

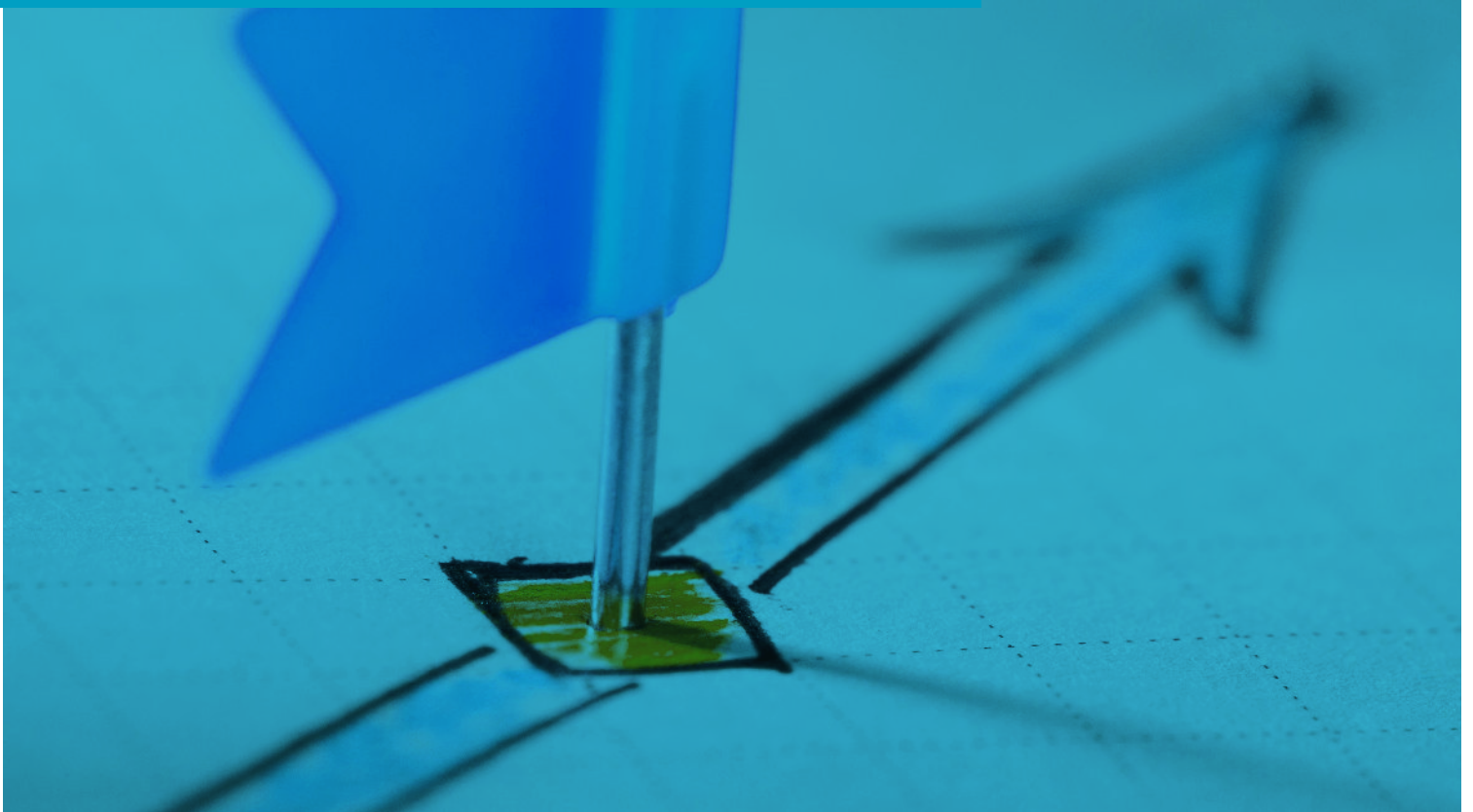
The Australian superannuation industry

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Introduction

The Australian superannuation industry has undergone remarkable change over the past century. Initially only available to employees in certain industries and professions, superannuation coverage is now near-universal – a consequence of decades of ongoing reform.

The Australian retirement savings pool is now one of the largest in the world. Total superannuation assets stand at \$2.2 trillion, or around 130 per cent of GDP.¹ Australian superannuation assets will continue to increase for decades to come.

The structure of the superannuation industry has also evolved markedly. The modern superannuation industry comprises a vast network of interconnected entities. This includes superannuation funds themselves, and a broad range of providers of services and products to funds. Together, these form the superannuation industry supply chain.

The history of superannuation

Early days

Occupation-related superannuation first emerged in Australia in the mid-19th century, most notably with the establishment by the Bank of Australasia—later ANZ Bank—of a superannuation fund for its staff in October 1842.² The term ‘superannuation’ was in common usage by the early 19th century in the United Kingdom to refer to the pension received by an individual (from former employer) after retirement. In most countries, the term ‘private pensions’ tends to be used to describe what is known as superannuation in Australia. Though it is not entirely clear why the term superannuation is used in Australia, its usage does at least provide a clear distinction between superannuation and the Federal Government-provided Age Pension. It also should be noted that many benefit payments in Australia are in the form of lump sums rather than periodical pension payments.

From its earliest days until the 1940s, superannuation was only available to a select, mostly male, group of salaried employees in the public sector and some large companies. Employer-supported superannuation for wage-earners tended to be less generous (in schemes that were non-compulsory), with smaller employer contributions and smaller benefits. Women were particularly disadvantaged. It was not uncommon for women to be required to resign from a permanent job position when they married. As well, vesting provisions meant that if a woman in their 20s or 30s voluntarily resigned from a job because of family responsibilities they would be unlikely to satisfy the minimum years of service required in many superannuation funds to generate a defined benefit entitlement.

1950s – 1970s: superannuation largely for white-collar workers

From the 1950s to the 1970s, superannuation became more widely available but still was largely restricted to professional and office workers. However, for those whose working life was not continuous with one employer, the lack of vesting of employer contributions lowered benefits. Again, these effects were more profound for women.

By 1974, 32 per cent of wage and salary earners were covered by superannuation, which represented 41 per cent of male earners, but only 17 per cent of females. Most superannuation assets were in defined benefit funds. From the 1970s until the introduction of superannuation associated with national wage-setting arrangements in 1986, superannuation was an employment fringe benefit (concentrated among professionals, managers, administrators, public sector employees and the financial sector). Superannuation was provided largely at the discretion of employers, and that discretion was exercised in favour of only some employees.

The uneven coverage of superannuation (and associated tax concessions) provided a catalyst for the push for universal occupational superannuation. This occurred primarily through the industrial relations system, rather than from political and parliamentary attention.

One of the attractions of promoting superannuation was it allowed for deferred wage increases without going outside the then-centralised wage fixing system. Justice and equity were also motivating factors, as superannuation was available to many white-collar workers but generally not blue-collar workers.

One of the earliest and most prominent pushes for superannuation came from the Federated Storemen and Packers Union, which developed a portable (industrywide) accumulation fund for its members in 1978. This was arguably the first industry (multi-employers across an industry) fund, although there are other contenders for that title; for example, the building unions were not far behind. This led to concerted industrial campaigns aimed at getting employers to contribute to (the concerned) accumulation funds on behalf of all their employees, rather than to defined benefit funds for only some.

1980s: the momentum gathers

In 1983, the newly-elected Hawke Labor Government expressed support for the principles of employee superannuation and initiated discussions with the Australian Council of Trade Unions (ACTU) on the possibility of broadening access to superannuation as part of the Government's Prices and Incomes Accord with the trade unions.

Government support for superannuation was also given impetus by the economic conditions of the day. By 1985, Australia was experiencing high interest rates, inflationary pressures, a widening current account deficit and rising foreign debt. Employee superannuation was an attractive policy option for the Government in that it responded to union and employee pressures, but involved deferred wage increases and an improvement in national savings. That said, there were a number of factors leading to support from the unions and the Government for occupational superannuation. Attributing the introduction of compulsory superannuation to the economic circumstances of the time would be a considerable oversimplification.

The process of making superannuation more or less a universal entitlement began in September 1985 when, with the support of the Government, the ACTU sought a 3 per cent superannuation contribution to be paid by employers to industry funds specified in relevant industrial awards. This case before the then-Conciliation and Arbitration Commission was in the context of national wage case guidelines, which allowed for a wage increase based on improvements in national productivity in addition to any wage increase related to movement in the Consumer Price Index.

