to identify and respond to heightened risks and issues impacting multiple entities or industries for which a consistent approach should be adopted. Analysis and thematic reviews undertaken by cross-industry teams enable comparisons, learnings, and better practices to be identified and shared between industries.<sup>71</sup>
- 2.38 Figure 2.7 illustrates that the number of superannuation supervisors has remained relatively stable since the organisational restructure, while the resourcing of dedicated superannuation specialists has increased by approximately 52 per cent. This aligns with the recent regulatory changes to the superannuation industry such as the implementation of the YFYS measures,

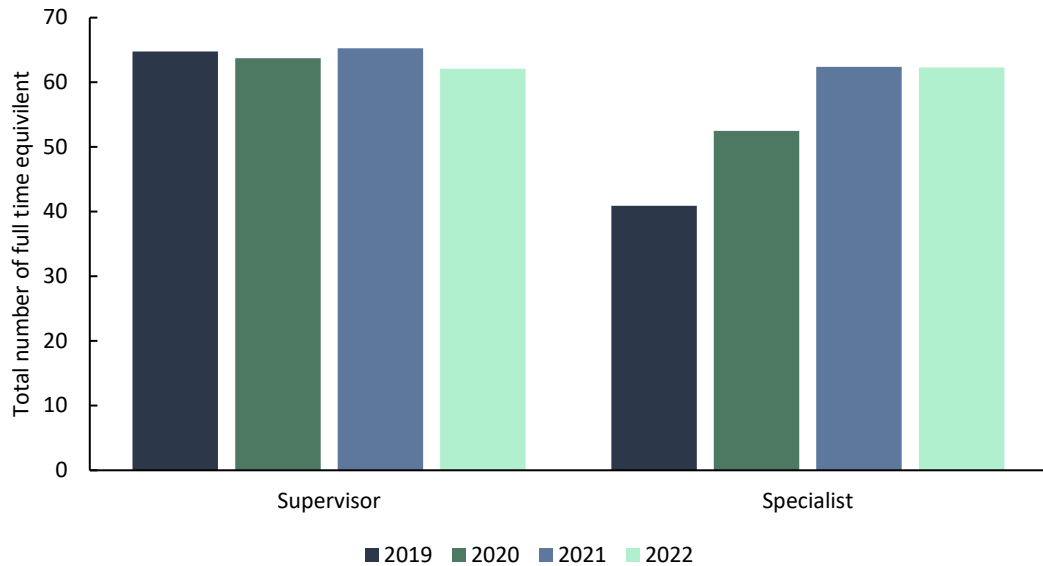
69 APRA, *Material prepared for this review*, 2023.

70 APRA, *Material prepared for this review*, 2023.

71 APRA, *Material prepared for this review*, 2023.

and APRA's progress to rectify sub-standard industry practices and improve trustee's delivery of outcomes for members.

**Figure 2.7: APRA's superannuation supervisors and specialists from 2019 to 2022**



Source: APRA, *Material prepared for this review*, 2023.

2.39 APRA's resolution operating model is based on a team of generalists that calls upon specialist expertise from within APRA and externally as required. APRA's current resolution function has a total of 29 staff representing 3 per cent of APRA's overall headcount. Of the 29 staff, 5 are dedicated for the resolution of superannuation entities.



# Chapter 3: Supervision

## Introduction

- 3.1 This chapter describes APRA's superannuation supervision function and then assesses that function by reference to the FRAA's 5 operational indicators: demonstrated ability to achieve objectives, efficiency, organisational capability, fairness, and transparency. In doing so, the chapter considers the feedback received from stakeholders and APRA staff, along with APRA's self-assessment and its current and planned initiatives.
- 3.2 The FRAA generally agrees with APRA's self-assessment that APRA's supervision function within superannuation is effective and capable. The FRAA acknowledges the changes to APRA's legislative powers and the subsequent introduction of prudential standards in 2013 represented a significant shift in the way superannuation is regulated (see Chapter 2). The FRAA considers that APRA's supervision activities to date have led to improved outcomes for members.<sup>72</sup> However, in comparing APRA's regulation of superannuation with its regulation of banking and insurance – and having regard to the growing importance of superannuation – APRA needs to enhance its regulation of superannuation to be more risk based, forward looking and outcomes focused, particularly with regard to systemic and emerging risks.

## Supervision at APRA

- 3.3 Supervision of the superannuation industry enables APRA to identify and manage risks, promote better practice, drive better outcomes for members, and enhance resilience in the financial system. An effective and capable supervisory function is central to APRA's remit to ensure the stability of the financial system and protect Australians' financial interests.
- 3.4 As a supervision-led agency, APRA's supervision function covers a broad range of activities to identify and respond to risks and vulnerabilities in entities, the industry, and the financial system.<sup>73</sup> The intensity of these activities is calibrated to the level of risk of each entity and is re-calibrated in response to changes in the operating environment.
- 3.5 Figure 3.1 illustrates APRA's supervision philosophy 'protected today, prepared for tomorrow'. This philosophy is designed to be risk based, forward looking and outcomes focused. This is supported by a supervisory approach that seeks to be robust, flexible, open, and innovative and is underpinned by a 'constructively tough' enforcement appetite.<sup>74</sup>

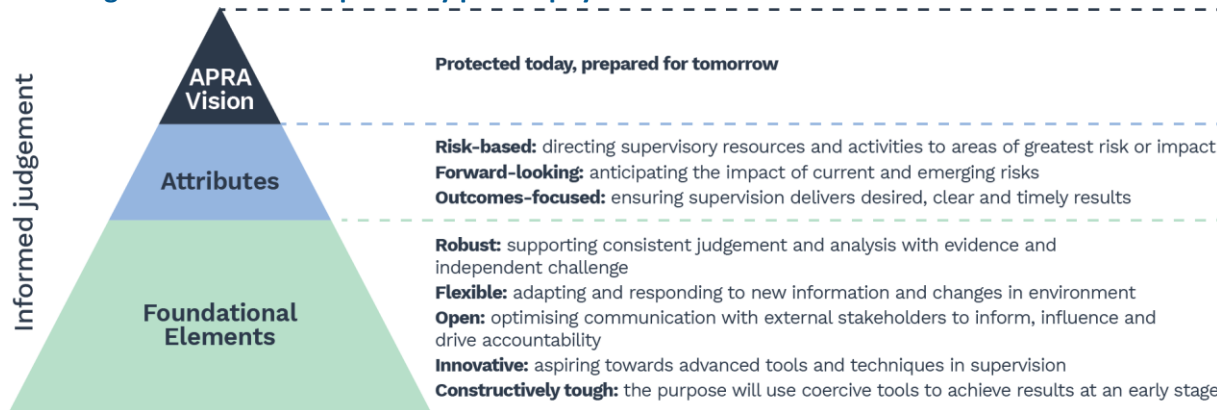
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72 This includes the introduction of prudential standard SPS 515 that substantially lift the standard of how trustees run their business.

73 Routine supervision activities include prudential reviews, meetings with the board and senior executives of entities, financial analysis, thematic reviews, and peer regulator engagement.

74 APRA, [APRA's Supervisory Philosophy](#), APRA website, 2020, accessed 21 April 2023.

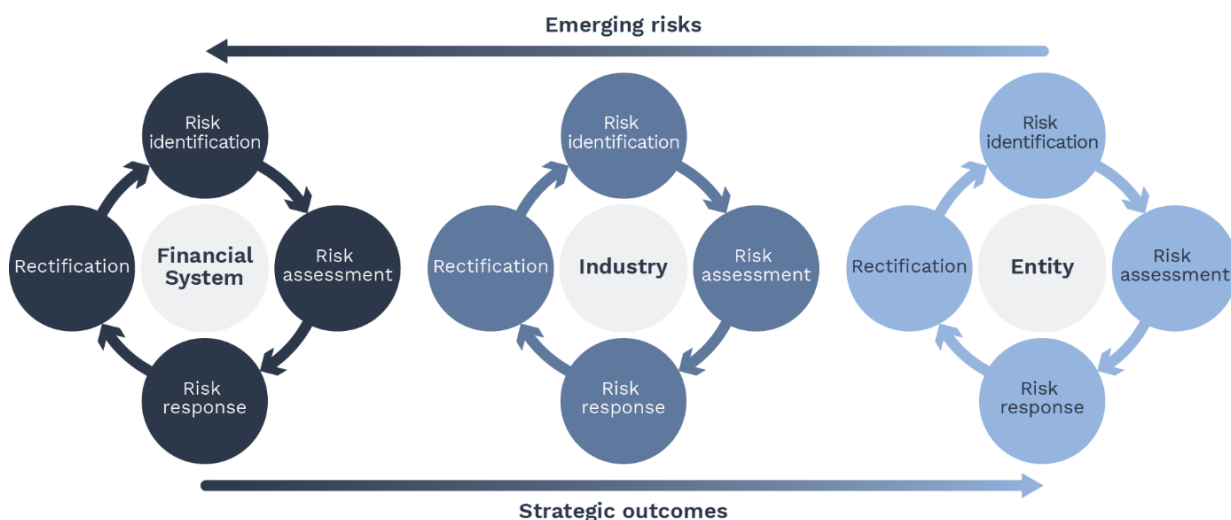
**Figure 3.1: APRA’s supervisory philosophy**



Source: APRA, *Material prepared for this review*, 2023.

3.6 Figure 3.2 illustrates APRA’s supervisory cycle which is defined by continuous and forward-looking risk identification, risk assessment, risk response, and risk rectification. This cycle draws together linkages and themes at an individual entity level, through to the industry and the broader financial system and back again.

**Figure 3.2: APRA’s supervisory cycle**



Source: APRA, *Material prepared for this review*, 2023.

3.7 APRA applies its supervision philosophy, frameworks and tools across all regulated industries. However, their application to superannuation differs. This reflects a range of factors including the mandated, defined contribution nature of superannuation, and trustees fiduciary and statutory obligations (see Chapter 1 and Chapter 2).

3.8 APRA’s Supervisory Risk and Intensity (SRI) Model is used to target supervisory activities toward higher impact risks that exist across industry and potentially within each regulated entity. The 3 components of the SRI model are:

- **tiering:** entities are grouped based on the potential impact that failure or operational disruption can have on financial stability
- **risk assessment:** which considers an entity’s overall risk profile across various financial and non-financial risk categories (including tailoring for industry specific characteristics)

- **staging:** the outcome of tiering and risk assessment processes determining the level of supervision intensity required for an entity.
- 3.9 The design of the SRI model is intended to support:
- a cycle of risk identification, assessment, response, and rectification
  - ‘bottom-up’ aggregation (for example, where APRA identifies risk issues at an entity-level, this will inform APRA’s assessment of work undertaken to assess issues at an industry or system level)
  - ‘top-down’ assessment (for example, where APRA notes macroeconomic or developments in the external environment, this is cascaded down through industry- and entity-level plans and supervisory activities)
  - reprioritisation of APRA’s areas of supervisory focus, at an entity, industry, and system level, in response to changes in the external environment or identification of new risks.
- 3.10 The SRI provides a common platform for risk assessments across all regulated entities, including to explicitly assess matters such as cyber risk, resolvability, governance, culture, remuneration, and accountability. The SRI can be tailored to incorporate different industry risks as is the case with member outcomes in superannuation.
- 3.11 The SRI model also considers APRA’s strategic priorities, and key risks within the financial system. These are detailed in APRA’s Corporate Plan, Superannuation Industry Strategy, and supervisory priorities, which are considered in the development of entity level Supervision Action Plans (SAPs).

## Effectiveness and capability of APRA’s supervision function

### Demonstrated ability to achieve objectives

#### Context

- 3.12 In 2013, APRA gained powers to make prudential standards for superannuation (see Box 2.3). APRA’s prudential framework and supervisory activities in superannuation have since evolved from focusing on trustee processes under prudential requirements to focusing on assessing the outcomes that trustees are delivering to their members. This evolution reflects several legislative changes that strengthened obligations for trustees to promote the financial interests of members and extends to independent reviews and the setting of new expectations, such as the administration of the YFYS performance test.<sup>75</sup> In December 2019, APRA launched its first annual MySuper Heatmap to enable comparisons of outcomes across products intended to promote member transparency and trustee accountability (see Box 3.2).
- 3.13 The primary objective of APRA’s current Superannuation Industry Strategy is to drive trustees to deliver better outcomes for members. Two areas of particular focus have been rectifying sub-standard industry practices (including through stronger trustee governance and strategic planning) and eradicating unacceptable product performance that leads to poor financial outcomes for members.

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<sup>75</sup> APRA, *Material prepared for this review*, 2023.

## Stakeholder feedback

3.14 External stakeholders were generally positive about APRA’s supervisory activities with public submissions and roundtable participants noting that APRA’s supervision, particularly the introduction of Heatmaps and performance testing, had generally led to improved outcomes for members. Participants in industry roundtables noted APRA’s Heatmaps and performance tests appear to have increased APRA’s understanding of how superannuation funds operate and resulted in more targeted and proactive supervision (see Box 3.2).

3.15 This view was reinforced in the external survey results where 88 per cent of superannuation respondents agreed that APRA’s supervision of the industry helps protect the Australian community’s financial wellbeing<sup>76</sup> Additionally, 75 per cent of superannuation respondents agreed that APRA’s supervision enhanced the financial and operating strength of their industry,<sup>77</sup> 75 per cent believed it had a positive impact on their risk management practices<sup>78</sup>, 69 per cent believed it had a positive impact on risk culture<sup>79</sup>, and 63 per cent believe it had a positive impact on their financial management.<sup>80</sup>This view was echoed in the free text comments.

*‘Supervision of the industry has given rise to stronger governance and resilience measures across the industry which in turn benefit members’ – External stakeholder survey*

3.16 External survey respondents were less positive about the effectiveness of APRA’s supervision. Only 33 per cent of superannuation respondents agreed that APRA’s supervision of *their industry* was ‘very or totally effective’ while 65 per cent agreed it was ‘somewhat effective’.<sup>81</sup> Similarly, 47 per cent agreed APRA’s supervision of *their entity* was ‘very or totally effective’ and 53 per cent agreed it was ‘somewhat effective’.<sup>82</sup>

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76 Banking: 97% agree, 2% neutral, 1% disagree and 0% cannot say or no opinion. General insurance: 93% agree, 7% neutral, 0% disagree and 0% cannot say or no opinion. Superannuation: 88% agree, 10% neutral, 0% disagree and 2% cannot say or no opinion.

77 Banking: 92% agree, 7% neutral, 1% disagree and 0% cannot say or no opinion. General insurance: 96% agree, 2% neutral, 2% disagree and 0% cannot say or no opinion. Superannuation: 75% agree, 18% neutral, 8% disagree and 0% cannot say or no opinion.

78 Banking: 98% positive, 2% neutral, 0% negative and 0% cannot say or no opinion. General insurance: 91% positive, 7% neutral, 2% negative and 0% cannot say or no opinion. Superannuation: 75% positive, 24% neutral, 0% negative and 2% cannot say or no opinion.

79 Banking: 94% positive, 6% neutral, 0% negative and 0% cannot say or no opinion. General insurance: 91% positive, 9% neutral, 0% negative and 0% cannot say or no opinion. Superannuation: 69% positive, 31% neutral, 0% negative and 0% cannot say or no opinion.

80 Banking: 86% positive, 12% neutral, 2% negative and 0% cannot say or no opinion. General insurance: 86% positive, 11% neutral, 2% negative and 2% cannot say or no opinion. Superannuation: 63% positive, 37% neutral, 0% negative and 0% cannot say or no opinion.

81 Banking: 74% very or totally effective, 25% somewhat effective, 0% not at all effective, 1% cannot say or no opinion. General insurance: 63% very or totally effective, 23% somewhat effective, 0% not at all effective, 14% cannot say or no opinion. Superannuation: 33% very or totally effective, 65% somewhat effective, 2% not at all effective, 0% cannot say or no opinion.

82 Banking: 67% very or totally effective, 33% somewhat effective, 0% not at all effective, 0% cannot say or no opinion. General insurance: 88% very or totally effective, 12% somewhat effective, 0% not at all effective, 0% cannot say or no opinion. Superannuation: 47% very or totally effective, 53% somewhat effective, 0% not at all effective, 0% cannot say or no opinion.

- 3.17 External survey responses were considerably higher from banking and insurance with 74 per cent of banking and 63 per cent of general insurance respondents agreeing that APRA's supervision of *their industry* was 'very or totally effective'. For the supervision of *their entity* 67 per cent of banking respondents and 88 per cent of general insurance respondents agreed APRA's supervision was 'very or totally effective'.
- 3.18 External stakeholders suggested a number of areas where APRA could develop its capability to supervise the superannuation industry more effectively. Some roundtable participants raised concerns regarding the 'reactiveness' of APRA's supervision. They cited APRA's requests for information about trustee valuations of unlisted assets (including Canva software company), as emerging in response to ongoing media coverage of the issue rather than APRA's proactive identification (see Box 3.2, including APRA's 2021 thematic review and the enhancements to SPS 530).
- 3.19 Participants in industry roundtables noted that more comprehensive stress testing was needed, with a greater focus on liquidity risks and member switching.<sup>83</sup>
- 3.20 In some instances, stakeholders perceived APRA's activities as not focused sufficiently on emerging risks. Roundtable participants noted the operational risk posed by the concentration of administration service providers and the potential ramifications if the number of service providers reduced further. While APRA does not regulate the administration market, APRA confirmed it regularly engages with administration service providers to enhance its understanding of evolving or emerging risks and concerns.
- 3.21 Roundtable participants expressed concerns regarding other increases in operational risk across the industry, including risks from cyber-attacks, and noted some funds transition from the accumulation to retirement phase for superannuation.
- 3.22 Trustees noted that the increased operational risk profile, as well as the expected transition from the accumulation to retirement phase, would necessitate more complex and in-depth supervision. This view was echoed in external stakeholder survey comments.
- 'There have been positive member focused outcomes that APRA have been able to achieve arising from greater data collection, transparency and member outcomes focus which have been broadly positive if somewhat blunt in their application. However, the primary systemic risks in the industry remain and appear of little import to APRA notwithstanding the threat to members financial interests and systemic stability including ... major asset/liability mismatches in the system [and the] precarious state of the administration market' – External stakeholder survey*
- 3.23 Some roundtable participants observed that an increased examination of unlisted assets and associated valuation practices was also required. Participants perceived APRA's work in this area may have been delayed and deprioritised. Consumer groups and a think tank expressed concerns that inconsistent valuation practices across funds had the potential to lead to unfair member outcomes.

