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Review may force funds to merge

EXCLUSIVE

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A Productivity Commission review into a tender system for default superannuation funds may introduce a model that accelerates an APRA-led push for the consolidation of shrinking or underperforming super funds, according to senior industry members.

There are about 200 large super funds receiving contributions from employers and the Australian Prudential Regulation Authority has been steadily increasing pressure for mergers between funds, especially at the smaller end of the market or where director fees have been excessive.

Tuesday's release of the issues paper for a Productivity Commission review into default super, stemming from the government's recent financial system inquiry, outlined a probe into alternative models for default funds, such as a tender process where funds bid to be included in a list of preferred funds.

Financial Services Council chief executive Sally Loane said a "genuinely competitive and open superannuation industry" would allow consumers to switch out of smaller industry funds that often charged higher fees than the rest of the sector.

"Consumer choice would put substantial pressure on sub-scale industry funds to lower their operating costs or consider merging with larger, more efficient funds," Ms Loane told *The Australian*.

The FSC represents retail funds and in 2014 won a court case to dismiss the Fair Work Commission's expert panel, which was designed to help allocate default super flows, on the basis it was not independent. The panel is yet to be replaced but industry funds have argued for the need to restart the FWC process to prove it can function.

Michael Rice, head of actuarial firm Rice Warner, said a system was needed to "weed out the underperformers" without compromising on the need for competition in the market.

Chant West research has shown up to 80 per cent of small funds with less than $5 billion in funds under management could struggle to pass APRA's scale test, a power to force funds to roll up which the regulator has been reluctant to use. But it's not just the small end of the market feeling the squeeze. Nearly half of the 115 APRA regulated funds recorded net outflows, where more money went out than came in, over the 2015 financial year. "One way or another the government will resolve how memberships go into default funds," Mr Rice said.

"We've got too many funds and any change in the system is likely to reduce quite a few, but we don't really know which ones will be the winners and losers just yet."

Australian Institute of Superannuation Trustees chief executive Tom Garcia said the merging of underperforming super funds was already happening.

"One of the interesting concepts is the idea that there's no competition happening already and that competition at a retail level will solve all ills," Mr Garcia said. "There is choice at the employer level and then there's choice at an employee level about which fund you use. Everyone has choice unless it's explicitly disallowed, which is a decision between workers and employers through their EBA."

The AIST is the peak representative body for the $700bn not-for-profit super sector, which includes industry funds, public-sector funds and corporate funds.