Despite compelling arguments being presented, the Commission did not grant a blanket award of occupational superannuation. Rather, it announced that it would approve industrial agreements that provided for 3 per cent of wages to be contributed to approved superannuation funds.

As new industrial awards and agreements were progressively negotiated according to the guidelines in the national wage case decision, there was a rapid increase in superannuation coverage. In the four years after the introduction of award superannuation, coverage grew from around 40 per cent of employees to 79 per cent. In the private sector, coverage grew from 32 per cent in 1987 to 68 per cent in 1991.

This was a major achievement for award superannuation, but more was needed to achieve adequacy of retirement incomes and coverage of the labour force. A contribution of 3 per cent of wages was not enough to generate substantial retirement savings, and around a third of private sector employees still did not have superannuation at all.

1990s: compulsory superannuation comes into effect

In 1991, the ACTU and the Labor Government argued in the (renamed) Industrial Relations Commission for a further 3 per cent (employer-paid) contribution. The Commission rejected this based on compliance and implementation problems of using industrial awards to require the payment of superannuation.

While the Commission did not completely close off options for further extension of award superannuation (in terms of both coverage and quantum), the Government decided to take a completely different approach.

In the 1991-92 Federal Budget, the Government announced it would introduce a mandatory superannuation system through the implementation of the Superannuation Guarantee (SG). The SG system would use the taxation power of the Australian Government to provide a powerful incentive for employers to make correct superannuation contributions. For employers, if the required amount was not paid, then a non-deductible SG Charge would become payable (equal to each individual employee shortfall in contributions), along with an interest payment and an administration charge. Once the employer made this payment, the employee could then get the Australian Taxation Office (ATO) to forward the shortfall and interest component to a complying superannuation fund (the Australian Government does not have constitutional power to directly legislate to require all employers to make superannuation contributions). The 'guarantee' part of the SG is about a requirement for contributions being made, rather than a guarantee of investment earnings or eventual retirement income.

The SG system came into effect on 1 July 1992. It required contributions of 5 per cent of ordinary time earnings for employees of employers with an annual payroll in excess of \$1,000,000, and 3 per cent for all other employees. A schedule of future increases in the rate of the SG was also set, with a rate for all employees of 9 per cent of earnings applying from 1 July 2002.

The coverage of the system was very broad, using a wide definition of employer and employee. For employers, claiming that an individual worker was a contractor did not necessarily remove the requirement to pay SG. However, there were some exceptions; those earning less than \$450 a calendar month, part-time employees aged under 18, and those aged over 65. As well, the SG does not apply to the self-employed (other than to owner-managers who receive wages and technically are employees of a company they also control). Around 30 per cent of the self-employed make contributions, partly driven by the tax concessions available for this.

In the 1995-96 Federal Budget, the Government proposed there also be a compulsory member contribution of 3 per cent together with a matching contribution from government – which was to begin with an initial 1 per cent in July 1997, rising to 3 per cent in July 1999. This latter contribution was to be paid instead of previously-promised income tax cuts. However, with the change in government (in 1996), this did not happen.

The new conservative Coalition Government did make other changes. In its first budget in August 1996, the Government introduced a surcharge (additional tax) on superannuation contributions by individuals with high taxable income and contributions. The stated aim of the surcharge (at the time of its introduction) was to make the taxation of superannuation fairer, although when the Government abolished the surcharge in the 2005-06 Budget (with regard to future contributions), it was explained that the surcharge had been introduced purely to raise revenue.

In addition, the Coalition Government introduced (from 1 July 1997) an 18 per cent tax rebate for up to \$3,000 of contributions made for a low-income spouse. It also increased the upper age limit for compulsory contributions from 65 to 70, and introduced Retirement Savings Accounts (RSAs) – which are simple bank deposit-like products with superannuation tax and preservation treatment. RSAs account for less than 1 per cent of the assets in the superannuation system.

As well, from 1 July 1999 there were strengthened preservation rules allowing release of benefits only in very restricted circumstances prior to preservation age (which varies between age 55 and 60 depending on the then age of the member). Legislation introduced in 2000 also allowed separating couples to split the value of their superannuation by agreement or by Court order.

2000s: choice and a higher SG

The 2000s saw further significant changes. In particular, the Coalition Government introduced provisions (with effect from 1 July 2005) that allowed employees to choose the superannuation fund (subject to certain exceptions) to receive their compulsory contributions. Accompanying this were regulations giving individuals the right to transfer their superannuation balance to another fund.

Clearly, superannuation has changed from a discretionary fringe benefit provided by employers to more of an individual property right. In response to this, there has been significant change in the prevalence of different fund types. In 1982-83, around 80 per cent of fund members were in defined benefit schemes. By the year 2000, only 13 per cent of members were in pure defined benefit funds—many of which were public sector schemes closed to new members. That percentage is now down to 10 per cent or less.

Some employers became concerned about the higher average costs of enrolling an employee in a defined benefit scheme. These costs were amplified by the minimum vesting requirements that applied where an employer wished to satisfy their SG obligations by making contributions to a defined benefit fund. A further issue is that with greater labour mobility defined benefit schemes do not suit many workers and are not necessarily a good method for employers to attract and retain employees.

In May 2010, the then-Labor Government announced that compulsory employer superannuation contributions would increase from (the current) 9 per cent of salary to 12 per cent by July 2019. Actual increases in the SG rate have, however, been more gradual – starting with a 0.25 percentage point increase in the 2013-2014 financial year, followed by a 0.25 percentage point increase in 2014-15. Further increases are currently paused, with the rate to remain at 9.5 per cent until 30 June 2021 and then increased by 0.5 of a percentage point each year until it reaches 12 per cent.

Supervisory arrangements

Along with the introduction of the SG came new supervisory arrangements, largely due to the changed nature of superannuation. Historically, the prudential framework for superannuation rested broadly on the principles of trust law supplemented by controls in the Life Insurance Act (for retail products), certain aspects of the Corporations Law, and income tax legislation. Not too surprisingly, given the lack of clearly delineated member rights in many cases, the existence of trustee and employer discretions, and the costs of litigation, there was not much evidence of action being taken to enforce the rights of members.

With superannuation becoming more of a member right and with most employees receiving contributions, there was a need for a new supervisory regime and controls. Accordingly, in 1987 the Labor Government introduced the Occupational Superannuation Standards Act (OSSA). This prescribed operating standards that superannuation funds were required to meet in order to be eligible for superannuation tax concessions.

In 1992, the Government, along with mandating contributions, enhanced the prudential framework for supervising funds. The Superannuation Industry (Supervision) Act effectively replaced the OSSA legislation from 1 July 1994. The legislation defined the duties and responsibilities of trustees, improved disclosure requirements, increased the role of auditors and actuaries, and introduced more direct enforcement powers for the Insurance and Superannuation Commission (ISC).

The Government introduced further superannuation reforms following the collapse of a large insurance company that triggered broader concerns about the prudential safety of regulated financial entities. All superannuation trustees were required to obtain a Registrable Superannuation Entity (RSE) licence from the Australian Prudential Regulatory Authority (APRA; the successor to the ISC) if they were to continue to operate after 1 July 2006. Trustees had to demonstrate a range of capabilities (with appropriate supporting documentation) in order to obtain and retain a licence.

This led to a dramatic decrease in the number of trustee entities and superannuation funds (see Section 6), with small corporate funds in particular finding the new regime challenging and expensive relative to their assets under administration. Those funds that closed generally transferred members and assets to a fund that was licensed (or clearly was going to be licensed).

The establishment of APRA following the Wallis Committee of Inquiry into the Financial Sector in 1996 also saw the establishment of the Australian Securities and Investments Commission (ASIC). ASIC is responsible for the supervision of disclosure and market conduct by superannuation funds and other financial institutions.

Under this regime, funds are required to provide a compliant Product Disclosure Statement to new and prospective members and employer sponsors. There are both specific and general requirements with regard to the information that funds have to provide. New and enhanced fee disclosure requirements apply to the offer documents of all regulated funds, along with enhanced reporting requirements applying to periodic (annual) member statements. Originally, the requirements were principle based but more recently they have become more restrictive; including with respect to required content, length of document and even font size.

The ATO plays a regulatory role in the sector, particularly with regard to Self-Managed Superannuation Funds (SMSFs). SMSFs are small funds with less than five members (generally only one or two in practice), where each member is also a trustee of the fund. Members are generally drawn from a single family, or are co-directors of a company. SMSFs generally are not able to have employees of a firm as members.