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83 APRA noted that from 1 January 2023, SPS 530 requires trustees to develop, maintain and implement a comprehensive stress testing program, including liquidity stress as part of their investment strategies (see Chapter 2).

### Box 3.1: APRA's approach to unlisted asset valuation and the Canva topical study

#### What is an unlisted asset?

An unlisted asset is an investment not listed on a securities exchange and includes property (for example, large office buildings and shopping centres), infrastructure (for example, toll roads, ports, airports, power grids and pipelines), private equity (for example, investments in start-ups or existing companies), and private or corporate debt.<sup>84</sup> Trustees typically invest in unlisted assets to trade-off liquidity for a higher rate of return. At 31 December 2022, approximately \$425 billion (18.5 per cent) of investments of APRA-regulated funds with more than 6 members were invested in unlisted assets.<sup>85</sup> While listed assets have easily ascertainable market values, the nature of unlisted assets means their valuations are inherently more subjective and uncertain. Holding these assets also reduces the liquidity of the fund's portfolio.

#### Importance of appropriate valuations

The valuation of unlisted assets is important due to the potential consequences on members' fund balances. If members decide to switch asset allocations or withdraw funds, and assets have not been appropriately valued, the amount withdrawn may not reflect the asset's true value. Remaining fund members may then be left with an unfairly reduced or inflated balance, and new members may overpay as they enter the fund. If unlisted assets are overvalued, older members in the decumulation phase are likely to benefit at the expense of younger members in the accumulation phase.

#### APRA's approach

In 2021, APRA commenced a thematic review of frameworks for valuing unlisted assets which found few trustees had robust, pre-existing frameworks for implementing, monitoring and reverting to regular valuation approaches following out-of-cycle revaluation adjustment.

In 2022, APRA reviewed selected trustee's approaches to valuing a specific unlisted asset, Canva Pty Ltd, after Canva received significant media attention regarding its valuation. APRA's review found most trustees' practices were generally sound with some clear examples of better practice evident.

Informed by these 2 reviews, APRA revised SPS 530 which took effect on 1 January 2023. Later in 2023 APRA intends to further review trustees' practices considering the commencement of revised SPS 530. This work is likely to consider topical studies on valuation practices for particular asset classes such as infrastructure and commercial property as well as inadequacies identified in the 2021 review (see paragraph 3.34).

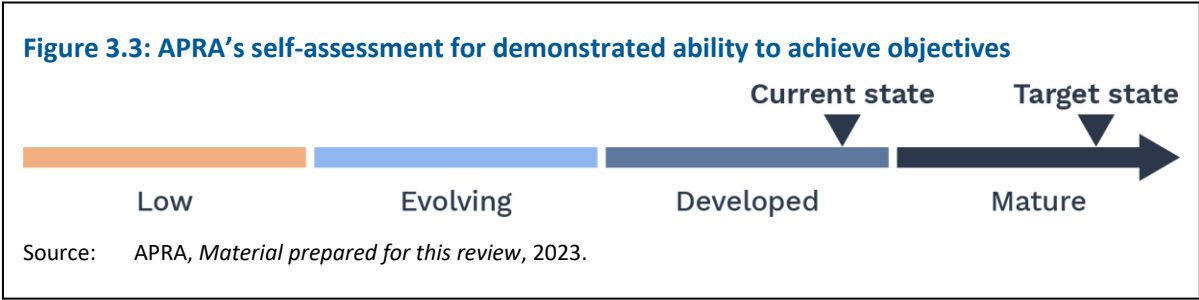
- 3.24 A number of trustees noted in industry roundtables that the design of the legislated YFYS performance test had inadvertently led to a narrower and more homogenous set of investment strategies. The FRAA also notes that under the YFYS measures APRA is required to conduct these annual performance tests, and has limited ability to alter any parameters of the tests enshrined in regulations. The FRAA notes that stakeholders have had an opportunity to raise views on the performance test during the 2022 Government review of YFYS measures.

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84 J Mace, *Unlisted assets: What are they and why is my super funds investing in them?*, Super Guide, 2022, accessed 25 May 2023.

85 Calculation based on the addition of the following asset classes: unlisted equity, unlisted property, Australian unlisted infrastructure, international unlisted infrastructure, commodities and other. APRA, *Quarterly Superannuation Performance Statistics (December 2022) Table 1d*, APRA website, 2023, accessed on 25 May 2023.

APRA’s self-assessment and feedback

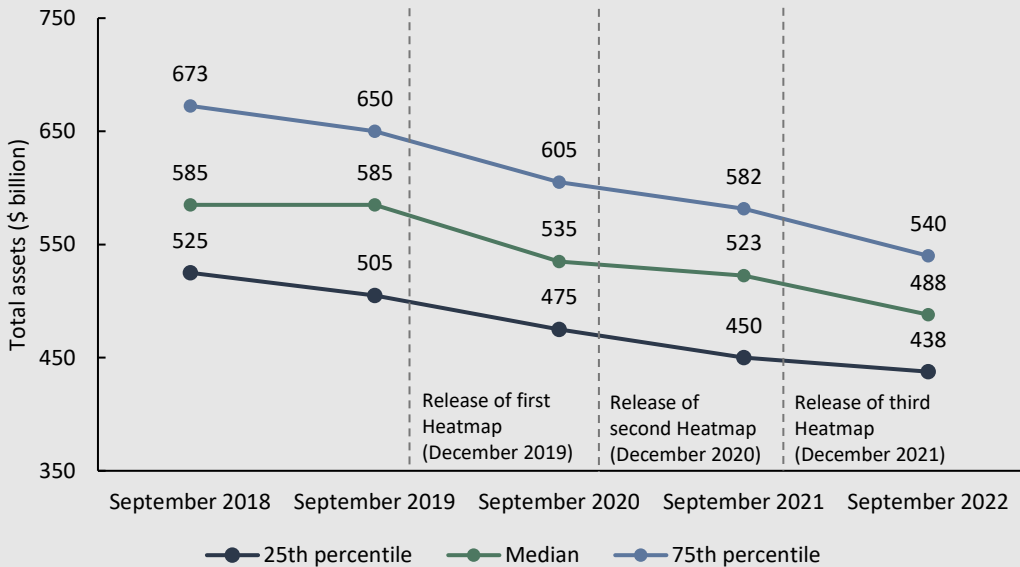


- 3.25 APRA has self-assessed its ability to achieve the objectives of its superannuation supervision function as **Developed**, with a target state of **Mature**.
- 3.26 APRA’s self-assessment demonstrated its ability to achieve objectives in superannuation as the reduction in total fees and costs for MySuper products (see Box 3.2), the transfer of the majority of members out of underperforming products, and an uplift in board governance practices.

**Box 3.2: Introduction of the MySuper Heatmaps**

APRA launched its first annual MySuper Heatmap in December 2019 to support its ongoing efforts to enhance outcomes for members. The Heatmap provides insights into superannuation products across investment performance, costs and fees, and sustainability of member outcomes. APRA estimates that between 2021 and 2022 approximately 8.1 million MySuper members (56 per cent of MySuper member accounts) experienced a reduction in total fees and costs, equating to a total estimated saving of \$210 million. APRA extended the use of heatmaps to a segment of Choice superannuation products in 2021.

**Falling fees for superannuation members from 2017 to 2022**



Source: APRA, Material prepared for this review, 2023.

- 3.27 APRA superannuation staff were similarly positive when assessing the effectiveness of supervisory activities. In the staff survey, 95 per cent believed that APRA’s supervision was

effective in achieving its objectives,<sup>86</sup> 93 per cent agreed that regulatory decisions made within their team were consistent with APRA priorities,<sup>87</sup> and 96 per cent believed that supervisory activities aligned with APRA's priorities.<sup>88</sup>

- 3.28 APRA's self-assessment outlined how insights on trustee practices in relation to unlisted asset valuations, gained from supervisory activities during the COVID-19 Early Release of Superannuation Scheme, the 2021 thematic review of frameworks for valuing unlisted assets and 2022 targeted review of Canva informed strengthened prudential requirements. Since the commencement of the enhanced SPS 530 in January 2023, APRA noted it has observed heightened trustee attention on valuation governance, a greater use of entities' stress testing results as an input into the investment process and generally more focus by trustees on liquidity management and stress testing processes. The FRAA notes APRA's increased focus on unlisted asset values and stress testing since the review commenced.
- 3.29 Consistent with the sentiment expressed in the external stakeholder survey conducted in November 2022, only 49 per cent of superannuation staff believed that adequate stress testing was conducted by APRA and regulated entities to achieve APRA's objectives.<sup>89</sup> In member and executive director interviews, it was noted that APRA's prioritisation of stress testing in the banking and insurance industries has meant superannuation-related stress testing has been underdeveloped relative to the other industries.
- 3.30 APRA's self-assessment acknowledged the need to expand its superannuation modelling capabilities to consider the impact of emerging risks more systematically and comprehensively. It also noted the opportunity to more effectively challenge how trustees undertake stress testing of their business plans under different scenarios (see Box 3.3).

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86 Banking: 43% agree, 51% tend to agree, 3% neutral, 2% tend to disagree and 1% disagree. Insurance: 45% agree, 41% tend to agree, 8% neutral, 6% tend to disagree and 0% disagree. Superannuation: 48% agree, 47% tend to agree, 3% neutral, 1% tend to disagree and 1% disagree.

87 Banking: 54% agree, 40% tend to agree, 2% neutral, 2% tend to disagree and 2% disagree. Insurance: 62% agree, 35% tend to agree, 3% neutral, 0% tend to disagree and 0% disagree.

88 Banking: 44% agree, 50% tend to agree, 4% neutral, 1% tend to disagree and 2% disagree. Insurance: 51% agree, 42% tend to agree, 5% neutral, 3% tend to disagree and 0% disagree. Superannuation: 59% agree, 37% tend to agree, 1% neutral, 1% tend to disagree and 1% disagree.

89 Banking: 34% agree, 40% tend to agree, 19% neutral, 5% tend to disagree and 3% disagree. Insurance: 32% agree, 24% tend to agree, 24% neutral, 17% tend to disagree and 3% disagree. Superannuation: 15% agree, 34% tend to agree, 22% neutral, 21% tend to disagree and 8% disagree.



### **Box 3.3: Stress testing**

Stress testing is a forward-looking assessment of the capacity of regulated entities to withstand adverse conditions. It involves estimating the impacts of severe but plausible downturn scenarios on a range of characteristics relevant to the industry or entity in question. APRA is involved in 3 types of stress testing, which collectively inform APRA's view of risks.

#### **APRA-led industry stress tests**

APRA-led industry stress tests are conducted by regulated entities using common scenarios provided by APRA. These stress tests are conducted every year in banking, and every few years in insurance. An APRA-led stress test has not yet been conducted for superannuation but adaptation of stress testing for other industries is being considered for superannuation.

#### **APRA internal stress testing**

APRA's internal models provide assurance, insights, and data into macro and emerging risks, and complement the supervisory insights from industry stress tests. APRA maintains a scenario model that simulates various components of trustees' cashflows and returns, several years ahead, under user-specified scenarios. This model has been used to assess:

- funds' liquidity and portfolio rebalancing needs under the liquidity stresses that arose during the COVID-19 related market dislocation period of 2020 (including the expansion of the Early Release of Superannuation Scheme)
- industry-wide impacts of high inflation
- funds' vulnerabilities to member flows following the 2021 YFYS performance test
- individual fund's sustainability outlook for cases of interest.

#### **Entities' own stress testing**

Banks and insurers are required to undertake regular stress testing on their portfolios as part of capital and liquidity risk management. It is expected that entities develop and deploy sufficiently severe yet plausible scenarios, have required stress test models and credible modelling, and have a strong governance framework with senior management and board engagement. APRA's prudential framework for superannuation has requirements for stress testing in 2 standards. SPS 515 requires trustees to have a credible forward view of the operational and financial resilience of the trustee's business operations. Since 1 January 2023, the enhanced SPS 530 has required trustees to implement appropriate, board-approved investment stress testing policies and programmes when they devise investment strategies.

As of June 2023, APRA was yet to inspect any entities stress testing policies, but had initiated a study, comprising a desk analysis of the approach to liquidity stress testing and reviewing action plans for 23 super funds.

## **Current and planned initiatives**

- 3.31 APRA is continuing to develop a cross-industry stress testing framework to incorporate stress testing within industry supervision strategies. APRA notes further development could include utilising internal models and links to data, application of common scenarios for internal and industry stress tests and engaging with superannuation trustees on their use and governance of stress testing.
- 3.32 APRA is also updating SPS 515 and the associated prudential guidance for further consultation in 2023. APRA expects that this will support APRA's supervisory focus of ensuring member outcome considerations are embedded and integrated across a trustee's business operations.

- 3.33 Later in 2023, APRA intends to publish anonymised results from its review of selected trustees in relation to their holdings of Canva. APRA notes that this should drive improvements in industry practices and complement APRA's entity-specific supervisory activities.
- 3.34 By the end of 2023, APRA intends to require up to 20 trustees to conduct a self-assessment of their compliance with the strengthened SPS 530. The self-assessments will focus on new requirements intended to address inadequacies identified in the 2021 unlisted asset valuation thematic review around inadequate revaluation frameworks, limited board engagement and over-reliance on external parties.
- 3.35 In recent years, APRA has increased its focus on cyber and technology resilience across all industries through its APRA's 2020–24 Cyber Security Strategy. This includes the introduction of a new prudential standard CPS 234 in 2019, which requires trustees to facilitate an independent tripartite assessment of their compliance, and a voluntary data collection on technology resilience by the end of 2023, to identify weakness and inform targeted supervisory activities.
- 3.36 APRA is raising expectations for strong operational risk management under the recently finalised CPS 230 commencing in 2025. These requirements recognise the dependency of trustees on critical service providers for core functions in superannuation, with heightened obligations for risk management and contingency arrangements when the service provider is unable to satisfy their obligations.

#### FRAA's assessment and recommendation

- 3.37 The FRAA acknowledges APRA's efforts in developing a prudential and supervisory framework for superannuation over the last decade. In addition to responding to legislative changes, APRA's enhancements in prudential standards and supervision appear to have strengthened industry practices and the resilience of Australia's financial system. APRA's supervision activities, including enhanced transparency via Heatmaps, have lifted industry standards and improved outcomes for members.
- 3.38 The FRAA acknowledges that APRA has undertaken some work in assessing and requiring trustees to respond to risks at an entity-level and has started exploring issues more deeply through thematic reviews.
- 3.39 APRA's focus on emerging risks and industry-specific characteristics relevant to superannuation is not yet as well developed as its more mature regulation of banking and insurance. The FRAA is concerned that APRA has at times been reactive and has focused on a limited number of key risks facing the sector, which may have significant implications for how trustees are delivering outcomes for members and the broader financial system. For example, APRA's focus on unlisted asset valuations in recent years has only seen a targeted case study review on the private equity holdings of Canva, which is yet to be expanded to other asset classes, such as commercial real estate, which is known to be under significant pressure.<sup>90</sup>

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90 J Shapiro, '[Australian Super's Delaney laments 'worst of all worlds' property bets](#)', Australian Financial Review, 2023, accessed 7 June 2023.

- 3.40 Given the characteristics of the superannuation industry, the FRAA considers APRA should direct greater attention to proactively identify and comprehensively understand risks, such as:
- conversion of unlisted or illiquid assets to cash
  - unlisted asset valuation practices
  - more members moving to the retirement phase
  - increasingly complex investment strategies undertaken by trustees (who are increasingly sourcing investment strategies inhouse) and the development of complex income stream products
  - severe market downturn, exacerbation by financial instability and member switching requests
  - failure or industry exit of administration service providers.
- 3.41 In assessing these and other risks, which may be interrelated and cumulative, APRA should use all available tools to understand the implications at a member, entity, industry, and financial system level. This includes APRA applying to superannuation its skill and longstanding experience gained in conducting APRA-led stress testing in the more mature banking and insurance industries. The outputs of these assessments should inform APRA's ongoing supervisory activities and help direct recovery and resolution planning (see Chapter 4).

#### **Recommendation 1**

The FRAA recommends APRA should increase its efforts to identify risks in superannuation, including emerging and systemic risks, and their potential consequences. APRA could then better perform its supervisory activities and recovery and resolution planning.

## Efficiency

### Context

- 3.42 The FRAA has considered the efficiency of APRA's supervision function in terms of the targeting of supervisory activities, engagement with regulated entities, internal processes, coordination and allocation of resources and collaboration with other regulators.
- 3.43 Given APRA has finite resources, supervisory activities should generally be targeted towards risks and harms in the superannuation industry that present the greatest potential detriment to members and the financial system. APRA's supervisory resources are directed in accordance with outputs from the SRI model.
- 3.44 APRA uses a range of data and technology tools and systems that support operational efficiency of its supervision function. APRA's data and technology systems are discussed at 3.104.

## Targeting of supervisory activities

### Stakeholder feedback

3.45 Feedback on both the SRI model and the subsequent targeting of APRA's supervisory activities was mixed. External stakeholders considered the SRI model to be effective although a small number raised concerns about its calibration.

3.46 In the external stakeholder survey, 75 per cent of superannuation respondents agreed that APRA's supervision enhanced the financial and operating strength of the superannuation industry.<sup>91</sup>

3.47 External stakeholders considered the SRI model to be effective, with a number of public submissions and external stakeholder survey comments indicating their approval of APRA's current targeting of supervisory activities.

*'We believe APRA's supervision has been very effective over the last 2 years at targeting the key issues for the superannuation industry' – External stakeholder survey*

3.48 Conversely, some external stakeholders questioned the calibration of the SRI model and whether trustees were being appropriately targeted.

*'...the SRI Model should be recalibrated so that more focus is directed towards smaller businesses that are potentially of higher risk of inappropriate behaviour and misconduct' – Confidential submission*

3.49 Separate to the SRI model, many external stakeholders indicated some of the supervisory engagements did not always align with its supervisory priorities or concerns and at times appeared ad hoc or reactive.

