Monday August 27

Industry calls for urgent re-think on APRA's risk measure

Three industries organisations – **the Australian Institute of Superannuation Trustees (AIST), the Actuaries Institute and the Industry Super Network (ISN)** – are urging the Australian Prudential Regulation Authority (APRA) to re-think its approach to articulating investment risk to super fund members.

In a letter sent to APRA, the group said it had serious concerns about APRA's proposed "Standard Risk Measure" for super fund members, which measures the expected frequency of negative annual returns over a 20 year period.

The proposed measure is part of the Government's Stronger Super reforms which identified that many consumers – particularly those who were exposed to losses in the global financial crisis – did not have a full understanding of the investment choices available in their super fund.

The measure is expected to form part of APRA's data collection requirements and the MySuper product dashboard.

AIST, ISN and the Actuaries Institute acknowledge that super fund members need better guidance about how much investment risk they are taking on and would benefit from consistent descriptions and disclosure across funds which would make it easier to compare different investment options.
However, the three organisations bodies believe that APRA's proposed measure sends the wrong message to super fund members as it measures short term investment 'volatility' rather than a much richer approach encapsulating the 'risk' of a member not achieving their retirement income goals.

"We are concerned that adoption of this measure in the way that is being proposed by APRA could drive young members, in particular, away from exposure to growth assets and ultimately reduce their income in retirement," the group said. "We think a better approach is to take into account members' different ages and needs, rather than a one-size-fits-all approach to measuring risk".

The groups said that while APRA's proposed measure contained valuable information for members, it needed to be supplemented with other measures of risk that gave members a more complete picture to base their decisions on.
"As an immediate first step, it would be helpful if this measure was given a more appropriate name that did not mislead members into thinking that this is the only measure of risk that is relevant to them," the group said.

In addition to recommending that the Standard Risk Measure be renamed the Volatility Rating, the three organisations have also recommended that APRA work with the industry to develop supplementary measures of risk to help members achieve their retirement income goals.

Further media enquiries:
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AIST is the peak industry body for the $450 billion not-for-profit super sector which includes industry, corporate and public sector funds covering the super interests of nearly two-thirds of the Australian workforce.

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