Recent regulatory changes

MySuper

Following the 2009-10 Cooper Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, the Australian Government introduced the following reforms:

- MySuper – a new product authorised by APRA, designed for 'default' members who do not make an active decision about which fund to join (into which their compulsory employer contributions are paid). MySuper accounts typically offer a single diversified investment option, simple product features and relatively low fees.
- Trustees to develop a single diversified investment strategy for their MySuper product that specifies the investment return target over a rolling 10-year period and the level of risk deemed appropriate.
- Rules governing the fees that can be charged for MySuper products.
- All MySuper products to offer a minimum default level of life and total and permanent disability insurance on an opt-out basis. Superannuation funds are able to vary insurance terms and conditions between groups of members within the same default product.

SuperStream

The SuperStream reforms introduced new data and payment standards for superannuation transactions. This includes electronic transmission of linked financial and member data using standardised formats, and using tax file numbers as the primary member identifier.

Governance and disclosure

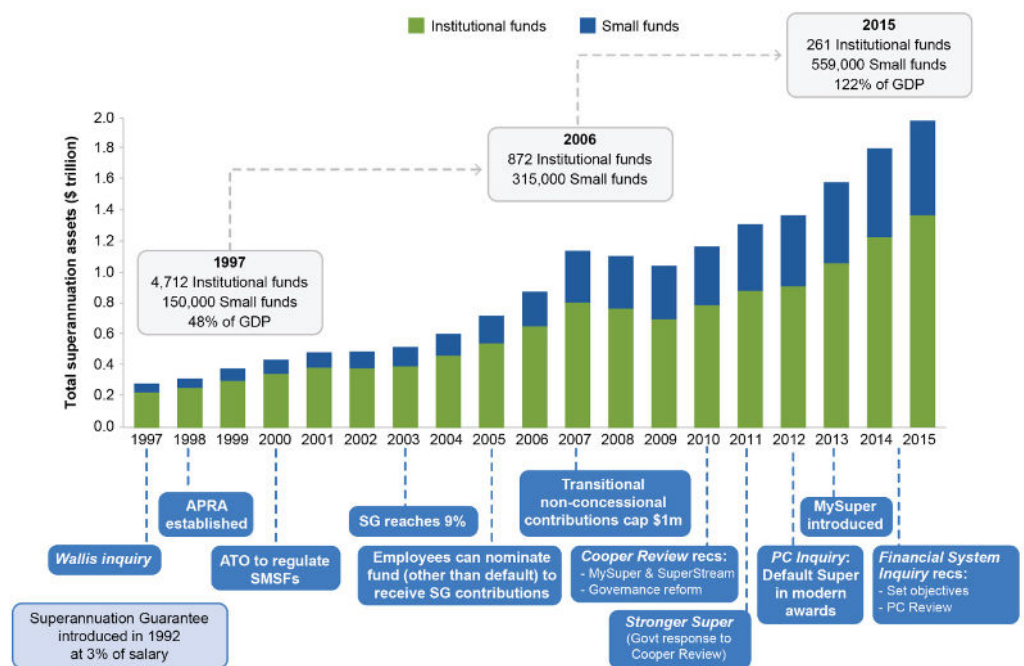
A range of reforms also was introduced as a result of the Cooper Review's recommendations. These include requirements that trustees of a MySuper product:

- Promote the financial interests of the fund members.
- Determine annually whether MySuper members are disadvantaged by the scale of the fund.
- Discharge their personal duties to act honestly, exercise the care, skill and diligence of a 'prudent superannuation director', and exercise their duties and powers in the best interests of beneficiaries.

APRA was also given the power to draft binding prudential standards for the superannuation industry for the first time. The standards cover governance, fit and proper persons, risk management, business continuity management, outsourcing, auditing, conflicts of interest, investment governance, insurance, solvency and capital requirements. These standards were designed to coincide with the introduction of MySuper.

Some of the key developments discussed above are summarised in the following timeline prepared by the Productivity Commission (Chart 1).

Chart 1: Key developments in superannuation



Source: Productivity Commission 2016, *Superannuation Efficiency and Competitiveness: Issues Paper*, March.

The superannuation fund as a trust

The foremost institution in the superannuation industry is the superannuation fund itself. Nearly all funds are set up as trusts.^{3 4} The overarching service provided by fund trustees is to ensure the fund is managed for the benefit of members in accordance with the legally-enforceable rules set out in the fund's trust deed.⁵

Approximately two-thirds of the assets in the superannuation system are in funds where the trustee acts on behalf of an APRA-regulated registrable superannuation entity (RSE).⁶ Broadly speaking, RSE superannuation funds constitute the intermediated or institutional funds sector.⁷ Most of the remaining assets in the system (around one-third) is in Self-Managed Superannuation Funds (SMSFs), where each of the members of an SMSF also is a trustee of that fund.⁸

For some institutional superannuation funds, particularly retail sector funds, trustee arrangements can be complex. In particular, there are many examples of a single trustee board for a group of discrete APRA-registered funds,⁹ where the trustee board is itself a corporate entity within a larger corporate group. This structure is typical in large commercial financial services institutions, such as Australia's large retail banking groups.¹⁰

The superannuation fund as a 'virtual' institution

The typical modern institutional superannuation fund is a 'virtual' institution.¹¹ Superannuation fund trustees have ultimate responsibility for operating the fund. However, under a typical trust deed, fund trustees have wide powers of delegation with respect to their functions, and typically outsource many of their functions to entities that are external to the fund. It is important to note that although funds outsource many of their functions, they cannot outsource their responsibility for the performance of those functions – this is a fundamental tenet of trust law. A detailed discussion of fund functions and outsourcing is in Sections 9-14.

Current industry structure

The Australian superannuation industry comprises a mix of retail, industry, public sector and corporate funds (collectively intermediated/institutional funds). There is also a large number of SMSFs, in which members manage their own fund.

Key characteristics of main fund types

The key characteristics of each of the major types of funds—as represented by the different fund sectors—are outlined below.^{12 13}

Retail funds

Retail funds offer superannuation products on a commercial ‘for profit’ basis to the general public and typically are run by large commercial financial services institutions such as banks. As discussed below, retail funds include those funds for employees of a particular company or company group operated by retail providers.

Industry funds

Traditionally, an industry fund drew members from the employees of a range of employers across a single industry or a state, and generally was established under an agreement between parties to an industrial award. Over the past decade many industry funds have opened their membership to the general public (so-called public-offer funds), though the vast majority of members of each industry fund still are from the industry for which the fund was established.

Public sector funds

Public sector funds have a government agency or government-owned corporation as their sponsoring entity. Though traditionally catering only to public sector employees, a significant minority of public sector funds are now public-offer funds. Approximately half of the public sector funds in APRA’s datasets are not regulated by APRA, but instead are supervised by the relevant state government or by the Commonwealth Government.¹⁴

Corporate funds

Corporate funds are sponsored by one or more employers and generally focus on the employees of a particular company or company group. Most are closed to the general public. The number of corporate funds has declined markedly over the past two decades (discussed in Section 6). A small number of employers have a quasi-corporate fund for their employees, where the fund can be operated by a retail or industry sector superannuation provider (the RSE licensee). APRA classifies such funds according to the RSE licensee (that is, a fund operated by a retail provider is classified as a retail fund).

Small funds

The small funds sector comprises SMSFs and small APRA-regulated funds (SAFs). Both SMSFs and SAFs can have a maximum of four members.

SMSFs are operated, managed and controlled by the fund members, who are also the trustees of the fund. SMSFs are regulated by the ATO rather than APRA. With respect to pension systems in other jurisdictions, SMSFs are a relatively unique feature of the Australian superannuation system.

SAFs are similar to SMSFs, though members are not the fund trustees. Trustee duties and responsibilities are provided by an approved external trustee.

Relative size of fund sectors

Table 1 provides a snapshot of the relative size of each of the fund sectors. As noted above, approximately two-thirds of total superannuation assets are in institutional funds (retail, industry, public sector and corporate). SMSFs account for almost one-third of total superannuation assets, though only 4 per cent of all member accounts.