*'Some funds have reported to [Australian Institute of Superannuation Trustees] that the nature of engagements with APRA can tend to be ad hoc and individual request-driven rather than anchored to an identified supervisory priority or concern. While funds respond to these inquiries, it can be difficult to contextualise them, and have a confident understanding that the information being provided is the information sought' – Public submission, Australian Institute of Superannuation Trustees*

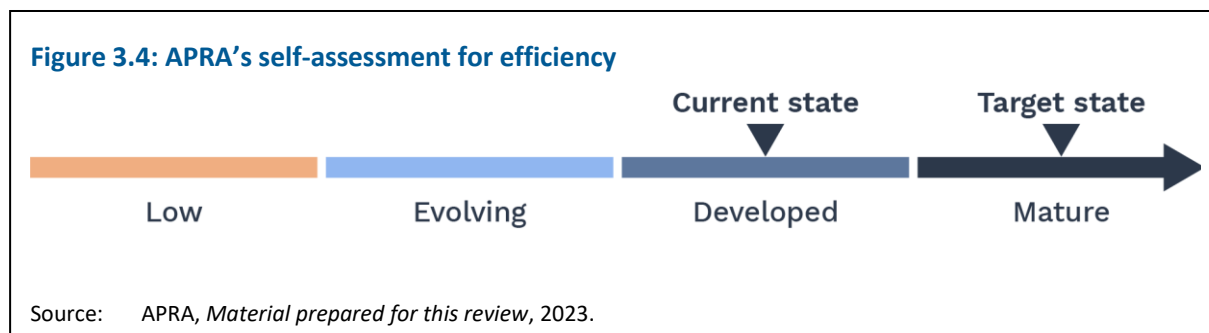
3.50 This view was reinforced in the external stakeholder survey where only 33 per cent of superannuation respondents agreed that APRA's supervision activities were very well or totally appropriately targeted (compared to 58 per cent of banking institutions and 70 per cent of general insurance entities).<sup>92</sup>

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91 Banking: 92% agree, 7% neutral, 1% disagree and 0% cannot say or no opinion. General insurance: 96% agree, 2% neutral, 2% disagree and 0% cannot say or no opinion. Superannuation: 75% agree, 18% neutral, 8% disagree and 0% cannot say or no opinion.

92 Banking: 58% very well or totally, 38% a little or somewhat, 1% not at all, 3% cannot say or no opinion. General insurance: 70% very well or totally, 29% a little or somewhat, 2% not at all, 0% cannot say or no opinion. Superannuation: 33% very well or totally, 65% a little or somewhat, 0% not at all, 2% cannot say or no opinion.

## APRA's self-assessment and feedback



- 3.51 APRA has self-assessed the efficiency of its supervisory function as **Developed** with a target state of **Mature**.
- 3.52 In the staff survey, 89 per cent of APRA's superannuation staff agreed that APRA uses an appropriate risk-based approach to target supervision activity (that is, APRA's risk-based approach results in the targeting of appropriate risks and commensurate allocation of resources).<sup>93</sup> APRA's view is that the introduction of SPS 515 in January 2020 was a significant enhancement enabling more direct supervision of the outcomes of trustees delivered to members, rather than being limited to the inputs of trustee decision making.
- 3.53 In focus groups, APRA's supervision staff noted that the SRI model exposes the most pressing issues allowing supervisors to develop a SAP and hold entities accountable to remediate gaps and rectify identified issues. Many staff agreed that the SRI model is a significant improvement over the previous prioritisation approach because it takes into account changes in the external environment to adjust supervisory intensity. An example was APRA's increase in its supervisory focus on liquidity in response to changes in government policy enabling members to withdraw their superannuation savings under the Early Release of Superannuation Scheme.
- 3.54 In the staff survey, senior staff were positive that the supervisory framework and strategies are fit-for-purpose and allow for targeted and dynamic risk assessments. However, senior staff also acknowledged there is scope for improvement, such as the need to provide staff with clear explanations of decision-making processes.

## Engagement with regulated entities and regulatory balance

### Stakeholder feedback

- 3.55 Feedback on APRA's engagement with regulated entities was mixed. There was general support for the relationship-based model and some stakeholders complimented APRA's approach to engagement, while others highlighted recent operational issues they had experienced with staff turnover and a perceived lack of senior engagement.
- 'APRA has clear engagement protocols, provided us with a clear program of work and struck a good balance with engaging us on key issues' – External stakeholder survey.*
- 3.56 In the external survey, only 43 per cent of superannuation respondents agreed that APRA effectively balances its pursuit of financial safety with considerations of efficiency, competition, contestability, competitive neutrality and the promotion of financial stability

93 Banking: 25% agree, 47% tend to agree, 9% neutral, 18% tend to disagree and 2% disagree. Insurance: 41% agree, 32% tend to agree, 12% neutral, 11% tend to disagree and 5% disagree. Superannuation: 44% agree, 45% disagree, 3% neutral, 4% tend to disagree and 4% disagree.

(compared to 70 per cent of banking institutions and 64 per cent of general insurance entities).<sup>94</sup> Similarly, in assessing the balance between the burden of APRA's regulatory requirements and the benefits it provides to their industry, only 39 per cent of superannuation respondents considered it to be fairly balanced or highly beneficial (compared to 69 per cent of banking institutions and 68 per cent of general insurance entities).<sup>95</sup> See the discussion on industry maturity at Chapter 2.

3.57 There were also positive views on APRA's efforts to reduce impost.

*'...the supervision team has been conscious of the regulatory impost of their supervision activities, particularly with the volume of regulatory change in recent times' – Public submission, confidential*

3.58 Many trustees noted the recent changes to staff in frontline supervision teams which they believed resulted in less efficient communication between APRA and regulated entities.

*'...there has been a number of changes to the supervisory team's make-up which leads to entity knowledge being lost and having to work with a [sic] more junior members who are familiarising themselves with an entity takes time and can lead to a disconnect.'* – External stakeholder survey

3.59 Some trustees also observed a difference in the seniority of APRA and regulated entity staff attending and running meetings. One trustee noted that APRA often expects relatively junior staff (Principal Analyst or Senior Manager level) to engage with the most senior staff of funds (for example, Chief Executive Officers or Chief Investment Officers), which they believe undermines the quality of engagement (see paragraph 3.65).

#### APRA's self-assessment and feedback

3.60 APRA noted it is conscious of regulatory burden. As APRA is substantially industry funded it also recognises that the costs of prudential regulation must ultimately be borne either by shareholders or members.

3.61 When considering changes to the prudential framework APRA undertakes a consultation process which includes seeking input on the potential regulatory impact from interested parties. Internally, APRA's Prudential Policy Committee provides oversight and considers proportionality and regulatory burden in respect of all proposed policy changes. For example, when introducing new prudential requirements APRA will consider tailoring requirements or providing a longer lead-time for smaller entities. When releasing key policy discussion papers for consultation APRA also describes how the proposed policy, in APRA's view, fits with its mandate of financial safety and system stability while balancing other considerations of efficiency, competition, competitive neutrality, and contestability.

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94 Banking: 70% agree, 17% neutral, 10% disagree, 2% cannot say or no opinion. General insurance: 74% agree, 25% neutral, 2% disagree, 0% cannot say or no opinion. Superannuation: 43% agree, 37% neutral, 18% disagree, 2% cannot say or no opinion.

95 Banking: 69% fairly balanced, 29% somewhat, 3% much too little and 0% cannot say or no opinion. General insurance: 68% fairly balanced, 28% somewhat, 4% much too little and 0% cannot say or no opinion. Superannuation: 39% fairly balanced, 47% somewhat, 14% much too little and 0% cannot say or no opinion.

- 3.62 In the staff survey, 64 per cent of superannuation staff agreed that APRA’s supervision minimises impost on regulated entities where possible.<sup>96</sup> In assessing areas for improvement, one staff survey comment noted that APRA could improve prioritisation and increase consideration of cross-APRA initiatives and timings to reduce industry impost.
- 3.63 APRA’s self-assessment noted that in 2020–21 it met its service charter target of providing more than 75 per cent of prudential review outcomes in writing to entities within 20 business days of the review’s closing meeting.
- 3.64 APRA noted that its recent rotation of supervisory staff was designed to reduce the risk of regulatory capture and the potential for a narrow supervisory focus. It also promotes capability development. While this practice occurs broadly across APRA supervisory teams, the combination of planned movements and usual staff turnover has resulted in a number of entities experiencing higher levels of change in the last 6 months. APRA does not consider the extent of recent staff movements will be an ongoing issue of concern.
- 3.65 There were 82 superannuation trustees regulated by APRA at December 2022. The superannuation supervision leadership team within APRA is comprised of one executive director and 3 general managers. Therefore, it is inevitable that some routine engagements will be led below the executive level. APRA noted that formal engagements such as a Prudential Review closing meeting, Board meetings and any especially sensitive meetings would typically be led by senior APRA staff, and that senior executives and members continue to provide oversight and act as a final escalation point where appropriate.

## Internal processes, coordination and allocation of resources

### Stakeholder feedback

- 3.66 Some external stakeholders raised concerns about APRA’s internal coordination between superannuation supervisory and specialist teams. Roundtable participants noted that there often appeared to be competing priorities between the various APRA teams with frontline supervisors often unaware that other APRA teams were also engaging with the entity.
- 3.67 ASIC staff interviewed were complimentary of their relationship with APRA emphasising a recent focus on cultural change to facilitate a more open and constructive flow of information. Current initiatives outlined by both APRA and ASIC to support this collaboration include:
- joint strategy, planning and training days
  - regular commissioner and member meetings
  - joint industry engagement
  - cross-agency working groups
  - consultation prior to data collection.
- 3.68 Public submissions included positive comments on APRA’s coordination of complex issues:
- ‘In its direct dealings with APRA, we consistently deal with highly skilled and knowledgeable personnel who are committed to [a] strong outcome focus in superannuation. For example, this*

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96 Banking: 69% positive, 29% neutral, 3% negative, 0% cannot say or no opinion. General insurance: 68% positive, 28% neutral, 4% negative, 0% cannot say or no opinion. Superannuation: 39% positive, 47% neutral, 14% negative, 0% cannot say or no opinion.

*has been particularly apparent in relation to Superannuation Data Transformation and Investment Risk’ – Public submission, Australian Institute of Superannuation Trustees*

### APRA’s self-assessment and feedback

- 3.69 Staff feedback on APRA’s internal processes, coordination and allocation of resources was mixed.
- 3.70 With respect to APRA’s internal processes, APRA’s superannuation staff acknowledged in the staff survey that there is scope for improvement in the timeliness of decisions and the delivery of services. In the APRA staff survey, only 41 per cent of superannuation staff agreed internal processes are geared to providing timely delivery of service,<sup>97</sup> 45 per cent agreed that decisions are made in a timely manner,<sup>98</sup> 64 per cent of superannuation staff felt that there were no substantial obstacles to doing their job well,<sup>99</sup> and 57 per cent agreed that their teams made good use of technology to improve operating efficiency.<sup>100</sup>
- 3.71 However, some APRA staff generally perceived internal coordination and collaboration as working well. For instance, staff commented:
- ‘I think APRA is good at being methodical and consistent – the SRI process for example allows for entities to be fairly assessed and benchmarked in a continuous way. APRA is good at ensuring regular learning activities across supervision which also supports consistency in approach and ongoing improvement.’ – Staff survey*
- 3.72 While 60 per cent of APRA’s superannuation staff agreed information is easily shared across functions some felt there was opportunity to improve internal information sharing.<sup>101</sup>
- 3.73 Focus group participants believed internal coordination could be improved noting they experienced difficulties completing supervisory activities detailed in their entity specific SAPs, which often conflicted with industry-wide thematic reviews. More holistic forward planning of upcoming thematic reviews, and clarity on the scope and timing of reviews, could assist supervisors responsible for developing and executing SAPs (see Recommendation 4). This should avoid conflicting priorities and potential de-prioritisation of planned supervisory activities.
- 3.74 Opportunities to improve internal efficiency were similarly observed in APRA member and senior staff interviews where it was noted that use of manual processes and legacy technology was inhibiting efficiency. APRA noted the efficiency benefit of its specialist teams engaging

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97 Banking: 10% agree, 29% tend to agree, 21% neutral, 30% tend to disagree and 11% disagree. Insurance: 12% agree, 35% tend to agree, 12% neutral, 31% tend to disagree and 10% disagree. Superannuation: 13% agree, 28% tend to agree, 13% neutral, 33% tend to disagree and 12% disagree.

98 Banking: 9% agree, 33% tend to agree, 23% neutral, 29% tend to disagree and 7% disagree. Insurance: 10% agree, 41% tend to agree, 7% neutral, 29% tend to disagree and 12% disagree. Superannuation: 11% agree, 35% tend to agree, 17% neutral, 24% tend to disagree and 13% disagree.

99 Banking: 15% agree, 41% tend to agree, 15% neutral, 24% tend to disagree and 4% disagree. Insurance: 22% agree, 43% tend to agree, 13% neutral, 19% tend to disagree and 3% disagree. Superannuation: 24% agree, 40% tend to agree, 12% neutral, 19% tend to disagree and 5% disagree.

100 Banking: 13% agree, 34% tend to agree, 19% neutral, 24% tend to disagree and 11% disagree. Insurance: 15% agree, 41% tend to agree, 15% neutral, 26% tend to disagree and 3% disagree. Superannuation: 25% agree, 32% tend to agree, 8% neutral, 29% tend to disagree and 5% disagree.

101 Banking: 22% agree, 41% tend to agree, 14% neutral, 23% tend to disagree and 8% disagree. Insurance: 16% agree, 38% tend to agree, 15% neutral, 26% tend to disagree and 4% disagree. Superannuation: 17% agree, 43% tend to agree 13% neutral, 20% tend to disagree and 7% disagree.



directly with entities to progress technical issues. While this reduces the demand on supervisors there is scope for improved visibility between teams.

- 3.75 In its self-assessment, APRA identified a number of recent initiatives to increase the efficiency of internal processes. These include the appointment of divisional Business Managers whose role is to improve workflows, prioritise activities and expedite decision making and the establishment of an expert panel to review and assess matters prior to their submission to the Resolution and Enforcement Committee (REC). APRA noted that early feedback on these initiatives has been positive, and APRA has remained focused on enhancing work-flow management systems to drive process improvement.

## Collaboration with other regulators

### Stakeholder feedback

- 3.76 A number of public submissions noted a recent improvement in the coordination between ASIC and APRA.

*'It is apparent that closer and more collaborative engagement between ASIC and APRA is occurring in the day-to-day supervision of entities, which [Australian Retirement Trust] welcomes. Greater alignment creates efficiency in supervision and ultimately benefits consumers in driving the right outcomes through meaningful focus' – Public submission, Australian Retirement Trust*

- 3.77 However, some external stakeholders suggested further improvements in collaboration and information sharing, noting instances of duplicated data requests and a lack of coordination in approaches to interacting with entities.

*'APRA's effectiveness would be enhanced if APRA (and ASIC) produced annual joint, fund-specific supervision plans leveraging information obtained through independent reviews undertaken by funds in compliance with APRA prudential standards, extensive and granular data funds provide to APRA as part of its Super Data Transformation project, and engagement with funds and their internal auditors.'* – External stakeholder survey

### APRA's self-assessment and feedback

- 3.78 APRA noted that following the Royal Commission, APRA and ASIC took significant steps to strengthen engagement and cooperation. The revised Memorandum of Understanding, combined with a new governance arrangement (that is, the member-commissioner level APRA-ASIC Committee, together with 5 standing committees) has provided a strong foundation for a significant increase in inter-agency engagement, including strategic discussions on key risks, greater information sharing, and coordination on supervisory and enforcement priorities. APRA noted in its self-assessment several examples of joint supervisory and enforcement activity, including in relation to AMP Superannuation Limited, Diversa Trustees and Insignia Financial.
- 3.79 Internal feedback on the collaboration between APRA and other regulators, particularly ASIC, was largely positive. Of APRA superannuation staff, 75 per cent agreed that there was effective coordination with other Australian regulators (for example, ASIC) as required during supervisory activities.<sup>102</sup> This view was echoed in APRA staff focus groups where participants

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102 Banking: 24% agree, 46% tend to agree, 23% neutral, 6% tend to disagree and 2% disagree. Insurance: 39% agree, 41% tend to agree, 15% neutral, 3% tend to disagree and 2% disagree. Superannuation: 36% agree, 40% tend to agree, 15% neutral, 7% tend to disagree and 3% disagree.

noted the extensive cross-agency work currently being undertaken. APRA staff consistently noted that of all divisions within APRA, superannuation had the strongest and most collaborative relationship with their ASIC counterparts.

- 3.80 In response to stakeholder feedback regarding duplicated data requests, APRA noted that entities may perceive similar requests to be duplicative, when in fact the requests require updated data or data with slightly different parameters, or reflect the need to obtain the most current data. APRA assured the FRAA that it is fully committed to minimising duplicative data requests wherever possible and expects this will continue to improve as it streamlines and develops its ongoing data collections.

### Current and planned initiatives

- 3.81 Specific thematic areas where APRA and ASIC seek to collaborate include retirement incomes, cyber and fraud, industry consolidation, the changing investment environment, data collection and enforcement. Since late 2022, APRA and ASIC have been conducting a joint implementation review of a subset of trustees' retirement income strategies. After its conclusion in mid-2023 a joint report with key observations will be shared with industry to uplift practices and to inform APRA's future supervision approach.

### FRAA's assessment

- 3.82 The FRAA recognises the recent increases in supervisory efficiency driven by the SRI model, the introduction of SPS 515 enabling supervision of trustees' achievement of their stated strategic outcomes, and the enhanced collaboration with ASIC.
- 3.83 The FRAA considers enhancing APRA's risk identification and understanding, referred to in Recommendation 1, plus the measures to improve organisation capability and transparency referred to in Recommendations 2, 3 and 4 (discussed below) should also make APRA's supervisory function more efficient.

## Organisational capability

### Staff capability

#### Context

- 3.84 Following the APRA Capability Review, APRA has structured its supervision function along industry lines (banking, insurance and superannuation, see Chapter 2). Supervisors have familiarity with a broad range of risk categories to identify, assess and respond to higher risk issues and entities. Supervisors are supported by a range of risk, technical, legal and data specialists who provide targeted expertise, deeper industry knowledge and cross-industry perspectives to APRA's supervisory activities.
- 3.85 The number of superannuation supervisors has remained relatively stable since 2019. However, the number of specialist superannuation staff has increased by 52 per cent and cross-industry teams by 22 per cent. In December 2022, APRA had approximately 124 superannuation supervisors and dedicated superannuation specialists (see Chapter 2).

### Stakeholder feedback

- 3.86 Feedback on the capability of APRA's superannuation supervision staff was mixed. Stakeholders noted senior leaders within superannuation are well regarded and possess

relevant expertise. However, industry has expressed some concerns regarding variability in depth of supervisor industry experience.

- 3.87 In the external survey only 45 per cent of superannuation respondents ‘strongly agreed’ that APRA’s supervision teams had the skills to effectively complete supervisory activities (compared to 70 per cent of banking institutions and 82 per cent of general insurance entities).<sup>103</sup> Similarly, only 49 per cent of superannuation respondents ‘strongly agreed’ that supervisory teams understood their organisation (compared to 62 per cent of banking entities and 81 per cent of general insurance entities).<sup>104</sup>
- 3.88 Participants at industry roundtables identified that APRA’s superannuation supervision staff could more broadly benefit from more technical and industry experience to improve their understanding of trustees’ investment strategies, asset allocation and liquidity risk.