Table 1: Superannuation funds, by sector (as at December 2016)

	No. of entities	Total assets (\$b)	No. of accounts* ('000s)
Retail funds	135	570	12,978
Industry funds	41	501	11,118
Public sector funds	38	364	3,533
<i>exempt from APRA regulation</i>	19	126	925
Corporate funds	30	58	341
Small funds			
Small funds	587,371	656	1,092
SMSFs	585,260	654	1,088
<i>small APRA-regulated funds</i>	2,111	2	4
Balance of life office statutory funds**			
Balance of life office statutory funds**		51	
Total	587,615	2,199	29,061

Source: APRA Quarterly Superannuation Performance, December 2016 and Annual Superannuation Bulletin, June 2016.

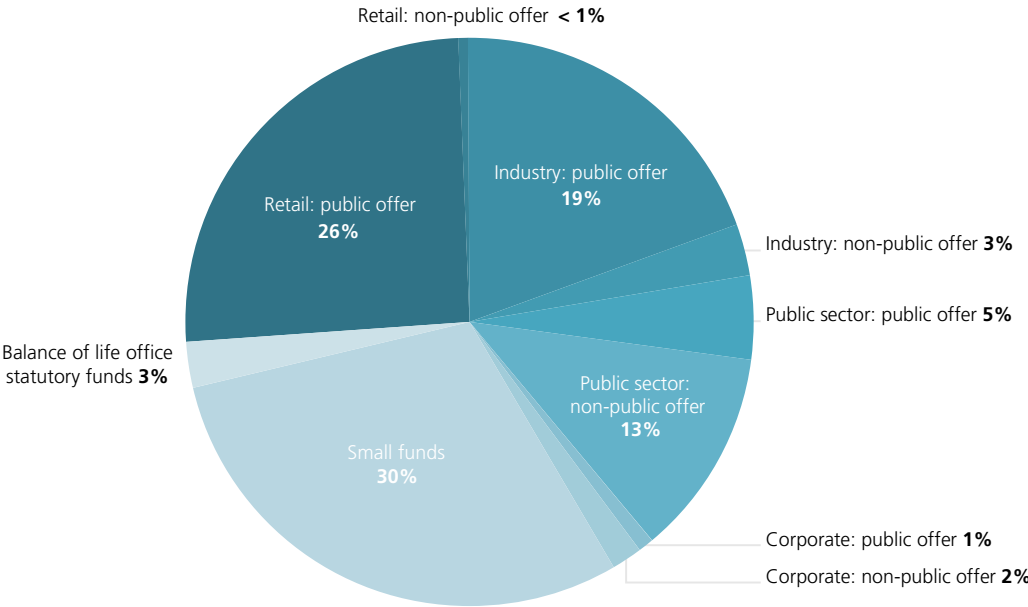
* Data for the number of accounts is for the end of June 2016.

** Relates solely to the life insurance business of an entity.

There is a stark difference between the average member account balances of institutional funds and SMSFs. As at June 2016, the average account balance for both retail and industry funds was a little more than \$40,000,^{15 16} whereas the average account balance for an SMSF fund was approximately \$570,000.

With respect to institutional funds, approximately three-quarters of total assets are in funds that are open to the general public (Chart 2). Unsurprisingly, a relatively large proportion of assets in public sector and corporate funds are in funds closed to the public. For the retail sector, those funds that are not open to the public are those where a (retail sector) RSE licensee operates a discrete fund for a corporate entity.

Chart 2: Share of total assets in the superannuation industry, by fund type¹⁷



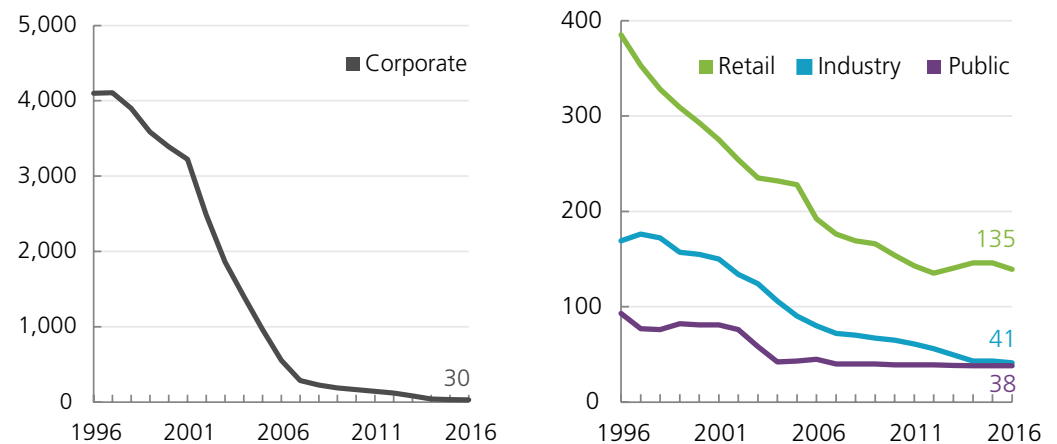
Source: APRA Quarterly Superannuation Performance, September 2016 and APRA Annual Fund-level Superannuation Statistics, June 2016.
Note: Due to rounding, proportions for separate fund types add to more than 100 per cent.

Trends in industry structure

Number of fund entities

The structure of the superannuation industry has changed markedly over the past two decades. In particular, there has been significant consolidation in the institutional part of industry (Charts 3 and 4), with the number of funds in each sector declining by a significant degree.

Charts 3 and 4: Number of institutional fund entities*



Source: APRA Quarterly Superannuation Performance, December 2016, APRA Annual Superannuation Bulletin, June 2016 and other APRA data.

* Figures in the charts refer to the number of funds as at the end of the December quarter 2016.

Corporate funds

The number of corporate funds has declined from over 4,000 in 1996 to only 30 as of December 2016 (Chart 3). Where corporate funds have closed, members and their assets generally have been transferred to retail or industry sector funds (in some cases with a discrete trust deed – that is, a fund for employees of a particular company or company group, typically operated by a retail sector superannuation provider).

For companies and their employees, retail and industry funds can have a number of benefits compared to a small stand-alone corporate fund. These include:

- a lower administrative burden for companies
- greater access to funds management expertise and more extensive product options
- the benefits of scale with respect to costs.

Also, many retail and industry superannuation funds offer specific, negotiated plans for their larger corporate clients.

That said, a small corporate fund can have benefits compared to retail and industry funds. Boards of corporate funds comprise representatives of both the employer(s) and the employees, so certain products and services provided by funds to their members may be tailored to their specific requirements – such as insurance.

Retail and industry funds

The number of retail sector funds has decreased by 64 per cent over the past two decades, whereas the number of industry funds has declined by 76 per cent (Chart 4). This is largely the result of mergers (within each of the fund sectors), as players have looked to increase scale to help drive operating efficiencies. There are many examples of this occurring, including the merger of AMP with AXA Asia, First State Super with Health Super, and AustralianSuper with AGEST.¹⁸ Merger activity has slowed, however, in recent years – in part due to regulatory and tax barriers.¹⁹

Public sector funds

The number of public sector funds has decreased by 59 per cent over the past two decades (Chart 4). This reflects consolidation of public sector funds and privatisation of public sector entities – where members have transferred from a closed public fund to a fund in another sector. For example, privatisations of Qantas and Telstra were accompanied by the creation of discrete corporate funds. Early in this century, privatisations also led to a significant transfer of superannuation assets to the retail sector.

Small funds

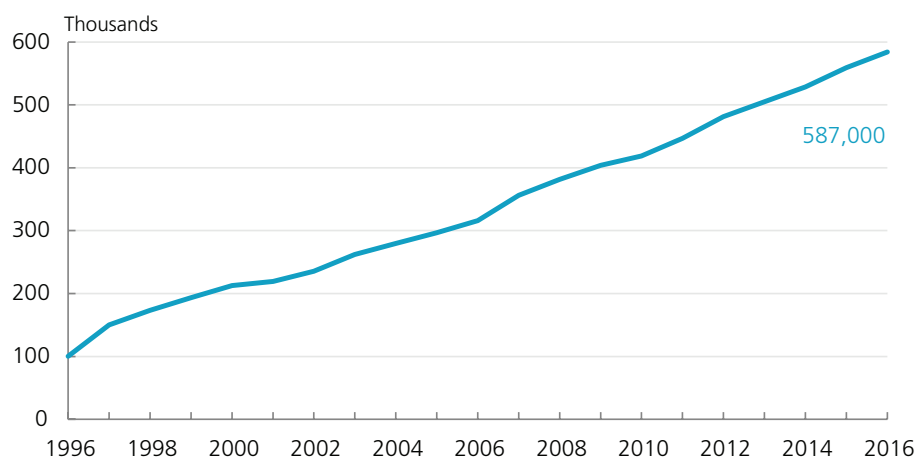
The vast majority of small funds (greater than 99.0 per cent) are SMSFs. The number of SMSFs has increased five-fold since 1996 – from just over 100,000 to more than 580,000 (Chart 5).²⁰ This represents an average annual growth rate of just less than 10 per cent.