*‘...variability in skills capability remains evident amongst superannuation supervisory teams and this does not always result in consistent and high-level outcomes. While some staff have long superannuation industry experience, the value of this experience is not available in all supervisory teams’ – Public submission, Australian Institute of Superannuation Trustees*

- 3.89 Participants in industry roundtables further noted concerns regarding resourcing levels, observing that APRA often appeared to focus on too many issues relative to its resource capacity.

#### APRA’s self-assessment and feedback



- 3.90 APRA has self-assessed the organisational capability of its supervision of the superannuation industry at the lower end of **Developed** with a target state of **Mature**.
- 3.91 Superannuation staff survey results supported this assessment with 96 per cent of staff agreeing that people on their team had the skills and capabilities needed to succeed,<sup>105</sup> and 87 per cent feeling well equipped to evaluate the information (including data) received from entities as part of supervision activities.<sup>106</sup> Staff were also positive in assessing the training

103 Banking: 70% agree, 29% neutral, 0% disagree and 2% cannot say or no opinion. General insurance: 82% agree, 18% neutral, 0% disagree and 0% cannot say or no opinion. Superannuation: 45% agree, 41% neutral, 8% disagree and 6% cannot say or no opinion.

104 Banking: 62% agree, 36% neutral, 2% disagree and 0% cannot say or no opinion. General insurance: 81% agree, 16% neutral, 2% disagree and 2% cannot say or no opinion. Superannuation: 49% agree, 41% neutral, 6% disagree and 4% cannot say or no opinion.

105 Banking: 40% agree, 47% tend to agree, 8% neutral, 4% tend to disagree and 1% disagree. Insurance: 51% agree, 40% tend to agree, 3% neutral, 4% tend to disagree and 1% disagree. Superannuation: 67% agree, 29% tend to agree, 1% neutral, 1% tend to disagree and 1% disagree.

106 Banking: 26% agree, 48% tend to agree, 12% neutral, 11% tend to disagree and 4% disagree. Insurance: 40% agree, 43% tend to agree, 6% neutral, 11% tend to disagree and 0% disagree. Superannuation: 38% agree, 49% tend to agree, 4% neutral, 6% tend to disagree and 3% disagree.

provided at APRA with 91 per cent of superannuation staff agreeing that it adequately prepares them for their work.<sup>107</sup>

- 3.92 On the level of resourcing, 65 per cent of staff in the APRA staff survey agreed that there are usually sufficient employees in their team to handle the workload.<sup>108</sup>
- 3.93 APRA's total training budget in 2022–23 was \$2.4 million for all capability development including, but not limited to, supervision, representing approximately 1 per cent of APRA's total appropriation of \$213.6 million. In 2021–22, the training uptake within the superannuation division was on average 35 hours per employee compared to 44 hours in the banking division and 30 hours in the insurance division. APRA's self-assessment noted the importance of briefing sessions and information forums across APRA for building staff capability.
- 3.94 APRA's senior staff were complimentary of supervisory staff capability and noted that increased mobility across the organisation could help broaden and expand staff knowledge and skill sets.<sup>109</sup> It was also acknowledged that frontline supervisors are expected to have increasingly broad skills to enable them to identify relevant issues. Supervision staff are supported by specialist teams that have deeper and more targeted experience. In the staff survey, 90 per cent of superannuation staff agreed that they *'have appropriate access to expertise in emerging areas and financial skills (for example, investment or portfolio assessment) as part of [their] supervisory activity'*.<sup>110</sup>
- 3.95 APRA informed the FRAA that it has enhanced its investment risk capability and that specialists keep abreast of market trends by maintaining strong links with professional industry associations, multilateral organisations, and market participants including investment managers, asset consultants and index providers.

### Current and planned initiatives

- 3.96 APRA has commenced a review of the design and delivery of its Supervision Training Academy curriculum for supervisors. APRA notes that this training will assist staff to identify and respond to increasingly complex risks. The training will also align with APRA's supervision approach and new enterprise Capability Framework. A variety of learning options are expected to be offered from late 2023 to APRA staff.

### FRAA's assessment and recommendation

- 3.97 The FRAA acknowledges and supports APRA's initiative to undertake a review of its primary training curriculum for supervisors.

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107 Banking: 48% agree, 43% tend to agree, 1% neutral, 7% tend to disagree and 1% disagree. Insurance: 60% agree, 32% tend to agree, 3% neutral, 3% tend to disagree and 1% disagree. Superannuation: 63% agree, 28% tend to agree, 3% neutral, 5% tend to disagree and 1% disagree.

108 Banking: 10% agree, 34% tend to agree, 10% neutral, 25% tend to disagree and 22% disagree. Insurance: 25% agree, 21% tend to agree, 13% neutral, 31% tend to disagree and 10% disagree. Superannuation: 21% agree, 44% tend to agree, 4% neutral, 17% tend to disagree and 13% disagree.

109 APRA noted that while it continues to promote internal mobility for development purposes, there are trade-offs between mobility and developing deeper knowledge of a particular entity and industry.

110 Banking: 30% agree, 49% tend to agree, 11% neutral, 7% tend to disagree and 4% disagree. Insurance: 36% agree, 48% tend to agree, 11% neutral, 5% tend to disagree and 0% disagree. Superannuation: 52% agree, 38% tend to agree, 1% neutral, 4% tend to disagree and 4% disagree.

- 3.98 As trustees bring more functions in-house, superannuation funds are engaging in more complex investment strategies and offering more complex products. APRA will, therefore, need to continue to build specialist expertise in investment management, asset allocation, product understanding and liquidity risk.
- 3.99 APRA should prioritise and invest in initiatives to recruit, train, retain and develop its staff. This will ensure APRA builds and maintains the skills and knowledge needed to proactively identify, understand and respond to emerging and systemic risks in an increasingly complex superannuation industry.
- 3.100 To help build the skill set and industry understanding, APRA’s leadership should encourage and facilitate more innovative thinking, including increasing both cross-divisional knowledge sharing and staff mobility.
- 3.101 The FRAA notes that APRA’s March 2023 restructure presents an opportunity to increasingly share specialist resources across industry divisions, such as those within the Macroeconomic and Industry Insights team responsible for stress testing.

### Recommendation 2

The FRAA recommends APRA should prioritise and invest in initiatives to recruit, train, retain and develop its staff to build appropriate skills and industry knowledge, to drive deeper understanding and build stronger capability to manage and respond to emerging and systemic risks.

## Data and technology capability

### Context

#### Internal data and technology systems

- 3.102 APRA uses several data and technology systems across the organisation. Generally, these systems are tailored for the needs of each functional area, and in some cases have limited integration with other systems.<sup>111</sup>
- 3.103 The central system for supervision captures fund and trustee-related information, SRI risk assessments, supervision objectives, outcomes and activities. This platform helps supervisors manage and monitor activities, findings, issues, and supervision tasks. Since its introduction, this platform has been upgraded progressively, and additional upgrades are in train to address current limitations. For example, one limitation is that it captures entity-specific thematic work, but not non-entity thematic work.

#### Data enabled supervision strategy

- 3.104 A key strategic priority for APRA is to enable greater data-driven decision-making. To achieve this, APRA has introduced a data directions roadmap and a new data collection infrastructure ‘APRA Connect’. APRA acknowledges that embedding the use of data to identify and support supervisory concerns, is still in its early days.<sup>112</sup> In March 2023, APRA announced a realignment

111 Systems used to support business management and supervision include: the Q platform to manage day-to-day supervision activities, Microsoft 365 tools for productivity and collaboration, Direct to APRA (D2A) and APRA Connect for data collection, R Analytics and Power BI for data analysis and reporting, and SharePoint for information management.

112 APRA, *Material prepared for this review*, 2023.

of its organisational structure to create a new executive leadership portfolio and division, dedicated to leading APRA’s technology and data priorities.

3.105 APRA launched the multi-year SDT project in November 2019, to drive better industry practices and enable improved analysis and comparability of fund and product performance (see Box 3.4).

### Box 3.4: SDT project

The SDT project comprises 3 phases: breadth, depth and quality. Below is an outline and expected timeframe for each phase.

#### Three phases of the SDT project

Phase 1: Breadth November 2019 – March 2021	Phase 2: Depth February 2022 – March 2025	Phase 3: Quality May 2022 – March 2026
<i>Completed</i>	<i>In progress</i>	<i>In progress</i>
Delivery of new collections to address the most urgent data gaps required to support APRA, industry and other stakeholders in assessing member outcomes through industry operations and performance. This included expanding coverage to all products.	Will complete the suite of richer, more flexible data needed to support APRA’s prudential supervision.	APRA will review the outcomes from the previous phases, and make any further adjustments or enhancements required to ensure the collection framework meets its intended purpose.

Source: APRA, *Material prepared for this review*, 2023.

At project initiation, APRA adopted a phased delivery and funding model approach. Total forecast funding over the life of the SDT project was \$12.2 million. Delivery of collections under the first phase was largely on budget but delayed due to reprioritisation during the COVID-19 pandemic. The budget and timeframe for delivery of collections under the second phase has increased by 50 per cent compared with original estimates. This reflects challenges with infrastructure and data integrity, and adjustments to timeframes to take into account industry and APRA’s capacity to absorb and operationalise the changes. Project estimates for the third phase will address any refinements required from earlier phases.

3.106 APRA started using the new data collection infrastructure ‘APRA Connect’ in September 2021. The transition to APRA Connect from the legacy system will be an iterative process over 5 to 7 years and staged across industries. Superannuation was the first industry to use the new platform under the first phase of the SDT project. APRA Connect is designed to improve APRA’s data collection capacity, increase automation, facilitate submission of more granular data, and provide capability to share data across multiple agencies.<sup>113</sup> APRA has invested \$49.4 million since 2016–17 to deliver the APRA Connect project, including the delivery of the new data collection system, establishing the enterprise data warehouse, and building reporting tools.

113 Under the *Financial Sector (Collection of Data) Act 2001*, APRA collects data for the financial sector for prudential supervision, statistical publications and shares with multiple public sector agencies, such as the RBA (see Chapter 2).

## Stakeholder feedback

### Internal data and technology systems

3.107 In the external stakeholder survey, only 29 per cent of superannuation respondents agreed that APRA has appropriate data and technology systems to effectively supervise their industry (compared to 40 per cent of banking entities and 33 per cent of general insurance entities).<sup>114</sup>

### Data enabled supervision

3.108 Several public submissions noted the industry's general support for the use of data within supervision and the appropriateness of a data-driven approach. However, concerns were raised about the lack of clarity for industry in understanding APRA's vision, purpose and capability to deliver the SDT project. Super Consumers Australia noted:

*'The data transformation project is one [of] APRA's most important tools to drive and measure improvements in member outcomes. There is still a significant amount of work until it is finalised.'* – Public submission, Super Consumers Australia

3.109 Although industry associations and trustees supported APRA's industry-wide consultation on APRA Connect and the SDT project, there is scope to improve the transparency on the challenges in collecting comprehensive data. Most notably, stakeholders raised concerns about the roll-out and performance of APRA Connect, and APRA's current ability to use the data and information it receives through the SDT project.

*'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.'* – Public submission, Australian Retirement Trust

## APRA's self-assessment and feedback

### Internal data and technology systems

3.110 Feedback from staff on the adequacy and usability of APRA's internal business and supervisory systems was largely negative. In the staff survey, only 44 per cent of superannuation staff agreed APRA's data and technology systems enabled them to do their job effectively.<sup>115</sup> Staff survey comments supported these results.

*'Enhanced technology capability – while there have been improvements there are still a few pain points in the systems we use'* – Staff survey

3.111 In APRA staff focus groups, supervisory staff noted that APRA's data and technology systems require significant uplift and better integration across functional areas. Supervisory staff noted difficulties tracking workflows and obtaining status updates across other functions, in particular, due to limited integration across systems.

3.112 An executive director supported these concerns and noted that a number of processes to record and retrieve information were manual and, therefore, inefficient. Focus group

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114 Banking: 40% agree, 48% neutral, 4% disagree, 9% cannot say or no opinion. General insurance: 33% agree, 46% neutral, 5% disagree, 16% cannot say or no opinion. Superannuation: 29% agree, 49% neutral, 10% disagree, 12% cannot say or no opinion.

115 Banking: 7% agree, 32% tend to agree, 15% neutral, 33% tend to disagree and 14% disagree. Insurance: 13% agree, 41% tend to agree, 13% neutral, 24% tend to disagree and 9% disagree. Superannuation: 9% agree, 35% tend to agree, 15% neutral, 32% tend to disagree and 9% disagree.

participants noted that some systems are slow and cumbersome, particularly legacy systems which are less integrated with the newer systems.

### Data-enabled supervision

- 3.113 APRA's self-assessment acknowledged that system performance issues with APRA Connect continue to impact reporting entities. APRA is working to resolve the issues with the technology provider for APRA Connect.<sup>116</sup> While not unexpected, challenges in implementing a new collection system, together with the associated data storage and manipulation, have delayed related work by APRA such as improving its internal reports using the data. APRA members and senior staff acknowledged that APRA has underestimated the complexity of the change required to operationalise its data strategy, which together with resourcing and project management, need to be prioritised. APRA members and senior staff noted that if the appropriate architecture and infrastructure is not employed for data collection there would be difficulties realising the benefits of collecting more and new data.
- 3.114 APRA staff focus groups and interviews with APRA members and senior staff identified the need to further invest in technology capabilities to fully achieve the end objectives of targeted insights from the data.
- 3.115 In focus groups, APRA supervision staff raised concerns around the design of data collections and questioned how data should be used in practice by supervision teams. Supervision staff noted that they have often been advised by data and technology specialists that the quality of data received is poor and not fit-for-purpose. Supervision staff have not been able to embed the use of data into their day-to-day activities.
- 3.116 A member mentioned that the data system was designed to be user friendly for regulated entities submitting the information. However, APRA did not fully consider how the data would be used practically by supervision and specialist teams. Additionally, a member noted that APRA is aiming to collect as much data as possible, and further articulation of a clear vision or strategy for the intended purpose of the SDT project is needed.
- 3.117 APRA's self-assessment acknowledged that it is early days in delivering insights from the new data. This reflects transitional arrangements for new reporting by enabling entities to bed down their processes and enhance the quality of their reported data. APRA expects this will be addressed for reporting in 2023 following recently finalised updates to the reporting standards.

### Current and planned initiatives

- 3.118 APRA has advised that several initiatives are currently underway to uplift its data and technology capabilities. These include:
- upgrading APRA's central supervision platform and workflow management tools with an indicative delivery date of mid-2024 for both solutions
  - building dashboards to improve the monitoring of the types of supervisory activities and time spent on entities, against SRI tier and stage risk profiles
  - working with the technology provider of APRA Connect to improve the performance and address usability issues that have been encountered by industry

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<sup>116</sup> APRA, *Materials prepared for this review*, 2023.



- improving transparency on the performance of the Choice products by using new data collected through the SDT project, in its statistical publications and Heatmaps
- considering the findings of several recent independent data and technology reviews commissioned by APRA and building a comprehensive remediation plan and updated data strategy.

### FRAA's assessment and recommendations

- 3.119 APRA and the industry have embarked on a major data transformation program to support APRA's multi-year strategy to deliver data-enabled supervision. The challenges faced by APRA are like those faced by many large organisations, including other regulators. External stakeholders noted their support of APRA's efforts to improve its data and technology capabilities.
- 3.120 The FRAA acknowledges APRA's recent organisational restructure, including the creation of a new executive director and division dedicated to leading the technology and data transformation priorities. The findings and recommendations from key external and internal reviews underway will provide APRA with options regarding the timing, funding and resources required to uplift its data and technology capabilities.
- 3.121 APRA's leadership should continue to prioritise the uplift and investment of its data and technology capabilities. This includes ensuring there is sufficient funding, staff resourcing, and time for senior stakeholders to ensure capability and practices evolve and are embedded to maximise the benefits of lifting its data and technology capabilities. APRA should continue to work with the superannuation industry to build a more data-focused culture.
- 3.122 APRA should provide greater clarity, internally and externally, about the overall objectives and intended purpose of the SDT and its data and technology strategy.
- 3.123 APRA should invest in systems and processes to promote better internal collaboration and coordination between frontline supervision and specialist teams to ensure data and information requests issued to regulated entities have a well-defined purpose. This will help to reduce duplicative data collections, and to the extent appropriate, minimise regulatory burden. APRA will need to ensure its internal systems and processes support collaboration and coordination and address existing issues such as limited integration of different systems, and constrained tracking of workflows and status updates across functional areas.

#### Recommendation 3

The FRAA recommends APRA should continue to invest in its data and technology capabilities and processes to provide timely insights, allow effective internal collaboration, and to the extent appropriate, minimise regulatory burden associated with data and information requests.

## Fairness

### Context

- 3.124 The FRAA has assessed fairness in terms of the consistency of APRA's supervisory approach and treatment of regulated entities, and their opportunity to raise matters of concern with

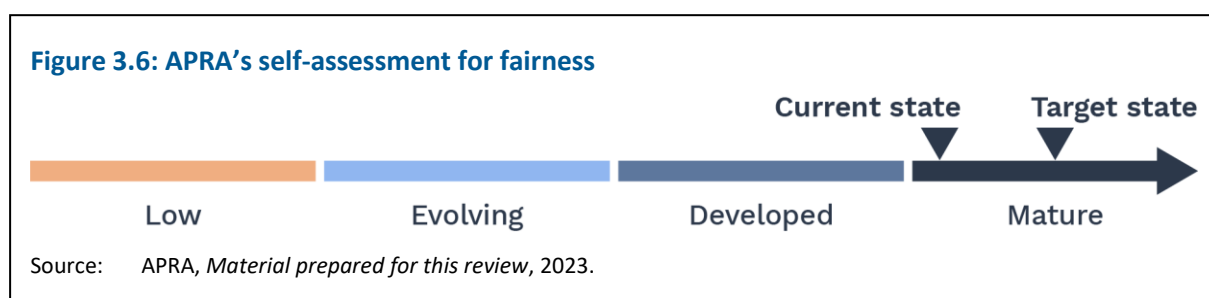
APRA. Consistency and impartiality in the treatment of trustees, as well as high standards of procedural fairness, are critical for APRA to achieve its objectives.