Survey results highlight numerous reasons why some people prefer SMSFs relative to institutional funds.

- SMSFs provide members with greater control than is possible, or is perceived to be possible, compared to an institutional fund framework.
- SMSFs are perceived to have lower management fees than institutional funds – in reality, fees on a per asset basis are generally only lower for SMSFs with relatively large balances.
- SMSFs can provide more effective tax management of investment income, including being able to take greater advantage of capital gains tax concessions when a member moves from the accumulation to pension phase.

Ongoing growth in the number of SMSFs has been spurred by aggressive marketing of SMSFs.

Chart 5: Number of small funds*



Source: APRA Quarterly Superannuation Performance, December 2016, APRA Annual Superannuation Bulletin, June 2016 and other APRA data.

* Figure in the chart refers to the number of funds as at the end of the December quarter 2016.

Looking ahead

Though past trends are not necessary good predictors of future trends, there are a number of likely developments with respect to fund composition.

- Competition and the drive for scale economies will lead to further merger activity. However, as the number of funds continues to diminish, the pace of merger activity necessarily will be slower than over the past two decades. Also, there are numerous barriers to merger activity, such as the absence of capital gains tax (CGT) rollover relief.²¹ ASFA highlighted a number of barriers in its recent submission to the Productivity Commission’s review of the competitiveness and efficiency of the superannuation system.²²
- Smaller corporate funds will close. As noted above, for companies and their employees, retail and industry funds can have a number of benefits compared with a small corporate fund. Given that there are only 34 corporate funds remaining, the pace of fund closures is likely to be relatively slow.
- For SMSFs, future growth will depend in large part on Government policy, and how this alters the relative attractiveness of SMSFs compared with institutional funds.

Assets of funds

Over the past two decades, superannuation assets under management have grown markedly – driven by a combination of increases in the SG rate, solid growth in average wages and the number of people in the work force, and changes to tax settings that have increased the relative attractiveness of superannuation as a savings vehicle.

Total superannuation assets have increased from just less than AUD\$250 billion in 1996 (or 46 per cent of annual nominal gross domestic product [GDP]) to \$2.2 trillion as at December 2016 (or 130 per cent of annual nominal GDP).²³ The Australian retirement savings pool is now one of the largest in the world.

Looking ahead, superannuation assets are expected to keep growing for decades to come – though projections vary. The future level will depend on a number of factors, including future investment returns, the rate of the SG, the amount of voluntary contributions and the tax treatment of contributions and investment earnings. Table 2 provides a summary of various projections for super assets from Government and private sector sources.

Table 2: Projected size of the superannuation industry

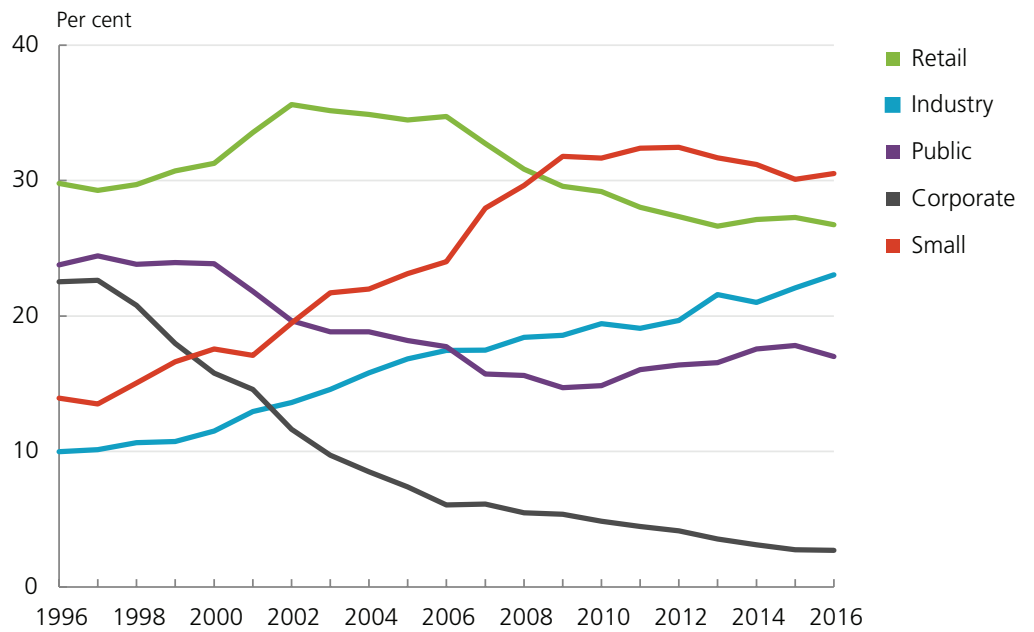
	Base year	Base value \$ trillion	End year	End value	
				real \$ trillion	nominal \$ trillion
KPMG	2014	\$1.9	2025		\$3.5
Actuaries Institute	2014	\$1.8	2029	\$3.7	\$5.4*
Cooper Review	2009	\$1.1	2035		\$6.1
Deloitte	2015	\$2.0	2035		\$9.5
Rice Warner	2013	\$1.6	2043	\$5.1	\$10.6*

Source: Actuaries Institute (2015), Cooper et al. (2010), Deloitte (2015), KPMG (2015), Rice Warner (2014).
*ASFA calculations. Assumed inflation rate of 2.5 per cent per annum.

Developments within the fund sectors over the past two decades (as outlined above) are reflected in the shares of total superannuation assets (Chart 6).

- For the corporate sector, the share of assets has fallen markedly as funds have closed (in net terms). Assets of corporate funds have transferred to the retail and industry sectors.
- A series of privatisations of public sector entities led to transfers of assets from the relevant public sector funds to the retail, industry and corporate sectors, though not in all cases (where public sector funds have retained members of privatised entities).
- The remarkable growth in total assets in the SMSF sector and the corresponding increase in market share. Periods where SMSF assets have risen most strongly correspond to changes to tax settings that made SMSFs relatively attractive compared with institutional funds.²⁴

Chart 6: Share of total assets in the superannuation industry



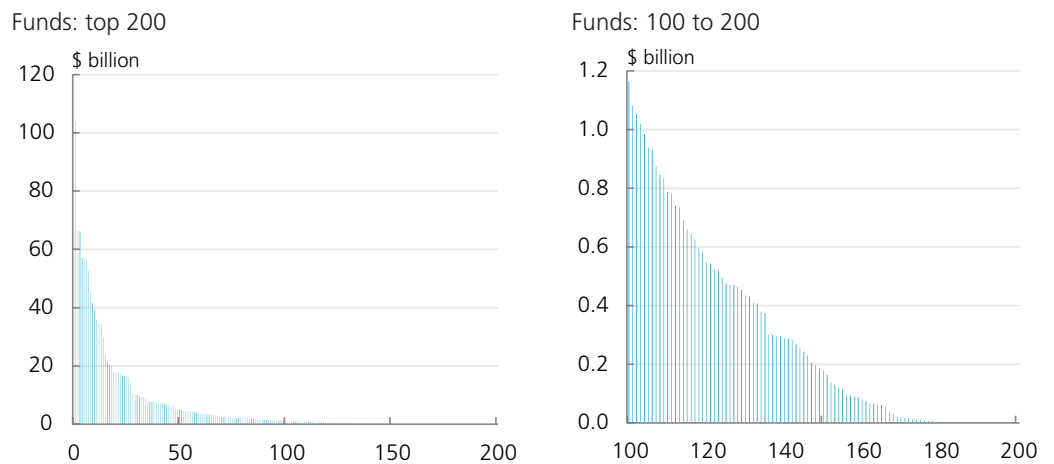
Source: APRA Quarterly Superannuation Performance, December 2016, APRA Annual Superannuation Bulletin, June 2016 and other APRA data.

Market concentration and scale

In the institutional part of the superannuation industry there are approximately 250 funds that report to APRA – approximately 230 of which are regulated by APRA.^{25 26} With respect to individual APRA-regulated funds, there are a small number of very large funds and a large number of relatively small funds – evident in the long tail in Charts 7 and 8. There are approximately 120 APRA-regulated funds that have assets of less than \$1 billion.