3.125 Impartiality, in this context, does not mean all trustees should be subject to the same level of scrutiny. Rather, fairness requires entities to be supervised by reference to a consistently applied set of principles and frameworks. Practically, this means APRA consistently applies its SRI model to direct its supervisory activities and resources to the entities that pose the greatest risk.

3.126 External stakeholders, both in public submissions and industry roundtables, generally expressed a positive view of APRA's impartial treatment of entities. However, some public submissions highlighted concerns regarding APRA's consistent use of a 'one size fits all' approach to supervision, which could potentially have a disproportionate impact on smaller superannuation funds.

*'...the interactions and feedback with the team who supervise us and the broader team as required as [sic] been fair and balanced' – External stakeholder survey*

### APRA's self-assessment and feedback



3.127 APRA has self-assessed the fairness of its supervisory activities as **Mature** with a target state of mid-range **Mature**.

3.128 Staff feedback on the fairness of APRA's supervision was generally positive with 82 per cent of superannuation staff believing that entities are treated impartially and consistently during supervision activities.<sup>117</sup> Comments in the staff survey reinforced this view with particular emphasis on the role of the SRI model.

*'I think APRA is good at being methodical and consistent – the [SRI Model] process for example allows for entities to be fairly assessed and benchmarked in a continuous way' - Internal staff survey*

3.129 APRA's self-assessment outlined a number of mechanisms in place to drive fairness and consistency in its supervisory activities. These include:

- the trustee-model agnostic nature of the SRI model<sup>118</sup>
- a reliance on objective data sources, data-enabled decision making and automated processes

117 Banking: 42% agree, 46% tend to agree, 12% neutral, 0% tend to disagree and 1% disagree. Insurance: 48% agree, 38% tend to agree, 9% neutral, 5% tend to disagree and 0% disagree. Superannuation: 55% agree, 27% tend to agree, 5% neutral, 8% tend to disagree and 4% disagree.

118 Trustee models are diverse across the superannuation industry and can vary in size and complexity. Models can include retail, industry and corporate.

- training and guidance materials for staff
- embedded decision-making protocols to ensure powers are applied fairly and correctly
- the Supervisory Oversight Committee and REC which provide centralised oversight on supervisory and escalation matters
- a range of formal and informal mechanisms for trustees to raise their concerns, including direct feedback to supervisors, roundtables with Chief Executive Officers, engagement with industry associations, public consultations, and biennial stakeholder surveys.

3.130 APRA noted in its self-assessment that in addition to consistency it seeks to ensure high standards of procedural fairness. APRA will engage with entities ahead of taking formal action to provide them with an opportunity to show cause as to why APRA should not proceed with a certain course. For example, APRA engaged with trustees of 'likely to fail' products during the publication of the annual performance test.

3.131 APRA is also undertaking work to strengthen its group assurance and controls framework, in order to ensure the consistent use and application of the SRI model.<sup>119</sup>

### Current and planned initiatives

3.132 APRA has initially focused greater attention on the default sector (MySuper products), but with the release of the Choice Heatmap in 2021, APRA indicated it will intensify its focus on the Choice sector.

### FRAA's assessment

3.133 From the evidence presented, the FRAA considers that APRA has demonstrated appropriate levels of fairness and impartiality proportionate to the level of risk.

## Transparency

### Context

3.134 In assessing APRA's supervisory transparency, the FRAA has considered APRA's communications of objectives, procedures, approaches and decisions, and the extent to which these are conveyed and understood internally and externally.

3.135 Adequate transparency, including the clear articulation of priorities, outcomes and findings, is necessary to maximise the benefits of APRA's supervisory activities for both industry and consumers. Transparent engagement with entities, particularly in the planning and design of upcoming supervisory activities, can help promote efficiency and reduce unnecessary regulatory impost. Internally, transparency can drive coordination and consistent supervision. Keeping industry abreast of recent events and emerging risks can also promote resilience across the industry and broader system.

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119 APRA's independent Group Assurance team is responsible for facilitating a range of independent supervision assurance activities across core supervisory activities. APRA, *Material provided to this review*, 2023.

## Stakeholder feedback

### Industry level transparency

- 3.136 Feedback on APRA's industry level transparency was mostly positive with industry stakeholders complimentary of the quality of existing communication but requesting increased engagement in some circumstances.
- 3.137 Many stakeholders were complimentary of APRA's communication of its existing priorities in promoting transparency and accountability across the superannuation industry through documents such as the Corporate Plan and Annual Reports. External survey results echoed the positive feedback, with 80 per cent of superannuation respondents agreeing that APRA's supervisory priorities are 'totally' or 'very well' understood by their entity, reflecting APRA's key public facing documents are considered high quality.<sup>120</sup>
- 3.138 Conversely, consumer advocacy bodies expressed concerns about the lack of information in APRA's thematic review reports on its methodology, including the funds reviewed and any improvements achieved by the review. They consider that this limits the impact of reviews and the public's awareness of issues.
- 3.139 Beyond its direct supervisory work, many trustees noted an opportunity for APRA to use its networks across the superannuation industry to communicate timely insights from recent incidents and emerging risks across the industry. For example, trustees identified scope for APRA to be more proactive in alerting industry to cyber incidents (see paragraph 3.150).

### Entity level transparency

- 3.140 Feedback on APRA's entity level transparency was mixed. Many trustees were complimentary of APRA's relationship model, commenting that APRA works constructively on complex entity-level issues.

*'APRA have done a good job with pushing the post-Royal Commission reform agenda, some of which have been challenging and complex (heatmap, YFYS) – they have balanced enforcement, routine supervision and assistance and support ([for example], merger activity) well and we have built a reasonable and transparent relationship, where the lines and boundaries are clear.'* – External stakeholder survey

- 3.141 However, many trustees believe APRA could improve its entity-level communication. Stakeholders perceived information gaps between frontline and specialist teams that resulted in delays and confusion around requests. Trustees also raised an opportunity for APRA to improve the forward-looking transparency of supervisory activities, with some noting concern regarding the current frequency of ad-hoc requests that do not appear to align with APRA's Corporate Plan or supervisory objectives. Some suggested that these requests often appear to be reactive to media publicity. Trustees claim the lack of transparency around supervisory activities has limited the ability for entities to coordinate resources and plan for upcoming

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120 Banking: 86% very well or totally, 14% a little or somewhat, 0% not at all, 0% cannot say or no opinion. General insurance: 89% very well or totally, 9% a little or somewhat, 2% not at all, 0% cannot say or no opinion. Superannuation: 80% very well or totally, 20% a little or somewhat, 0% not at all, 0% cannot say or no opinion.

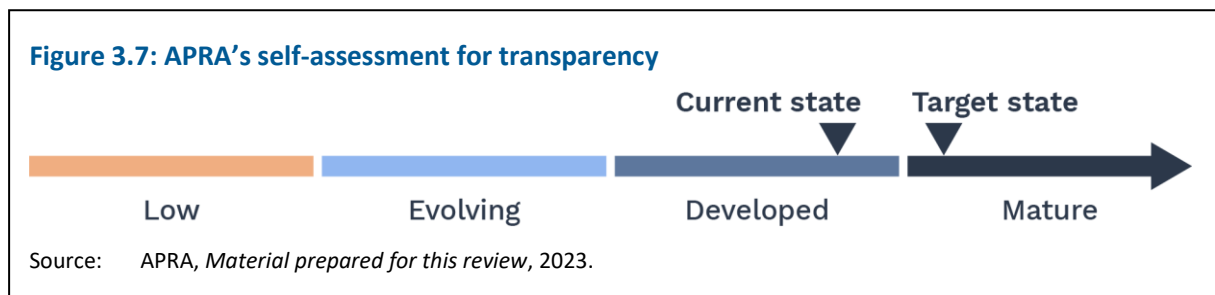
activities and both roundtable participants and public submissions suggested entity specific annual supervision plans could help address this issue.<sup>121</sup>

3.142 A significant number of trustees noted that more detailed communications regarding the outcomes of data requests and thematic reviews would be beneficial.

*‘Information is provided upon request but there is little or no feedback. We have no idea on what areas should be improved.’ – External stakeholder survey*

3.143 Some trustees noted that they often do not receive communication from APRA advising if a matter has been finalised or closed. A number of trustees observed they felt the need to assume APRA’s view of their relative risk profile by comparing APRA’s supervisory focus of their entity and their potential SRI score.

### APRA’s self-assessment and feedback



3.144 APRA has self-assessed transparency of its supervisory activities as **Developed**, with a target state of **Mature**.

### Internal transparency

3.145 APRA’s superannuation staff were positive in their assessment of internal transparency. In the staff survey, 97 per cent of APRA superannuation staff agreed they understood how their work contributes to achieving the organisation’s purpose.<sup>122</sup> However, while 96 per cent of superannuation staff agreed they had a good working relationship with their team,<sup>123</sup> there is scope for improvement with 75 per cent agreeing there is good cooperation between different areas.<sup>124</sup>

*‘Specialist support teams are well versed in providing advice to supervisors in usually a timely manner however further resources in these areas would assist.’ – Staff survey*

3.146 In focus groups, APRA supervisory staff noted the range of programs and initiatives aimed at ensuring a common understanding of APRA’s policies, procedures, approaches and decisions.

121 Senior APRA staff acknowledged the benefits of providing annual supervision plans, but noted the need to retain flexibility in the selection and prioritisation of their supervisory activities.

122 Banking: 63% agree, 33% tend to agree, 3% neutral, 0% tend to disagree and 1% disagree. Insurance: 70% agree, 24% tend to agree, 4% neutral, 0% tend to disagree and 1% disagree. Superannuation: 79% agree, 19% tend to agree, 1% neutral, 1% tend to disagree and 0% disagree.

123 Banking: 78% agree, 20% tend to agree, 1% neutral, 0% tend to disagree and 1% disagree. Insurance: 76% agree, 19% tend to agree, 3% neutral, 1% tend to disagree and 0% disagree. Superannuation: 87% agree, 9% tend to agree, 1% neutral, 1% tend to disagree and 1% disagree.

124 Banking: 29% agree, 41% tend to agree, 14% neutral, 10% tend to disagree and 6% disagree. Insurance: 25% agree, 51% tend to agree, 12% neutral, 9% tend to disagree and 3% disagree. Superannuation: 33% agree, 41% tend to agree, 16% neutral, 8% tend to disagree and 1% disagree.

These include the APRA speaker series (used to share learnings on significant areas of work), ad-hoc webinars, briefing sessions and ongoing training and development, as well as a range of more informal mechanisms. Staff survey results echoed this sentiment with 93 per cent of superannuation staff agreeing that APRA effectively communicates its objectives, approaches, and decisions in supervision activities.<sup>125</sup>

- 3.147 Despite these measures, APRA staff noted that frequently there was insufficient transparency between frontline supervisory staff and specialist teams, particularly in relation to thematic reviews and managing workflows (see paragraph 3.141).

#### Industry level transparency

- 3.148 In its self-assessment, APRA noted it has significantly increased its transparency to industry and the community in recent years, reflecting a deliberate and strategic shift in its approach.
- 3.149 APRA has a number of mechanisms to promote industry level transparency. These include a policy of publicising enforcement action unless there are compelling reasons not to (for example, risks to members' interests or financial stability), the publication of APRA's Heatmaps, its service charter and the use of a range of communication channels (including speeches, media releases and website content).
- 3.150 APRA noted that given its role, public disclosure of specific activities is subject to legal restrictions and involves careful judgement.<sup>126</sup> APRA's senior staff also acknowledged there is scope to improve industry-wide communication including through industry bulletins following major events.
- 3.151 APRA noted that through its role chairing the CFR Cyber Security Working Group, it collaborates with other agencies to share intelligence and conduct joint initiatives including establishing protocols to coordinate in the event of financial system incidents and system-wide outages. APRA also noted the Cyber and Infrastructure Security Centre is considering whole-of-government issues around cyber resilience incident confidentiality, which may constrain sharing of case studies and details of emerging incidents

#### Entity level transparency

- 3.152 APRA's self-assessment noted its efforts to uplift transparency in relation to poor superannuation practices to drive improved outcomes for members. In APRA's view, the best example of this was APRA's decision to publish superannuation Heatmaps (see Box 3.2).

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125 Banking: 41% agree, 47% tend to agree, 4% neutral, 7% tend to disagree and 2% disagree. Insurance: 45% agree, 47% tend to agree, 6% neutral, 2% tend to disagree and 0% disagree. Superannuation: 55% agree, 38% tend to agree, 3% neutral, 3% tend to disagree and 1% disagree.

126 APRA, *Material prepared for this review*, 2023.

3.153 In the staff survey, 93 per cent of superannuation staff agreed that APRA effectively communicated its objectives, approaches, and decisions in supervision activities.<sup>127</sup> APRA's senior executives and staff commented favourably on transparency.

*'Great engagement with entities and being able to have good working relationships with them to help them understand what we need to achieve and also our expectations of them.'* – Staff survey

3.154 APRA noted that its routine practice is to advise entities of their SRI outcome, key areas driving the outcome, and any change, generally after a prudential meeting between the entity and APRA.

3.155 In interviews, APRA members acknowledged that communication regarding the outcomes of data and information requests could be improved.

### Current and planned initiatives

3.156 As noted in its self-assessment, APRA is close to its target for transparency and opportunities to improve internally are likely to be incremental in nature. APRA noted that transparency in relation to external stakeholders is an area where APRA will continually look to improve but will always require the balancing of certain factors, such as the need for efficient outcomes and the benefits of transparency versus risks to financial stability.

### FRAA's assessment and recommendation

3.157 The FRAA acknowledges APRA's increased transparency with industry and the community in recent years. Notwithstanding, there is scope for further improvement in APRA's communication with trustees, and the broader community, which continues to experience gaps in the information they receive. Improved communication would also enable industry participants, and the broader public, to derive greater benefits from APRA's data requests, thematic reviews, and ongoing supervision.

3.158 APRA should improve trustees' understanding of APRA's focus areas and timeframes. A suggested annual calendar of supervisory activities would encourage more effective planning and reduce stakeholder perception that APRA operates on a reactive basis. The FRAA confirms that it would remain appropriate for APRA to update the suggested calendar, for instance in response to a material change in circumstances, but any such changes should also be clearly communicated.

3.159 APRA should consider providing more information on thematic methodology and outcomes. This would build public awareness and enable interested parties to comment.

3.160 Beyond its direct supervisory work, there is also an opportunity for APRA to use its networks across the superannuation industry to communicate timely insights from recent incidents and emerging risks across the industry including cyber-attacks. The FRAA acknowledges that issues around cyber incident confidentiality, the sharing of case studies and emerging studies are being considered at a whole-of-government level. Where appropriate APRA should proactively and promptly alert industry to information about cyber incidents. This could empower trustees to take immediate measures to enhance their systems and processes to mitigate potential risks.

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127 Banking: 41% agree, 47% tend to agree, 4% neutral, 7% tend to disagree and 2% disagree. Insurance: 45% agree, 47% tend to agree, 6% neutral, 2% tend to disagree and 0% disagree. Superannuation: 55% agree, 38% tend to agree, 3% neutral, 3% tend to disagree and 1% disagree.

#### **Recommendation 4**

The FRAA recommends APRA should provide trustees with annual plans of proposed supervisory activity. APRA should keep trustees informed of the status of reviews, information requests and other supervisory activities.

In relation to thematic reviews, APRA should consider publishing its methodologies and more detailed insights to build public awareness and enable interested parties to comment.

APRA should consider communicating more timely and detailed insights across industry to increase awareness of risks and promote better practices.



# Chapter 4: Resolution

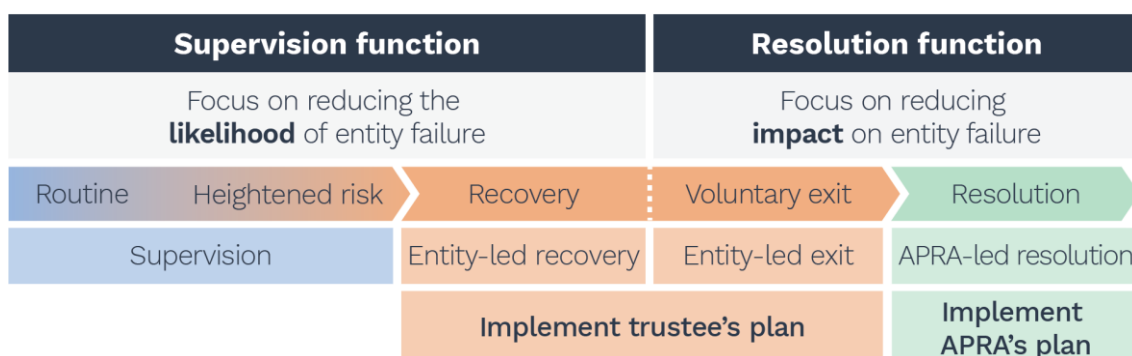
## Introduction

- 4.1 This chapter describes APRA's superannuation resolution function and then assesses that function by reference to the FRAA's 5 operational indicators: demonstrated ability to achieve objectives, efficiency, organisational capability, fairness, and transparency. In doing so, the chapter considers the feedback received from stakeholders and APRA staff, along with APRA's self-assessment and its current and planned initiatives.
- 4.2 The FRAA generally supports APRA's self-assessment that its superannuation resolution function has proven to be effective and capable in dealing with recent failures of small superannuation trustees. However, significant work is required to improve APRA's broader superannuation resolution capability and the industry's understanding of recovery and exit and resolution planning requirements.

## Recovery and resolution at APRA

- 4.3 Resolution is the process of managing an APRA-regulated entity that has become non-viable. In superannuation, the objective of resolution is to protect members, promote financial stability and maintain critical functions.
- 4.4 An effective and capable superannuation resolution function is required for APRA to implement orderly responses to the failure of regulated entities. Therefore, a well-performing resolution function is an essential element in helping APRA fulfill its purpose to promote the stability of Australia's financial system. An effective and capable resolution function will also assist in effectively targeting APRA's supervision activities.
- 4.5 APRA has recently finalised prudential standard CPS 900, which introduces new formal requirements for large and complex trustees to support APRA in developing bespoke resolution plans. Resolution plans are an important complement to a trustee's recovery and exit plans, which are required under CPS 190. APRA requires trustees to plan for how they would restore their financial resilience in stress ('recovery') or exit regulated activity in an orderly manner before becoming non-viable ('exit'). As the first line of defence, strong recovery and exit plans reduce the likelihood of resolution. The relationship is shown in Figure 4.1.

**Figure 4.1: Crisis continuum**



Source: APRA, *Material prepared for this review*, 2023.