As the number of funds has declined, holdings of superannuation assets have become more concentrated. That said, fund concentration is far lower than in other domestic markets. As an illustration, the Herfindahl Hirshman Index—a standard measure of industry concentration—for Australian superannuation funds is well below the benchmark for industry concentration (2.8 per cent in 2012 compared to the benchmark of 15 per cent).²⁷ Further merger activity will lead to greater market concentration, but concentration likely will remain far less than in other major domestic markets.

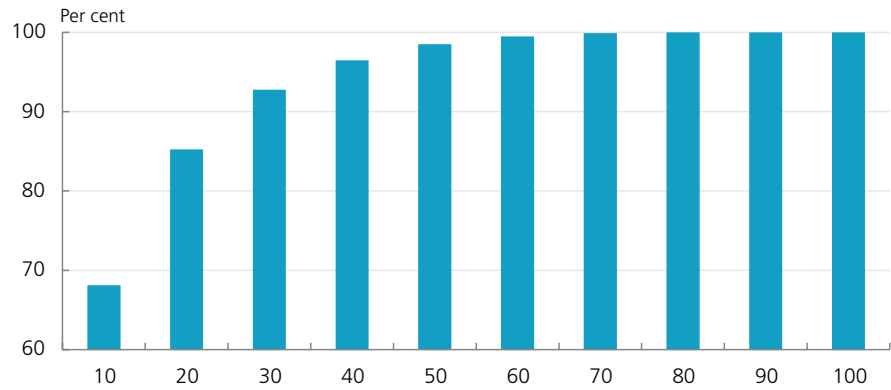
Charts 7 and 8: Assets of APRA-regulated funds



Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

An alternative perspective on fund concentration is the share of superannuation assets by decile. As at June 2016, the largest 10 per cent of funds by assets (the largest 22 individual funds – based on the 219 funds for which data is available)²⁸ controlled a little less than 70 per cent of total superannuation assets (Chart 9). The largest 20 per cent of funds (the largest 44 individual funds) by assets controlled approximately 85 per cent of total assets.

Chart 9: Share of assets of APRA-regulated funds, by total asset decile*



Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

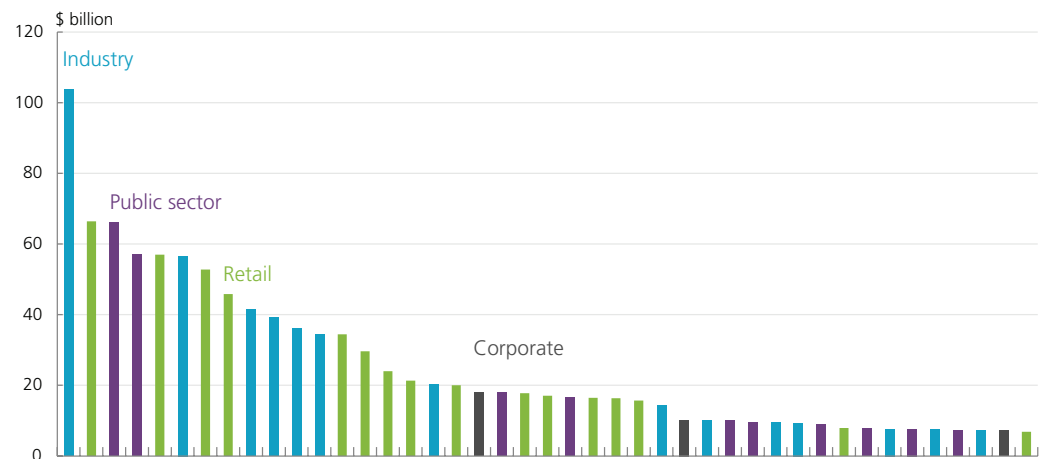
The largest 20 per cent of superannuation funds comprise a diverse mix of retail, industry, public sector and corporate funds (Table 3). Nine of the funds in this group are closed to the general public (six public sector funds, two corporate funds and one industry fund). Chart 10 shows the diverse mix of fund types among a larger fund population. Some organisations, such as banks, insurance companies and professional trustees, are responsible for more than one fund. This means that a few retail fund providers have total superannuation assets under management similar to the largest industry fund.

Table 3: The largest 20 per cent of APRA-regulated superannuation funds

	No. of entities	No. public offer	Total assets (\$b)	Average assets (\$b)
Retail	16	16	449	28
Industry	14	13	397	28
Public sector	10	4	209	21
Corporate	3	1	36	12
Total	43	34	1091	32

Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

Chart 10: The largest APRA-regulated funds, by assets



Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

Superannuation licensees

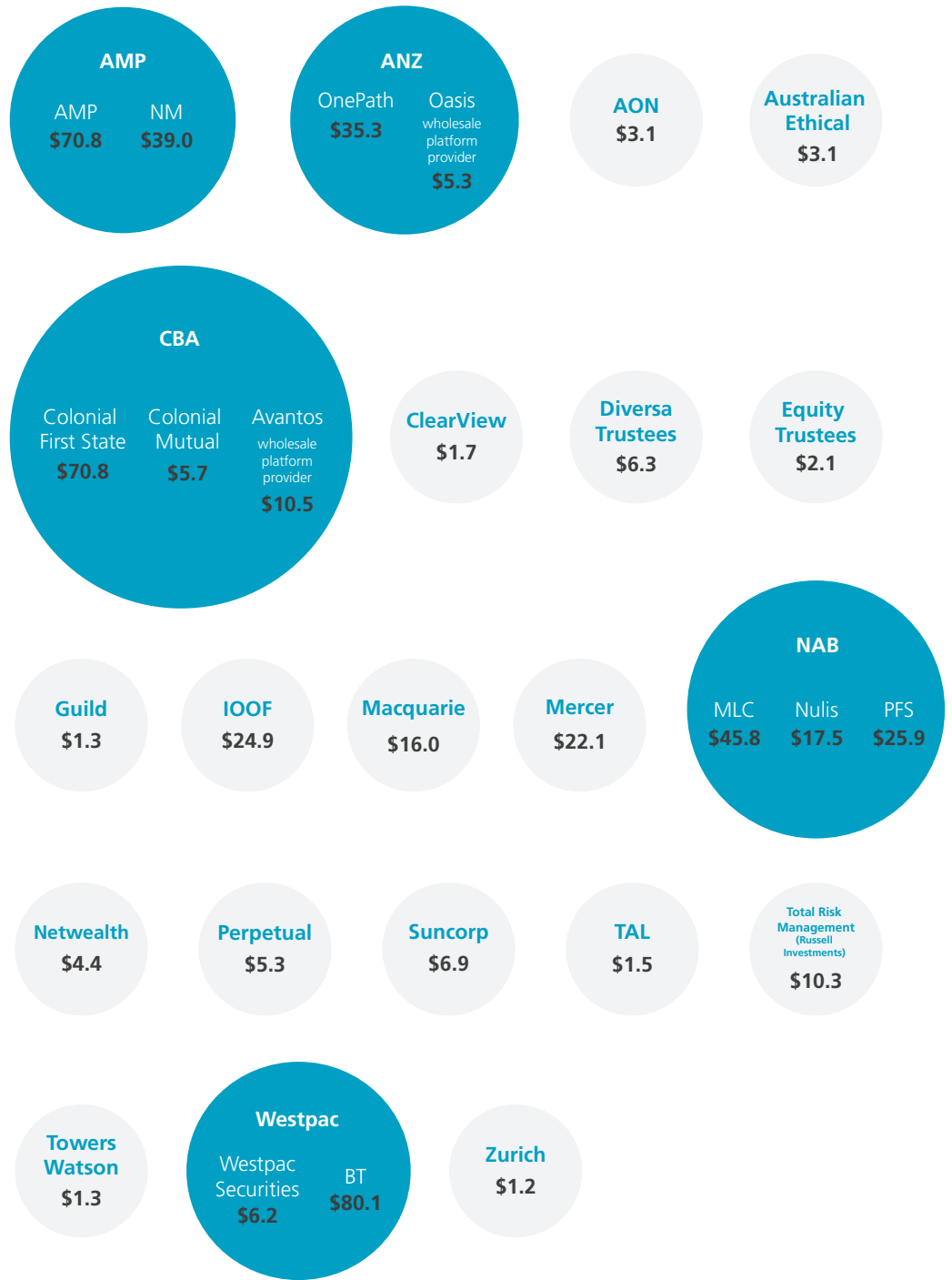
The retail sector

The structure of the retail sector is more complex than the other sectors. In many cases, a group of discrete APRA-regulated retail funds are part of a single entity – i.e. there is a registered licensee for a group of discrete superannuation funds (or registrable superannuation entities [RSEs]).²⁹ Further, in some cases, a number of discrete licensees may be part of the same corporate group. This complexity reflects, in part, the outcome of industry merger activity, where the corporate parent has chosen to retain the separation of entities within the larger group.