- 4.6 In its role as a supervision authority, APRA aims to minimise the likelihood of failure of a regulated entity. APRA's expectation is that all regulated entities are sufficiently prepared to manage stress events that could threaten their viability or ability to perform their fiduciary obligations. This includes having adequate and credible recovery and exit plans under CPS 190. If a trustee faces stress, APRA expects that the trustee will undertake recovery actions to restore its viability or, where this is not possible, voluntarily exit the industry in a safe and orderly manner.
- 4.7 The objective of recovery and exit planning is to reduce the likelihood of entity failure and the need for resolution. However, APRA does not operate a zero-failure regime. Where failures do occur, APRA has a role as a resolution authority to ensure such failures are orderly. APRA will seek to act when a trustee fails in its fiduciary or statutory obligations. If a trustee's recovery and exit actions are not effective APRA will use its powers to resolve a trustee to minimise harm to members and the broader financial system (see Box 4.1).
- 4.8 For superannuation, APRA's resolution focus is to protect members, promote financial stability and maintain critical functions. In the event of a trustee becoming non-viable, APRA would use its powers to resolve the trustee in an orderly manner. APRA's primary resolution power in superannuation is the ability to remove or suspend the existing failed trustee and appoint an Acting Trustee in its place. The Acting Trustee, in consultation with APRA, will then consider actions such as transferring members to an alternative fund.
- 4.9 To date, APRA has prioritised resolution planning for the banking and insurance industries given the different risk and harm failure profile. Consequently, resolution concepts are relatively new for the superannuation industry. In banking and insurance there are fixed contractual commitments. If a bank or insurer is unwilling, unable or likely to be unable to pay those contractual commitments the entity fails and needs to be resolved. APRA undertakes resolution to maintain critical economic functions of the failing regulated entity and protect the interests of depositors and policyholders including, where possible, seeking to make beneficiaries whole where a financial loss was incurred.
- 4.10 There is no obligation for trustees to pay out a fixed sum to members. Rather a member's retirement savings fluctuate with the fund's investment performance.<sup>128</sup> There is risk to members if a trustee is unwilling, unable, or likely to be unable to meet its legal obligations (see Chapter 2). Although investment risk is borne by members, APRA has an important role in ensuring effective recovery and exit readiness of trustees. APRA's own resolution activities

128 Other than defined benefit schemes.

focus on the protection of members. APRA uses its powers to enact its resolution strategy and to resolve a failed or failing trustee in an orderly manner.

- 4.11 As part of its resolution planning for superannuation APRA has typically focused on developing broad resolution strategies that are suitable to various cohorts of entities. These strategies provide a baseline capability to resolve a superannuation entity and have supported APRA in managing various acute stress events for smaller entity-level events. CPS 900 will support APRA in preparing for the failure of larger and more complex entities.

## Effectiveness and capability of APRA's resolution function

### Demonstrated ability to achieve objectives

#### Context

- 4.12 The objective of APRA's resolution function is to prepare and implement responses to the failure of an entity so that its exit is orderly, and harm is minimised to depositors, policyholders and superannuation members and the financial system.
- 4.13 In 2019, APRA expanded its resolution function to superannuation following the collapse of a non-APRA regulated parent company of 3 APRA-regulated trustees and a service company. The failure risked significant operational disruption to members, from breakdown in critical support from the parent and the services company to the trustees. APRA exercised various powers under the SIS Act (see Box 4.1) to protect the financial interests and ensure continuity of service to members, and to address the immediate viability concerns relating to the 3 trustees following the collapse of their parent.
- 4.14 APRA was successful in achieving its objective of protecting the financial interests of members during the failure. This event highlighted the importance of being prepared for trustee failure and prompted APRA to develop a resolution framework for superannuation. This included the establishment of a dedicated Superannuation Resolution Team, which currently comprises 5 full-time staff. Prior to this failure event, APRA had prioritised the development of its resolution framework and tools in the banking and insurance industries and had not directed resources to superannuation resolution. Resolution concepts for superannuation have since been developed despite no direct international equivalent.

#### Stakeholder feedback

- 4.15 In roundtables there was general agreement among trustees that the superannuation industry has a low understanding of APRA's resolution function. While some industry associations noted that APRA has engaged early and conducted consultation on the new resolution standards and guidance, the majority of trustees had not been engaged.
- 4.16 External survey results supported observations from roundtables and public submissions that there is a substantial information gap among trustees regarding APRA's resolution function. That is, 58 per cent of all survey respondents could not comment or had no opinion on whether APRA is well equipped to support the implementation of CPS 900.<sup>129</sup> Stakeholder comments from the external survey consistently noted their limited experience or exposure to

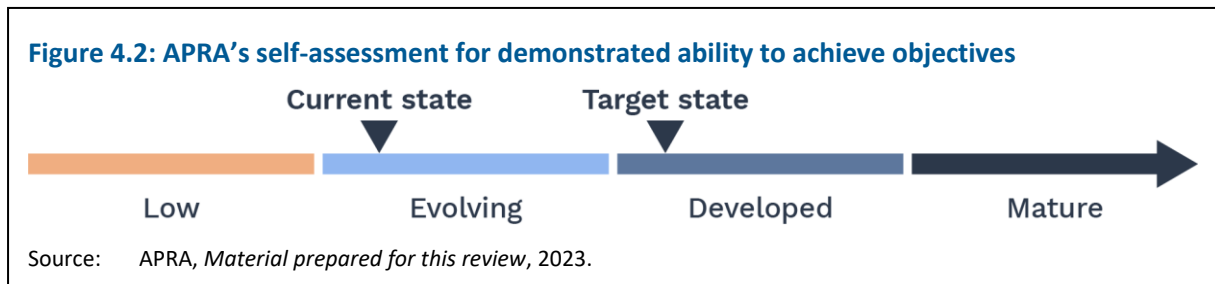
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129 Banking: 29% agree, 26% neutral, 1% disagree and 45% cannot say or no opinion. General insurance: 21% agree, 16% neutral, 2% disagree and 16% cannot say or no opinion. Superannuation: 8% agree, 12% neutral, 0% disagree and 80% cannot say or no opinion.

resolution within superannuation. The final guidance on CPS 900 was released in May 2023, after the majority of FRAA consultations had taken place.

- 4.17 Trustee comments in roundtables, public submissions and the external stakeholder survey were consistent with some comments made in the APRA staff survey, recommending that ‘more public communication’ and ‘road shows highlighting key strategies and creating community awareness’ are needed.

### APRA’s self-assessment and feedback



- 4.18 APRA self-assessed its superannuation resolution function as **Evolving** in its demonstrated ability to achieve its objectives. APRA seeks a **Developed** superannuation resolution function rather than a fully mature function. APRA’s current view is that the resources required to achieve a Mature state would involve costs beyond the additional benefit obtained from reducing the risk of harm from trustee failure.

### Achieving orderly resolutions of live cases

- 4.19 APRA has successfully conducted resolution activities involving trustees on 4 occasions since 2019, ensuring in each case continuity of the trustee’s function and no loss of services or benefits to members. Consistent with APRA’s SRI model (see Chapter 3), APRA increased supervision of these trustees and prepared for potential enforcement activity. In each case since 2019, the situation was addressed by trustee-led responses in co-ordination with APRA, before the need for APRA-led resolution actions.
- 4.20 APRA’s approach to first encourage trustees to find their own solutions, and for APRA to use its resolution powers as a last resort, reflects a view that trustees have a continual responsibility to act in the best interest of members. APRA considers this approach has been effective.
- 4.21 APRA staff were positive about APRA’s ability to resolve ‘live cases’ of failure in superannuation. Responses to APRA’s internal staff survey showed that 75 per cent of APRA’s resolution staff consider the resolution function to be effective in achieving its objectives.<sup>130</sup> Focus group discussions highlighted the evolution of APRA’s approach to ‘live cases’ and the benefit of undertaking lessons-learned exercises after each live case. Staff also noted APRA’s actions are building capability.

*‘Pilot exercises allow APRA to build capability with selected entities across industries before CPS 900 comes into effect. Need to recognise that it takes time to build capability both at APRA and industry’ – Staff survey*

- 4.22 The lessons-learned resolution exercises refer to APRA’s standard practice of reflecting on learnings following each live case. These exercises seek to identify areas of improvement required to strengthen internal processes and capabilities to better achieve entity-led recovery and exit and APRA’s resolution objectives.

130 30% agree, 45% tend to agree, 10% neutral, 10% tend to disagree and 5% disagree.

## Resolution powers in superannuation

4.23 APRA’s range of superannuation resolution powers are summarised in Box 4.1 below. APRA’s resolution powers vary between industries and the superannuation resolution powers available to APRA are more limited than those in banking and insurance. APRA has noted its willingness to use its powers where trustee-led recovery or exit is not possible. For example, in 2021, APRA imposed additional licence conditions on the trustee of the Energy Industries Superannuation Scheme, including to require the trustee to implement a strategy to merge with a larger, better-performing fund by a specified date.<sup>131</sup>

### Box 4.1: Powers available for superannuation resolution

Power	Description
Acting Trustee	APRA can suspend or remove a trustee and appoint an Acting Trustee where legislative thresholds are met. The Acting Trustee will consider implementing resolution actions, in consultation with APRA, on the basis that these actions are in the best interest of members. These may include transferring members to another fund or changing the trusteeship of the fund where the trustee is willing to accept the transfer. The appointment of an Acting Trustee is a temporary, last-resort option for crisis scenarios.
Portability relief	APRA may permit trustees to temporarily cease the transfer of member benefits to other funds. It does not prevent the payment of pension payments.
Directions and additional licence conditions	<p>APRA can direct or impose a licence condition for the trustee to take reasonable steps towards a merger or transfer of members, such as identifying potential partners. However, APRA cannot force a merger or transfer of members.</p> <p>APRA can also direct a related entity of a trustee to undertake an action. For instance, in one resolution event, APRA’s direction prevented upstream payments from the Trustee to the parent, in order to maintain continuity of service to members.</p> <p>These powers may be used on their own or together with other APRA powers (such as, the appointment of an Acting Trustee).</p>

4.24 APRA’s resolution powers for the superannuation industry are not equivalent to its powers for the banking industry. The primary superannuation resolution tool is the appointment of an Acting Trustee.

4.25 The suspension or removal of an incumbent trustee and subsequent appointment of an Acting Trustee is complex and has significant operational impact. In the case of an appointed acting trustee, a change of the legal trustee entity occurs. This process is expensive, slow to implement and presents risk to the resolution strategy (for example, the continuity of employment of trustee staff with experience in operating systems and delivering services for members). In contrast, where APRA appoints a statutory manager in the banking industry, it stands in the place of the board resulting in substantially less operational disruption and the retention of staff.

<sup>131</sup> APRA, [APRA imposes additional licence conditions on trustee of Energy Industries Superannuation Scheme](#) [media release], APRA, 16 November 2021, accessed 1 June 2023.

- 4.26 APRA's self-assessment and focus groups noted the significant cost borne by the members of the fund when implementing an Acting Trustee arrangement. APRA staff also noted substantial operational complexities arising from the change of legal trustee entity, and the need to maintain a panel of organisations willing to become an Acting Trustee.
- 4.27 APRA last used the Acting Trustee power in 2009. Despite APRA noting several reasons militating against using the Acting Trustee power, it has demonstrated its willingness to use the power when appropriate. This is evident in APRA's ongoing preparation, including maintaining relationships with licenced Acting Trustee candidates that are prepared to be called upon in a crisis. APRA is also working closely with a range of stakeholders, including ASIC, to enhance APRA's readiness to undertake the operational and legal steps required to exercise this power.

### FRAA's observations

- 4.28 APRA has demonstrated its ability to effectively resolve live cases but should continue to develop its understanding of the possible causes of more complex failures within superannuation so it can efficiently respond to failures in the future. APRA could improve its risk identification processes to target at-risk trustees with resolution planning requirements.
- 4.29 APRA should remain prepared to use its current suite of powers and also consider how it may respond to any constraints in its powers to ensure APRA is well-positioned to meet its obligations as a resolution authority, especially in more complex environments.

## Efficiency

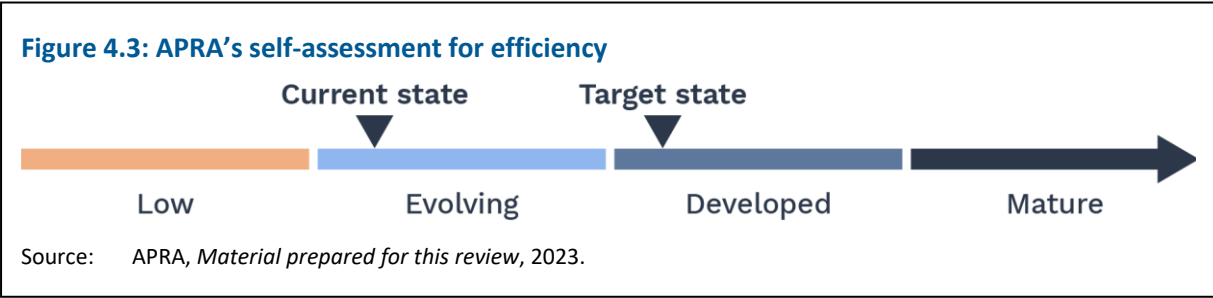
### Context

- 4.30 Since most trustees have not faced the challenge of a live resolution case, the FRAA has considered efficiency from the perspective of APRA's decision-making infrastructure to respond to a trustee-in-stress, namely APRA's ability to scale up resources during a live case. The efficiency of APRA's superannuation resolution function is also determined by how it engages with industry to prepare recovery and exit and resolution plans.
- 4.31 APRA continues to develop its governance infrastructure to support trustee resolution. If an APRA supervisor identifies heightened trustee stress resulting in an elevated SRI rating, the matter is escalated to senior decision makers at the REC. To achieve nimble decision-making, the REC may establish a Resolution Workout Team (RWT). RWTs are a new initiative. They were first implemented in late 2020, and have evolved in response to recent learnings.
- 4.32 APRA mobilises RWTs to respond immediately to live cases by reallocating staff and combining resolution resources with expertise drawn from across various APRA specialist areas (including Legal, Policy Development, Supervision and Advice and Approvals). RWT meetings are attended by staff at junior and senior management levels to ensure information is shared in a timely manner with key internal stakeholders.

### Stakeholder feedback

- 4.33 No stakeholder feedback was received on the efficiency of APRA's superannuation resolution function. This is expected as few trustees have been involved in a live resolution event and the Superannuation Resolution Team has only recently been established.

APRA’s self-assessment and feedback



- 4.34 APRA has assessed the efficiency of its superannuation resolution function as **Evolving** and aims to have a target state of **Developed**.
- 4.35 APRA’s self-assessment identified that live cases of resolution in superannuation are highly resource intensive at the point of implementation.<sup>132</sup> Some comments made in the APRA staff survey noted that there is scope to further improve the efficiency and operation of RWTs.
 

*‘APRA is good at setting up a crisis response team (RWT) and responding to live cases – particularly for small institutions. Where APRA needs to invest is building capabilities necessary to engage in resolution planning with complex institutions.’ – Staff survey*
- 4.36 Focus groups with APRA resolution staff noted that APRA is continually looking to improve the efficiency of RWTs by following live cases, completing formal lessons-learned reviews and compiling reports containing recommendations for APRA’s REC. APRA also noted that it will improve its infrastructure to assist with the formation and operation of RWTs through the continued development of resolution playbooks, utilising data and technology to enable informed decision-making, implementing findings from lessons learnt during recent live cases and further engagement with APRA’s superannuation supervision function.
- 4.37 APRA’s staff are confident the current approach to scale up resources during live cases would be an effective response if multiple live cases were to arise concurrently. Staff are also confident any systemic failure affecting APRA’s regulated entities would be coordinated at the CFR.
- 4.38 Both APRA’s self-assessment and focus group participants noted that APRA’s ability to execute an orderly resolution of an entity benefits from trustee’s early planning, including under CPS 190.
- 4.39 Responses to the staff survey indicated that resolution staff are less confident APRA is *‘adequately equipped to support the implementation of CPS 900.’*<sup>133</sup> Among resolution staff 65 per cent agreed they were *‘adequately equipped’*, compared to 90 per cent of staff who agree that they are *‘well equipped to evaluate information as part of [their standard] resolution activities.’*<sup>134</sup> In focus groups, APRA staff were comfortable with this statistic given how early the organisation was in the process of implementing the standard.

FRAA’s observations

- 4.40 RWTs have proven to be effective in responding to small live cases in a stable economic environment, allowing APRA to scale up and efficiently resolve entities in crises. The FRAA supports APRA’s efforts to improve the operation of RWTs. APRA should continue to prioritise

132 APRA, Material provided to this review, 2023.  
 133 25% agree, 40% tend to agree, 15% neutral, 20% tend to disagree and 0% disagree.  
 134 25% agree, 65% tend to agree, 10% neutral, 0% tend to disagree and 0% disagree.

engagement with the largest and most complex trustees under CPS 900 to expedite both industry and APRA’s understanding of resolution. APRA’s internal capability is explored further in the Organisational Capability section of this chapter.

## Fairness

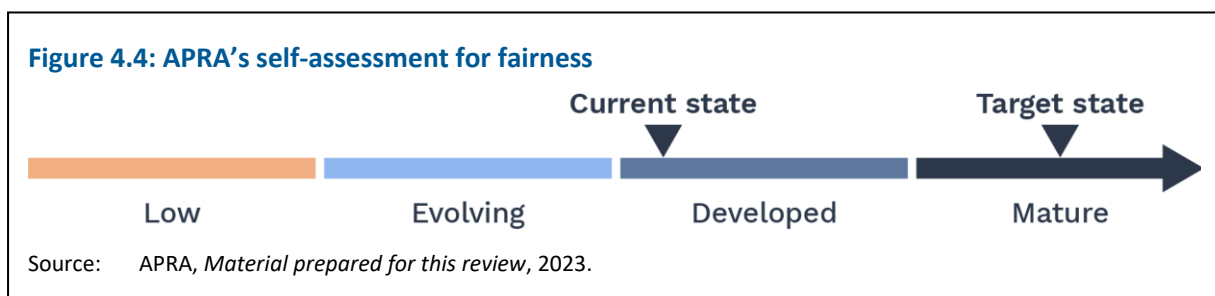
### Context

- 4.41 The FRAA has assessed the fairness of APRA’s superannuation resolution function by reference to the impartiality of its approach and its receptiveness to stakeholder feedback. Given APRA’s resolution function in superannuation is relatively new there is limited information available to the FRAA regarding the manner in which APRA engages with regulated entities.
- 4.42 APRA promotes fairness through a culture of consulting and working with industry. Similar to APRA’s supervisory activities, impartiality in this context does not mean that every trustee is treated the same. Rather, it requires that entities are treated in accordance with a consistent set of principles which take account of the proportionate risks to the financial system and harm to members. Practically, this means that APRA’s bespoke resolution planning expectations are directed at larger, more complex entities on an entity-by-entity basis, while more generic plans are developed by APRA for smaller, less complex entities.

### Stakeholder feedback

- 4.43 Feedback from public submissions, industry roundtables and the stakeholder survey indicated that the superannuation industry has very little understanding of the importance of APRA’s focus on recovery and exit and resolution planning. The FRAA notes that final guidance on CPS 190 and CPS 900 was released in May 2023, after the majority of the FRAA consultations had taken place.
- 4.44 Some stakeholder feedback in public submissions and roundtables noted that APRA was perceived to take a blanket approach in its resolution activity. In its public submission, the Australian Institute of Superannuation Trustees noted that guidance for both CPS 190 and CPS 900 needs to *‘address the specifics of how standards operate in sectors with distinctive business models, not take a blanket approach to the financial services industry more broadly’*.

### APRA’s self-assessment and feedback



- 4.45 APRA has self-assessed fairness in its approach to superannuation resolution as **Developed** and seeks a **Mature** target state where APRA applies a consistent and proportional framework in setting its planning and resolution expectations of trustees.
- 4.46 APRA has made a strategic decision to focus its bespoke resolution planning (CPS 900) on large and complex superannuation entities, given the greater risk and potential for harm posed to members. For smaller or less complex trustees, which represent a significant portion of the trustee population but a minority of assets and members, APRA will rely on generic resolution plans to balance resources required for bespoke plans and benefits gained.



- 4.47 In May 2023, APRA finalised guidance to assist APRA-regulated entities in implementing the requirements of CPS 190. APRA also plans to provide more targeted feedback to trustees during 2024 following a supervisory review of a sample of trustee plans. This will assist trustees in strengthening their plans ahead of the formal implementation date of CPS 190, of 1 January 2025.
- 4.48 APRA's expectations for the plans will be informed by evolving trustee practices and the development of further prudential requirements and guidance relating to transfer planning.<sup>135</sup>
- 4.49 As to the APRA staff survey results, 85 per cent of resolution staff believe that '*stakeholders are treated impartially and consistently in resolution activities*'.<sup>136</sup> An example noted by staff in focus groups related to APRA's requirement for trustees to have their own recovery and exit plans in place by 1 January 2025 under CPS 190. APRA recognises that these are new concepts for the superannuation industry and has, therefore, allowed an extra year for entities to finalise plans to account for the lower base level of understanding, compared to banking and insurance.

### FRAA's observations

- 4.50 While there have been limited interactions to date between the regulated population and APRA's resolution function, APRA has demonstrated an appropriate commitment to fairness through its consultation process and its proportional approach to resolution planning.

## Transparency

### Context

- 4.51 Given APRA's relatively recent focus on resolution in superannuation, the FRAA has assessed APRA's internal and external transparency by reference to the preparation of recovery and exit, and resolution planning prudential standards.
- 4.52 In the development of its recovery and exit, and resolution planning prudential standards APRA followed its established process for public consultation. Feedback across all industries indicated a limited awareness of resolution planning, with most entities generally unfamiliar with how resolution planning would occur in practice. To help close this gap, APRA issued guidance in May 2023 to assist entities to understand bespoke resolution planning and the purpose of CPS 900. As this prudential standard will apply on an individual entity basis, APRA will also engage closely with entities during implementation. APRA intends to provide periodic public updates on its resolution planning priorities to build broader awareness. These actions are intended to build further awareness across the industry.
- 4.53 The FRAA also considered internal transparency in relation to communication and awareness of APRA's superannuation resolution objectives, approach and planning requirements. This is important given the involvement of staff across APRA in identifying and responding to a crisis event.

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135 APRA, [Discussion paper – Superannuation transfer planning: Proposed enhancements](#), APRA website, 2022, accessed 1 June 2023.

136 45% agree, 40% tend to agree, 10% neutral, 0% tend to disagree and 5% disagree.

### Stakeholder feedback

- 4.54 The superannuation industry’s understanding of APRA’s focus on superannuation resolution is low. This was demonstrated throughout the FRAA’s consultation with the superannuation industry including in public submissions, industry roundtables and the stakeholder survey.
- 4.55 Half of the 14 public submissions omitted feedback on resolution altogether.<sup>137</sup>  
*‘Discussions with our member funds revealed little direct knowledge or experience of APRA’s entity-level resolution function, although many funds were involved in recent consultations [on CPS 190 and CPS 900] about APRA moves to strengthen crisis preparedness in banking, insurance and superannuation.’ – Australian Institute of Superannuation Trustees*
- 4.56 Results and comments from the external stakeholder survey were consistent with observations from the public submissions and roundtables regarding industry’s low level of superannuation resolution understanding. In the external survey, 61 per cent of respondents across all industries stated that they could not say or had no opinion. This was more pronounced for superannuation respondents, as 71 per cent could not say, or had no opinion on, the effectiveness of APRA’s resolution function compared to 47 per cent of banking entities and 68 per cent of general insurance entities.<sup>138</sup>

### APRA’s self-assessment and feedback



- 4.57 APRA has assessed the transparency of the superannuation resolution function as **Evolving**. APRA aims to reach a **Mature** state. This would require APRA to be clear and open about its objectives, enhance industry awareness and understanding of recovery, exit and resolution planning and build internal understanding of recovery, exit and resolution planning. This will enable effective supervisory discussions with trustees, leading to more informed risk-based supervision and readiness of specialist teams to support a live resolution response by APRA.
- 4.58 Given APRA has prioritised resolution in banking and insurance, it is not as advanced in resolution planning in superannuation. One executive director of APRA noted that this was in part due to the intense nature of recent live cases on a small number of dedicated superannuation resolution staff.
- 4.59 Feedback on the internal transparency of APRA’s superannuation resolution function was generally positive. APRA’s internal awareness of resolution activity has increased with more live cases and post-resolution lessons learnt reviews.

137 Only 7 of the 14 public submissions received commented on APRA’s superannuation resolution function.  
 138 Banking: 30% agree, 22% neutral, 1% disagree and 47% cannot say or no opinion. General insurance: 20% agree, 13% neutral, 0% disagree and 68% cannot say or no opinion. Superannuation: 8% agree, 16% neutral, 6% disagree and 71% cannot say or no opinion.

- 4.60 Focus groups with APRA staff noted that the resolution team engages with other areas of APRA on broader policy and resolution readiness, including development of prudential standards, responses to live cases and lessons-learnt reviews following live cases.
- 4.61 Results and comments from the internal staff survey noted resolution objectives, approaches and decisions are generally well communicated and understood internally, with 80 per cent of staff agreeing to the prompts *‘within my industry, APRA effectively communicates its objectives, approaches and decisions in resolution activities’* and *‘within my industry, I understand APRA’s objectives, procedures and decisions in resolution activities.’*
- ‘[APRA is currently] building and improving cooperation with agencies’ and ‘[there is] effective collaboration across APRA’ – Staff survey*
- 4.62 In its self-assessment, APRA acknowledged it is still embedding core concepts within superannuation recovery and resolution and forming its approach on some key areas, given the newness of the prudential standards and the low levels of understanding in the superannuation industry. Therefore, APRA will continue to communicate its expectations to industry as it considers the best approach.
- 4.63 The finalisation of APRA’s broader suite of prudential requirements including APRA’s transfer planning and financial resilience standards will assist with the enhancement of the industry’s understanding of superannuation resolution. APRA will publicly consult on these reforms later in 2023.
- 4.64 APRA noted it will seek to guide the superannuation industry with the development of recovery and exit plans, and will transition to supervisory oversight of entity plans in 2024. This will include development of transfer planning measures that will complement the requirements in CPS 190, and pilot reviews on selected entity plans to identify and communicate better practices.

## FRAA’s observations

- 4.65 APRA is in the early stages of both preparing trustees to meet the expectations of its recovery and exit planning standards in superannuation, and in developing bespoke resolution plans for individual large and complex trustees. To support the transparency of APRA’s expectations, APRA should significantly increase engagement with the industry to ensure obligations within recovery and exit, and resolution prudential standards are understood.

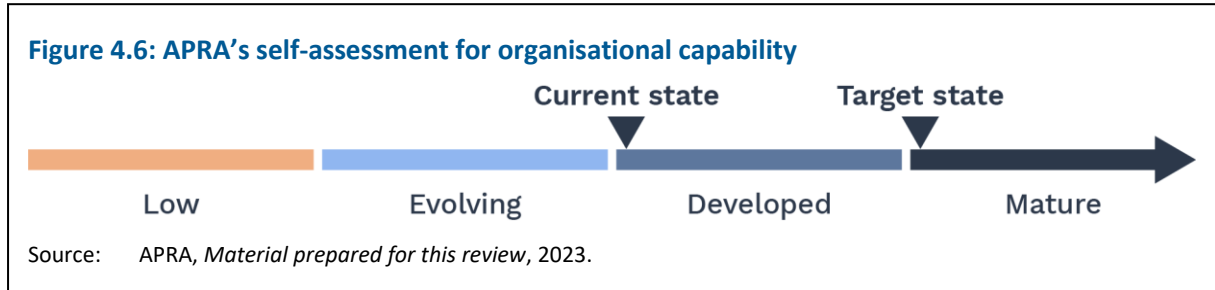
## Organisational capability

### Context

- 4.66 APRA’s resolution team includes staff with resolution experience that supervisors can call on when they have identified potential threats to an entity’s viability via SRI risk assessments. For this approach to be successful, there needs to be close cooperation between the supervision and resolution functions, together with the ability to call upon specialist expertise from within APRA or externally as required. Supervisors are primarily responsible for monitoring and overseeing trustees, including making sure they have adequate recovery and exit plans.
- 4.67 APRA’s REC provides formal oversight where supervisors have concerns about a trustee’s viability or its ability to perform its functions. The REC helps to prioritise actions and APRA’s resolution resources. APRA’s approach contrasts with international peers that generally have deep expertise on a permanent basis within their resolution function. This reflects, in part, the differing structure in Australia of APRA as both a prudential regulator and resolution authority.

Internationally resolution tends to be undertaken by a separate resolution authority or, for banking and insurance, by the central bank (see Chapter 2).

## APRA's self-assessment and feedback



4.68 APRA has assessed its organisational capability of the superannuation resolution function as **Developed** and aims to have a target state of **Mature**.

4.69 According to APRA staff survey results, 90 per cent of resolution staff agree they are 'well equipped to evaluate information as part of [their standard] resolution activities'.<sup>139</sup>

4.70 Specific staff comments on the capability of the resolution function were consistent with the need to improve organisational capability in data analytics and utilise expertise to effectively support the implementation of resolution planning.

*'Where APRA needs to invest is building capabilities (particularly relationships with key advisers) necessary to engage in resolution planning with complex institutions... We are heading in the right direction on this – but the momentum we are building is vulnerable to a live case forcing a redeployment away from long term planning' – Staff survey*

4.71 APRA staff recognise that further investment in the organisation's capability in superannuation resolution is required. Should live cases divert critical resources from APRA's planned activity it will need to consider whether its approach to prioritising banking and insurance is appropriate.

## FRAA's observations

4.72 APRA will need to ensure it maintains the appropriate capability within its superannuation resolution function and the broader organisation as the superannuation environment evolves. Without a sound internal understanding of resolution APRA will not be able to guide the broader industry to meet their requirements.

## Assessment

4.73 The FRAA generally agrees with APRA's self-assessment that its resolution function is broadly effective and capable of resolving single, live superannuation cases. However, further work is needed to ensure APRA is well equipped to resolve more complex or large trustees, or simultaneous failures in the event of a systemic superannuation crisis.

4.74 The FRAA notes APRA's current and planned initiatives to improve its resolution capabilities, including development of resolution playbooks, adopting lessons learnt in the operation of RWTs, the finalisation in May 2023 of guidance for industry on CPS 190 and CPS 900 requirements and planned pilot reviews of trustee recovery and exit plans. The FRAA

<sup>139</sup> 25% agree, 65% tend to agree, 10% neutral, 0% tend to disagree and 0% disagree.

recommends that APRA prioritise the following areas to further enhance its superannuation resolution capability:

- increase its efforts to identify emerging and systemic risks in superannuation as noted in Recommendation 1 in Chapter 3 to help prioritise resolution planning activity
- continue to invest in building its resource capacity, depth of capability (including internal staff training), and resolution toolkit to ensure it is well placed to effectively resolve trustees where required
- work closely with the superannuation industry (through the development of the transfer planning measures, communication of related guidance, and provision of support to trustees), to foster a deeper understanding by industry of the prudential standard requirements and APRA's expectations for trustees to demonstrate adequacy of plans
- consider whether the current resolution powers constrain APRA's options sufficiently to warrant legislative change.

4.75 As the first line of defence against viability concerns, trustees should have strong recovery and exit plans in place. The FRAA is concerned that the superannuation industry's current level of understanding of recovery and exit planning will impact the industry's readiness to meet the requirements of CPS 190. APRA should continue to guide entities to build their recovery and exit planning practices.

4.76 APRA should also seek to develop the industry's understanding of the requirements of CPS 900. The FRAA notes and supports APRA's plan to provide further periodic updates on its resolution planning priorities and that APRA should share any insights it develops on resolution planning with industry.

4.77 APRA should ensure resolution staff and supervisors possess appropriate experience to effectively identify systemic and entity-specific risks. To support this, APRA should continue to focus on upskilling staff by disseminating learnings from live cases and provide formal learning opportunities for superannuation supervisors.

4.78 APRA should ensure it understands viability threats to trustees as a matter of priority. Considering APRA's recent focus on sustainability challenges faced by smaller superannuation trustees, the FRAA recommends APRA apply further effort to develop and prepare for scenarios that require the resolution of multiple entities in a potential systemic crisis.

4.79 It is important that APRA's resolution powers remain fit for purpose. The FRAA recommends that APRA continues to ensure it is prepared to use its current suite of powers and also considers how to make the case for enhanced resolution powers if needed.

### **Recommendation 5**

The FRAA recommends APRA should prioritise developing its resolution capability and work closely with industry to lift awareness of recovery and resolution planning requirements, to ensure APRA is able to support recovery and exit, and resolve failing superannuation trustees. Doing so will also serve to enhance its supervisory function.



# Abbreviations and acronyms

Term	Definition
ABS	Australian Bureau of Statistics
APRA	Australian Prudential Regulation Authority
APRA Act	<i>Australian Prudential Regulation Authority Act 1998</i>
APRA Capability Review	2019 APRA Capability Review
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ATO	Australian Taxation Office
Canva	Canva Pty Ltd
CFR	Council of Financial Regulators
Corporations Act	<i>Corporations Act 2001</i>
CPS 190	Prudential Standard CPS 190 Recovery and Exit Planning
CPS 230	Prudential Standard CPS 230 Operational Risk Management
CPS 234	Prudential Standard CPS 234 Information Security
CPS 900	Prudential Standard CPS 900 Resolution Planning
D2A	Direct to APRA
FRAA	Financial Regulator Assessment Authority
FRAA Act	<i>Financial Regulation Assessment Authority Act 2021</i>
GCRA	Governance, risk culture, remuneration, and accountability
GDP	Gross domestic product
RBA	Reserve Bank of Australia
REC	Resolution and Enforcement Committee

<b>Term</b>	<b>Definition</b>
Royal Commission	2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
RSE	Registrable superannuation entity
RWT	Resolution Workout Team
SAP	Supervision Action Plan
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SIS Regulations	Superannuation Industry (Supervision) Regulations 1994
SMSF	Self-managed super fund
SPG 530	Prudential Practice Guide SPG 530 Investment Governance
SPS 515	Prudential Standard SPS 515 Strategic Planning and Member Outcomes
SPS 530	Prudential Standard SPS 530 Investment Governance
SRI	Supervision Risk and Intensity
UK	United Kingdom
US	United States of America
YFYS	Your Future, Your Super



# Appendix A: Methodology of this review

## Methodology

The FRAA's assessment has been informed by a wide range of views and sources.

- FRAA gathered evidence and information from internal and external stakeholders. Externals included industry experts, regulated entities, industry associations, consumer advocacy bodies, think tanks and peer regulators.
- FRAA used different channels to engage a diverse cross-section of stakeholders including public consultation, roundtables, targeted bilateral meetings and APRA's regulated entity survey.
- FRAA was informed by APRA's self-assessment, supporting information received, staff survey results (including commentary), and discussions with APRA staff focus groups and senior APRA management.

## Public consultation

The FRAA conducted a public consultation between 3 November and 15 December 2022. The discussion paper released as part of the consultation, outlined the scope of the review, and sought feedback on 10 questions (6 focused on supervision and 4 focused on resolution).<sup>140</sup> In total, the FRAA received 8 public submissions and 6 confidential submissions.<sup>141</sup> Public submissions include:

- Association of Superannuation Funds of Australia
- Australian Retirement Trust
- Australian Institute of Superannuation Trustees
- Building Unions Superannuation Scheme (Queensland)
- Construction and Building Unions Superannuation
- Mercer Super
- Super Consumers Australia
- Victims of Financial Fraud.

## Roundtables

The FRAA conducted 4 external stakeholder roundtables between 8 February and 10 February 2023. Three roundtables only included superannuation trustees and their representatives. The other roundtable involved broader stakeholders including industry associations, consumer advocacy bodies and think tanks. In total, 80 stakeholders were invited to participate in the roundtables, with 27 stakeholders accepting (34 per cent acceptance rate). This included representatives from 20 superannuation trustees, 4 industry associations, 2 consumer advocacy bodies and a think tank.

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140 FRAA, *Effectiveness and capability review of APRA*, FRAA website, 2022, accessed 14 April 2023.