Figure 1 shows the relationships between RSE licensees within the retail sector, where the figures represent the total assets of licensees. The blue circles represent corporate groups, where licensees are wholly-owned entities of a corporate parent.

Many of the large commercial financial services institutions that operate in Australia – such as banks and insurance companies – are present in the superannuation industry. For instance, each of Australia's big four retail banking groups has a significant presence in the market. In some cases these banking groups have multiple superannuation licensees within the corporate group, each with assets under management in the billions of dollars.

Figure1: Assets of retail-sector superannuation licensees as at June 2016 (\$billion)*



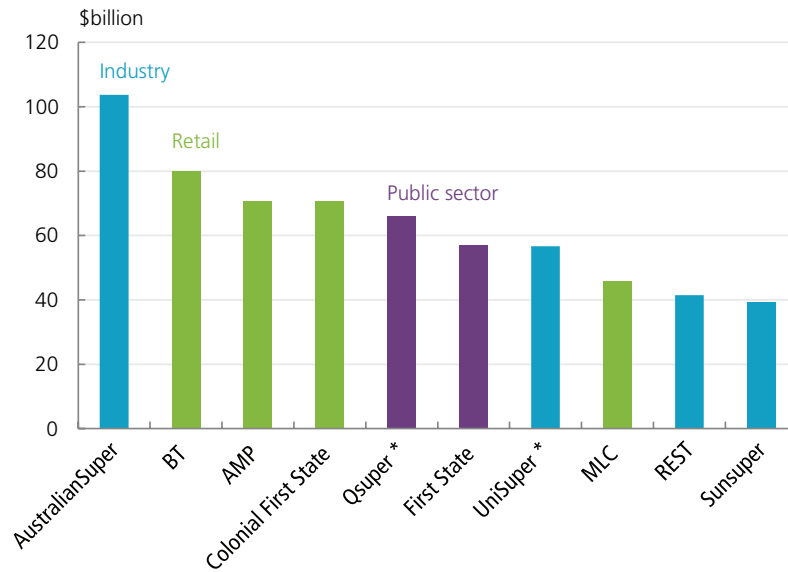
Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

* As at 30 June 2016, for licensees with total assets of \$1billion or greater. The blue circles represent corporate groups.

The broader APRA-regulated sector

For the largest 10 APRA licensees, Chart 11 shows there is a diverse representation of sector types (individual funds have been consolidated within respective licensees). Of these, both QSuper and UniSuper are closed to the general public. Note that with respect to the retail sector, the figures in Chart 11 are not meant to represent the aggregate superannuation assets of larger retail sector corporate groups, as shown in Figure 1. As noted above, large retail financial services groups, such as the Commonwealth Bank, Westpac and AMP typically have more than one APRA licence. Tables 4, 5 and 6 show the assets of the largest industry, public sector and corporate funds.

Chart 11: Assets of licensees, June 2016



Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

* Denotes those funds that are closed to the general public.

Table 4: Industry funds, June 2016

Fund name	Assets (\$b)
AustralianSuper	104
UniSuper	57
REST	42
Sunsuper	39
HESTA	36
CBUS	34
Hostplus	20
CareSuper	14
Mine Wealth + Wellbeing	10
MTAA Superannuation Fund	9

Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

Table 5: Public sector funds, June 2016

Fund name	Assets (\$b)
QSuper	66
First State Super	57
PSS (Commonwealth)	27
VicSuper	17
LGIASuper	10
Local Government Super	9
Australia Post Superannuation Scheme	8
Vision Super	8

Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

Table 6: Corporate funds, June 2016

Fund name	Assets (\$b)
Telstra Superannuation Scheme	18
Commonwealth Bank Group Super	10
Qantas Superannuation Plan	7

Source: APRA Annual Fund-level Superannuation Statistics, June 2016.

The market for funds' functions

Broadly speaking, the services and products fund trustees source (whether in-house or outsourced) comprise the wholesale-level supply chain. These services and products include those that funds require in order to operate (such as administration functions), and those that funds ultimately provide to members (such as insurance and advice).

With respect to the latter, service providers (of insurance and advice) also interact directly with fund members or their agents – this is the member-servicing level of the supply chain (funds themselves are also part of the member-servicing level of the supply chain, but are not addressed in this section).

In determining the source of particular functions, fund trustees have a statutory obligation to act in members' best interests. As noted earlier, though funds outsource many of their functions, they cannot outsource their responsibility for the performance of these functions – this is a fundamental tenet of trust law.

The major services and products in the supply chain include the following:

- Trustee services
- Fund administration
- Investment management/asset consulting
- Custodial services
- Insurance
- Advice

At each stage of the supply chain, there are numerous providers – which include funds' in-house provision and third-party providers (either from related or unrelated entities). Some entities span different stages of the supply chain. Again, these entities include funds that have in-house functions, and entities that offer a range of services and products to funds.

For some stages of the supply chain, third-party provision is dominated by providers that specialise in providing particular services/products to superannuation funds. This includes administration services, where significant economies of scale have facilitated a small number of large entities to achieve scale economies from horizontal integration – often through merger.

For other stages of the supply chain, third-party provision is dominated by providers that specialise in particular services/products, but where superannuation funds are just one group of clients. This includes life insurance, where specialist providers offer life insurance (ultimately to retail customers) through a range of channels – including through superannuation funds.

Vertically-integrated financial services institutions (such as the large retail banks) may have some, or all, of the required functions within the corporate group structure. Funds within a particular group may outsource to another area of the organisation, or to an unrelated entity. By the same token, the group may offer services/products to funds outside of the group. The prime example is investment management services. Funds within vertically-integrated financial services institutions typically outsource investment management to specialist providers both inside and outside of the corporate group.

The market structure for each stage of the supply chain differs with respect to the degree of in-house/third-party provision. The evolution of each market structure reflects factors such as the presence of economies of scale for services/products, constraints on market entry and exit, particular regulatory requirements and demand from funds for outsourcing particular functions.

Funds' decisions on insourcing and outsourcing are, in part, the result of competitive pressures. In particular, third-party providers are a source of economies of scale for smaller funds, where the scale of operations of third-party providers is far greater than funds can achieve themselves.

The prime example is the use of third-party administrators where considerable economies are achieved through, for instance, the utilisation of a single information technology system. Third-party providers also may allow funds to provide a higher quality of products and services, and a greater range of products and services, to members than otherwise would be the case.

All this underscores the competitive and dynamic nature of the industry. Players look to gain a presence in, or expand their existing share of, particular stages of the supply chain. Fund trustees are under a statutory obligation to source functions in the best interests of members – which guides decisions about insourcing and outsourcing particular functions. This is a key source of competition in provider markets.

Funds' decisions on insourcing and outsourcing also reflect risk mitigation strategies. The increasingly complex regulatory environment for superannuation funds has substantially increased the administrative/compliance burden on superannuation funds, which favours outsourcing. On the other hand, insourcing gives funds greater control.

The fees levied on members cover the cost of fund functions, and find their way to the ultimate providers of those functions. As noted above, large commercial financial services institutions provide a range of services and goods to funds (both related and unrelated), including investment management, custodial services, insurance and advice.³⁰

Administration services

The administration functions of superannuation funds are those functions required for the day-to-day running of the fund. Core administrative functions include the following:

- data management
- member communication
- contribution processing and benefit payment
- call centre operation
- client accounting
- insurance premium collection and claim administration
- statement processing.

Funds can choose to administer some or all of such functions in-house, outsource all administration services to a third-party provider (the full-outsourced model), or administer in-house using third-party fund administration software and platforms (the quasi-outsourced model).