141 Public submissions are available on the FRAA website at <https://fraa.gov.au/>.

## Bilateral meetings

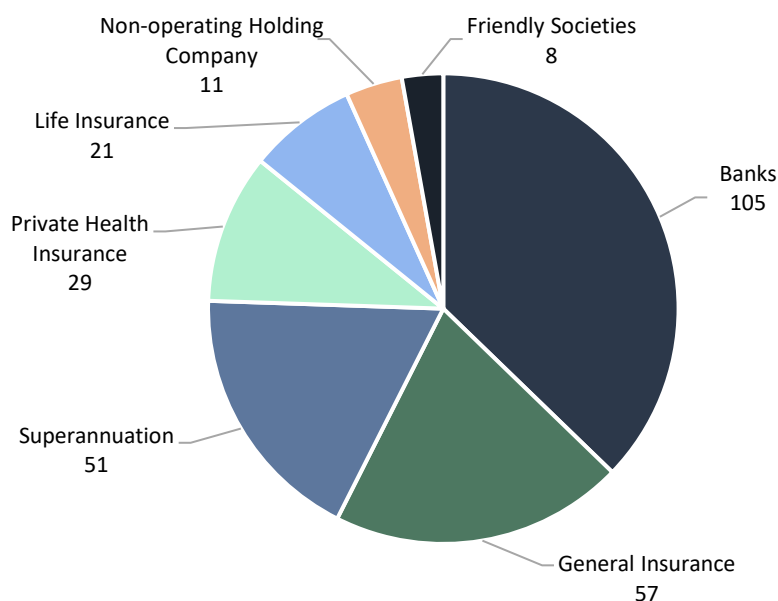
The FRAA conducted 10 bilateral meetings between 8 December 2022 and 14 March 2023. These meetings included 6 individuals with specialised experience and 4 superannuation trustees.

## External stakeholder survey

The FRAA worked with APRA and Orima Research to provide input into the biennial survey of APRA’s regulated entities. The survey was conducted between 15 February and 20 March 2023.<sup>142</sup> The survey was comprised of 21 questions within 4 modules: calibration and demographics, impact and effectiveness, performance and communication, and FRAA specific. The survey included 17 questions that required respondents to choose from a scale equivalent of ‘strongly agree’ to ‘strongly disagree’.<sup>143</sup> Respondents could also select the option ‘cannot say/no opinion’. The 5 optional free text questions included in the survey, required respondents to provide further information on the reason for their responses and areas for improvement.

A total of 428 APRA-regulated entities were invited to participate in the survey. However, 5 entities advised they were no longer operating, giving a functional base of 423 entities. Of this, 282 entities provided responses to the survey. This equates to a completion rate of 67 per cent, which is comparable to the surveys conducted by APRA in 2021 (68 per cent), and in 2019 (62 per cent). Figure A.1 shows the number of respondents by industry.

**Figure A.1: Number of respondents by industry**



Source: APRA, *Material prepared for this review*, 2023.

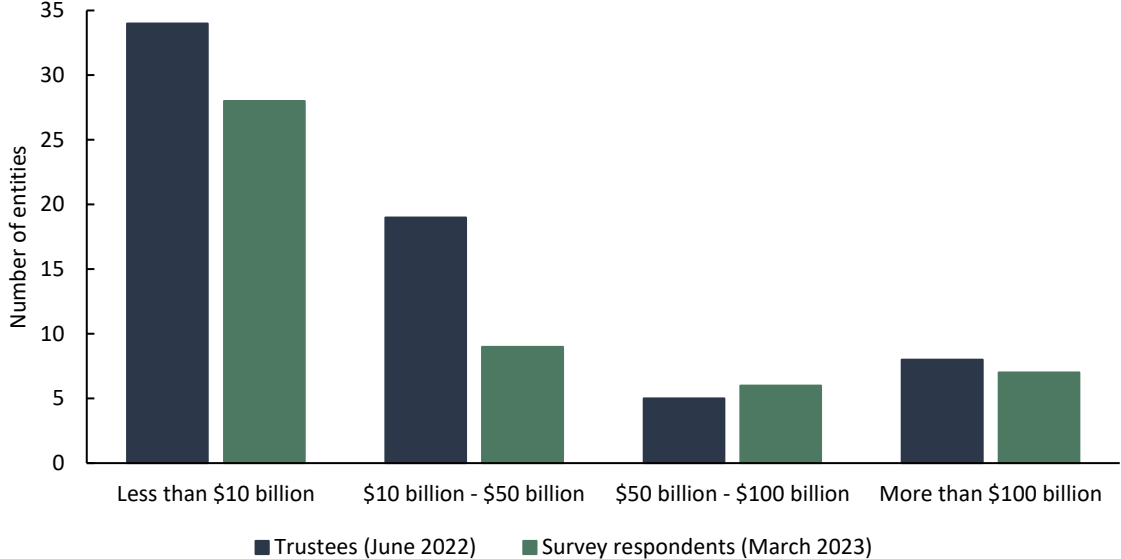
In total, 51 superannuation entities submitted responses to the survey. This is similar to the APRA 2021 survey where 55 superannuation entities provided responses, but lower than 70 superannuation entities for the 2019 survey. Figures A.2 and A.3 shows the majority of respondents

142 Results for the external stakeholder survey is available on the APRA website at <https://www.apra.gov.au/stakeholder-survey>.

143 Other scale options included ‘very positive’ to ‘negative’, ‘very effective’ to ‘inadequate’, and ‘essential’ to ‘not at all important’.

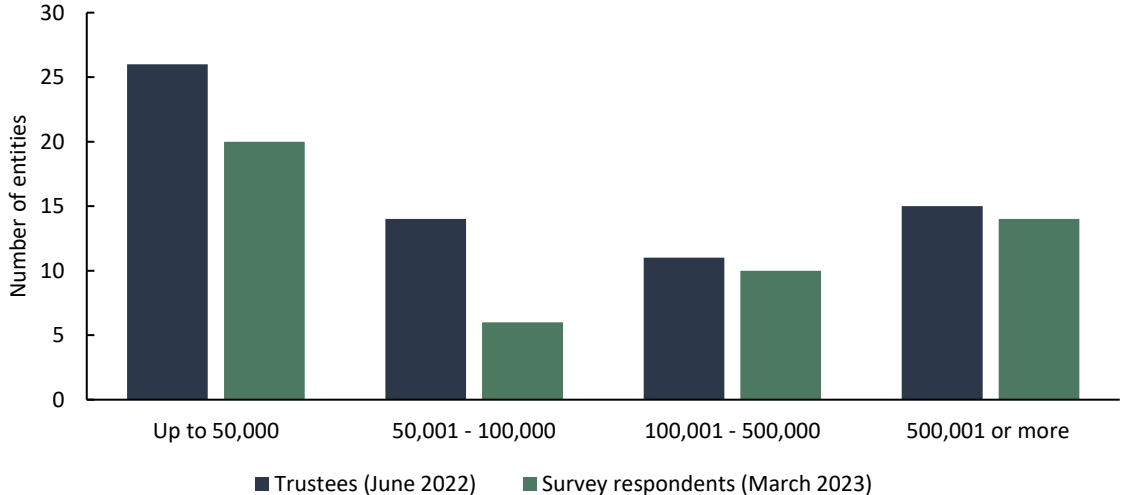
were smaller superannuation funds or trustees, reflecting the current industry structure which has a long tail of small funds.

**Figure A.2: Size of superannuation entities that participated in the survey by total assets under management compared to the overall number of trustees<sup>144</sup>**



Source: APRA, [Annual fund-level superannuation statistics June 2022](#), APRA website, 2022, accessed 19 June 2023. APRA, *Material prepared for this review*, 2023.

**Figure A.3: Size of superannuation entities that participated in the survey by total number of member accounts compared to the overall number of trustees<sup>145</sup>**



Source: APRA, [Annual fund-level superannuation statistics June 2022](#), APRA website, 2022, accessed 19 June 2023. APRA, *Material prepared for this review*, 2023.

144 The comparisons in this figure may not align perfectly due to data being from slightly different time periods, and survey respondents self-reporting their total assets under management.

145 The comparisons in this figure may not align perfectly due to data being from slightly different time periods, and survey respondents self-reporting their total number of member accounts.

## Information from APRA

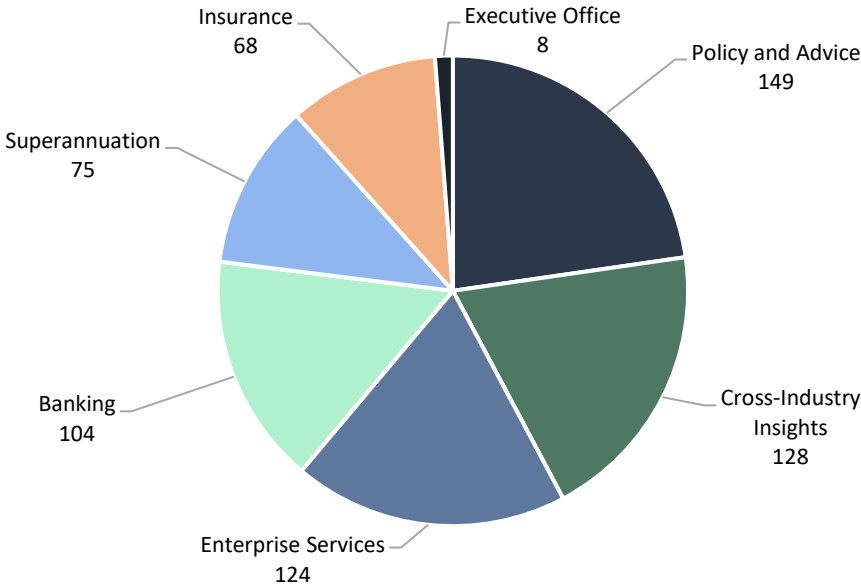
APRA provided data, information and a self-assessment of the effectiveness and capability of its supervision and resolution functions for the superannuation industry.

### APRA staff survey

The FRAA worked with APRA and Willis Towers Watson to conduct the annual internal staff survey. The survey was conducted between 21 November and 4 December 2022. The survey was comprised of 2 modules: APRA with 72 questions, and the FRAA with 35 questions (only provided to staff in the superannuation division and resolution team). The FRAA questions included 6 demographic, 4 general, 14 supervision, and 11 resolution questions. The survey included 17 questions that required respondents to choose from a scale equivalent of ‘strongly agree’ to ‘strongly disagree’. Respondents could also select the option ‘cannot say/no opinion’. The 5 optional free text questions included in the survey required respondents to provide further information on the reason for their responses and areas for improvement.

A total of 859 APRA staff were invited to participate in the survey, with 661 APRA staff providing responses to the survey resulting in a completion rate of 77 per cent. Figure A.3 shows a breakdown on the total respondents to the survey by division.

**Figure A.3: Number of respondents to the APRA staff survey by division**



Source: APRA, Material prepared for this review, 2023.

### APRA and ASIC focus groups

The FRAA conducted 6 focus groups between 10 February and 3 March 2023. There were 5 focus groups with APRA staff and a focus group with ASIC superannuation staff.

- Frontline supervision and member outcomes, analysts
- Frontline supervision and member outcomes, general managers and senior managers
- Specialist teams (Investment Risk, Advice and Approvals, Legal, Policy, and Governance, Accountability and Remuneration), risk specialists, general managers and senior managers

- Resolution, analysts, general and senior managers
- Data transformation, analysts, general and senior managers
- ASIC superannuation staff

## Interviews with senior leaders

The FRAA conducted 7 interviews with APRA senior leaders between 9 March and 17 March 2023.

### Board members

- Margaret Cole, Deputy Chair
- Helen Rowell, Deputy Chair
- Therese McCarthy Hockey, Member
- Suzanne Smith, Member

### Executive directors

- Clare Gibney, Executive Director, Policy and Advice<sup>146</sup>
- Renée Roberts, in their capacity as the former Executive Director, Policy and Advice<sup>147</sup>
- Katrina Ellis, in their capacity as Acting Executive Director, Superannuation<sup>148</sup>

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146 Clare Gibney moved to Executive Director, Policy and Advice effective 1 March 2023.

147 Renée Roberts moved to Executive Director, Banking effective 1 March 2023.

148 Katrina Ellis returned to her substantive position of General Manager, Superannuation effective 1 March 2023.



# Appendix B: Evolution of superannuation regulation

## Regulatory changes

In recent years, Parliament has passed legislative amendments providing APRA with more supervisory tools, while other amendments have resulted in more superannuation oversight for APRA. The more material legislative changes are discussed below.

### Licensing and registration requirements

In 2004, the SIS Act was amended to provide APRA with a power to licence superannuation trustees and to require the registration of superannuation entities, other than SMSFs. Licensing provided APRA with a supervisory tool to pro-actively intervene, to minimise the risk of failure and to ensure improved standards. Requiring registration of superannuation entities enabled APRA to gain important information about them which enhanced APRA's capacity to supervise.<sup>149</sup>

### Stronger Super reforms

In 2013, the Stronger Super reforms were introduced in response to the recommendations from the then government's *Review into the Governance, Efficiency, Structure and Operation of Australia's superannuation system*.<sup>150</sup> The Stronger Super reforms included the introduction of the MySuper product which aimed to create a default fund system.

APRA introduced principles-based prudential standards for the superannuation industry following the Stronger Super reforms, which provided legislative powers in key areas such as governance and risk management. These new legally binding standards were a significant addition to the existing prudential framework comprised of the SIS Act and SIS Regulations, enhancing APRA's capacity to supervise the industry. APRA's supervisory focus from 2014 to 2017 was on trustee implementation of the prudential standards. In 2017, APRA's supervisory focus shifted to analysing whether trustees' implementation of the prudential standards was delivering sound outcomes to members, with APRA's first assessment of member outcomes published in the same year.<sup>151</sup>

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149 Parliament of Australia, [Superannuation Safety Amendment Bill 2004 Explanatory Memorandum](#), Parliament of Australia website, 2004, accessed 30 March 2023.

150 J Cooper, K Casey, G Evans, S Grant, D Gruen, M Hoffman, I Martin and B Wilson, [Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System](#), Australian Government, 2010, accessed 23 March 2023.

151 APRA, *Material provided to this review*, 2023.

## Protecting Your Super Package

In 2019, amendments to the SIS Act were made through the *Protecting Your Super Package*. These amendments were introduced to protect superannuation member accounts from being eroded by fees and insurance premiums and to streamline the consolidation of balances for disengaged members. The reforms included:

- limiting fees so low balance savings can grow and are protected from disproportionately high fees
- banning exit fees to remove a barrier to account consolidation
- ensuring arrangements for insurance in superannuation are appropriate so members are not paying for insurance cover they do not know about or premiums inappropriately erode their retirement savings
- strengthening the ATO's role to reunite small and inactive balances to reduce the cost to members and consolidate multiple accounts.<sup>152</sup>

In 2019, additional amendments to the SIS Act were made through the *Putting Members Interest First* reforms. These reforms were designed to further strengthen protection of members' superannuation savings from unnecessary erosion by insurance premiums. The amendments prevent trustees from maintaining opt out insurance where a member's account has been inactive for a significant period.<sup>153</sup>

## Improving Accountability and Member Outcomes reforms

In 2019, the *Improving Accountability and Member Outcomes in Superannuation* reforms were introduced to strengthen the obligations on trustees to annually assess and compare the appropriateness of their product offerings, including how each product continues to promote the financial interests of members. The intent of these reforms was to make trustees more accountable for their products. APRA added a key risk category for member outcomes in its supervision risk assessment model to monitor for this. APRA also established a dedicated team to support the heightened focus on member outcomes and ensure the new obligations were being implemented as expected.

These reforms also addressed several limitations with APRA's supervision and enforcement powers. APRA now has the power to refuse a new authority request by a trustee to offer a MySuper product and can also cancel an existing authority. APRA was also provided with the power to issue a direction to a trustee where APRA has prudential concerns. This was important to harmonise APRA's directions powers across the banking, insurance, and superannuation industries. The amendments enabled APRA to intervene at an early stage to address prudential concerns in a manner that ensured the required actions were in the best interests of members.<sup>154</sup>

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152 Parliament of Australia, [Treasury Laws Amendment \(Protecting Your Superannuation Package\) Bill 2018 Explanatory Memorandum](#), Parliament of Australia website, 2019, accessed 17 May 2023.

153 Parliament of Australia, [Treasury Laws Amendment \(Putting Members' Interests First\) Bill 2019 Explanatory Memorandum](#), Parliament of Australia website, 2019, accessed 17 May 2023.

154 Parliament of Australia, [Treasury Laws Amendment \(Improving Accountability and Member Outcomes in Superannuation Measures No. 1\) Bill 2019 Explanatory Memorandum](#), Parliament of Australia website, 2019, accessed 14 April 2023.



## Your Future Your Super reforms

In 2021, the YFYS measures were introduced to increase member engagement, reduce fees, increase performance, and hold trustees to account for the decisions they make. These reforms also provided APRA with the legislative ability to facilitate resolution of a trustee, a superannuation entity, or a connected entity. The YFYS measures involved 4 key elements to improve the superannuation system:

- an annual performance test with clear consequences for trustees whose product(s) fail the test
- an online comparison tool to assist members to choose well-performing products
- a requirement to check if employees have an existing superannuation fund (known as ‘stapling’)
- a best financial interests’ duty for trustees.<sup>155</sup>

APRA’s plans for implementation of the YFYS measures, including its expectations of trustees, were set out in a published letter.<sup>156</sup> It included: supervisors engaging with trustees to understand how they were complying with the new obligations, administering the performance test, enhancing its standards on investment governance, and reporting on the findings from a thematic review of trustee expenditure management. The YFYS measures, and the resulting implementation and oversight by APRA, have had an immediate effect on the superannuation industry. The YFYS measures have identified products that failed the performance test, and trustees are exiting the industry as a result.<sup>157</sup>

## Retirement income covenant

In 2022, an amendment to the SIS Act introduced a new covenant that required trustees to develop a retirement income strategy for beneficiaries who are retired or are approaching retirement. The amendments addressed a gap in obligations that required superannuation trustees to focus primarily on the accumulation phase with no specific obligation to consider the needs of beneficiaries in retirement.<sup>158</sup>

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155 Stapling seeks to prevent the creation of unintended multiple superannuation accounts when disengaged members change jobs and open a new account by default. Parliament of Australia, [Treasury Laws Amendment \(Your Future, Your Super\) Bill 2021 Explanatory Memorandum](#), Parliament of Australia website, 2021, accessed 17 May 2023.

156 APRA, [APRA Letter to RSEs: Implementation of Your Future, Your Super reforms](#), APRA website, 2021, accessed 13 April 2023.

157 APRA, [APRA releases 2022 MySuper performance test results](#), APH website, 31 August 2022, accessed 6 April 2023. On 16 June 2023, the Government announced that the benchmarks used to measure performance (the annual performance test administered by APRA) will be updated. The Hon Stephen Jones MP, [Raising the bar on superannuation performance test update 2023](#), Ministers Treasury portfolio website, 2023, accessed 28 June 2023..

158 Parliament of Australia, [Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 Explanatory Memorandum](#), Parliament of Australia website, 2022, accessed 14 April 2023.



# Effectiveness and Capability Review of the Australian Prudential Regulation Authority

**Financial Regulator  
Assessment Authority**

June 2023