With respect to outsourcing, small to medium-sized funds are more likely to have bundled administration arrangements, while larger funds are more likely to have (or be contemplating) unbundled services. For funds that are part of larger corporate groups, such as retail funds, administrative functions typically are integrated into the platform operations of the particular corporate group.³¹

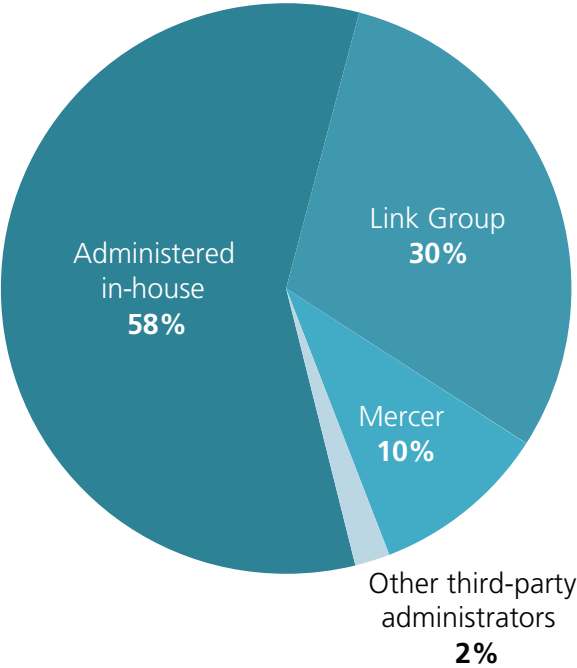
With respect to third-party providers, there are significant scale advantages in providing administration functions. Not surprisingly, the market is characterised by a small number of large players. Indeed, over recent years, a number of providers have exited this market, and a number of consolidations have occurred. For the full-outsourced model, there are two major players, Link Group and Mercer (Chart 12).

- Link Group is the dominant market player, following a number of significant acquisitions over the past decade. In terms of the full-outsourced model, Link Group accounts for around three-quarters of the market. Founded in New Zealand, Link Group is publically-listed on the ASX.
- Mercer (Australia) is an integrated provider of superannuation and wealth management services in the Australian market. In addition, to administration services, Mercer also is an RSE licensee, and operates a number of superannuation funds. Mercer (Australia) is a subsidiary of a US-based public company Marsh & McLennan.
- Mercer recently acquired Pillar (a public corporation that was owned by the New South Wales Government). Pillar provided administration (and related) services mainly to some large public sector funds, but also to some retail sector funds.

In-house administrative functions represent a significant part of the market. Larger industry and public sector funds have in-house provision of some or all of their administrative functions (for example; QSuper, UniSuper and First State Super). As noted above, funds that are part of large commercial financial services groups typically source administrative services from within the group.

With respect to the quasi-outsourced model, there are a number of players in the market. Typically, third-party providers supply the IT platform for core administration services, while the superannuation fund administers the operation of the platform using its own staff. Some providers of third party IT administration platforms include Bravura Solutions, DST Systems and Financial Synergy.³²

Chart 12: Provision of administrative services, by core administration service expense³³



Source: Link Group and ASFA calculations.

Custodial services

Custodians provide a range of services to superannuation funds, and the broader financial system, that pertain largely to the safekeeping of assets and the production of information flows.

There is no strict legal requirement for trustees to appoint a custodian. However in practice, the overwhelming majority of trustees do appoint custodians, and APRA has endorsed this as 'best practice'.³⁴

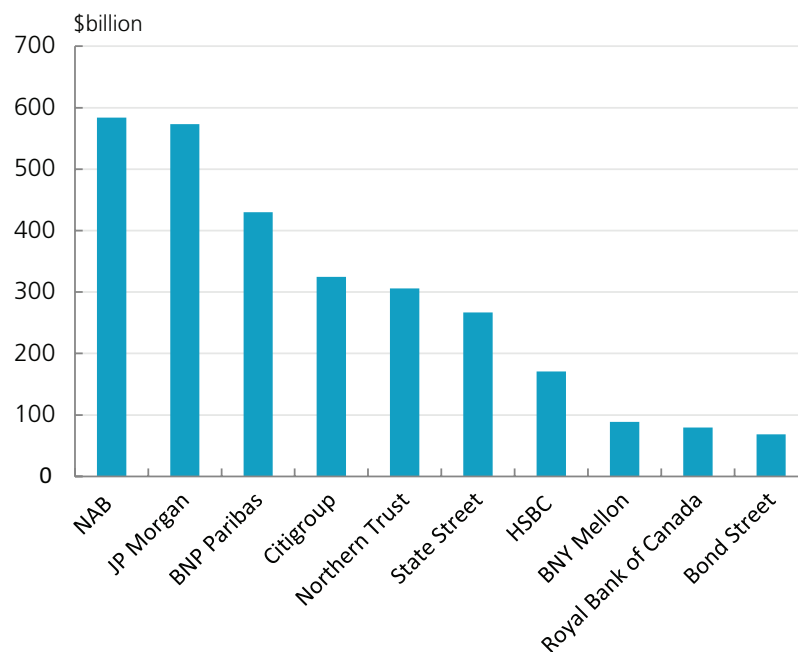
The services provided by custodians have evolved over recent years:

- Core roles include those related to managing the rights attached to financial assets – securities registration, collection of investment income (dividends and interest), settlement of transactions and trade confirmation.
- Custodians also will typically be responsible for a variety of what can best be characterised as information services – such as portfolio valuation and periodic reporting to fund trustees.
- Other services custodians provide to trustees include undertaking foreign exchange transactions, facilitating securities lending and borrowing, and arranging proxy voting.³⁵

There has been significant consolidation in custodial services over the past few decades. With respect to custodial services for the financial system at large, local institutions have tended to withdraw from providing third-party custodial services (though some of these have retained in-house custodial functions). As a result, it is the large international custodians that dominate the local market.

With respect to the broader financial system, as at December 2015 the top four service providers accounted for approximately 70 per cent of the market (Chart 13).³⁶ With respect to locally-based providers, NAB is the largest player in the market, followed by Bond Street – a subsidiary of the Macquarie Bank Group.

Chart 13: Assets under custody, as at December 2015³⁷

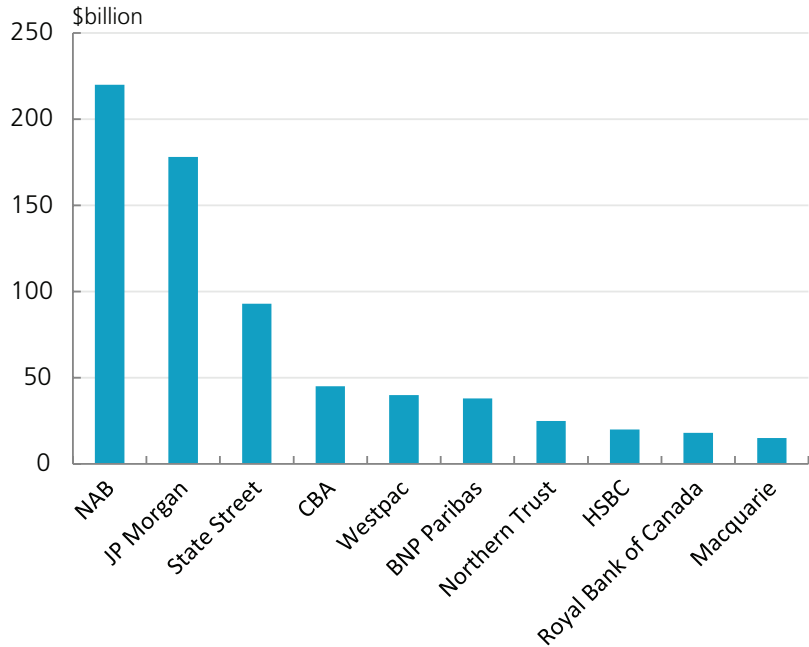


Source: Australian Custodial Services Association.

Note: This is for total Australian investor assets under custody, and as such is broader than for Australian superannuation assets.

With respect to the superannuation industry, the landscape is somewhat different. Research undertaken by the University of New South Wales concludes that Australia’s four major retail banks have a larger share of service provision compared to the broader financial system (Chart 14).³⁸ This reflects the in-house custodial functions of Australia’s retail banking groups, which are also among the largest players in the superannuation market. For example, Westpac provides custodial services for its subsidiary, BT Funds Management.

Chart 14: Superannuation assets under custody, 2012



Source: Donald, M. S. and Nicholls, R. 2014, *Bank Custodians and Systemic Risk in the Australian Superannuation System*, University of New South Wales Centre for Law, Markets and Regulation, CLMR Working Paper No. 14-4, July 2014.

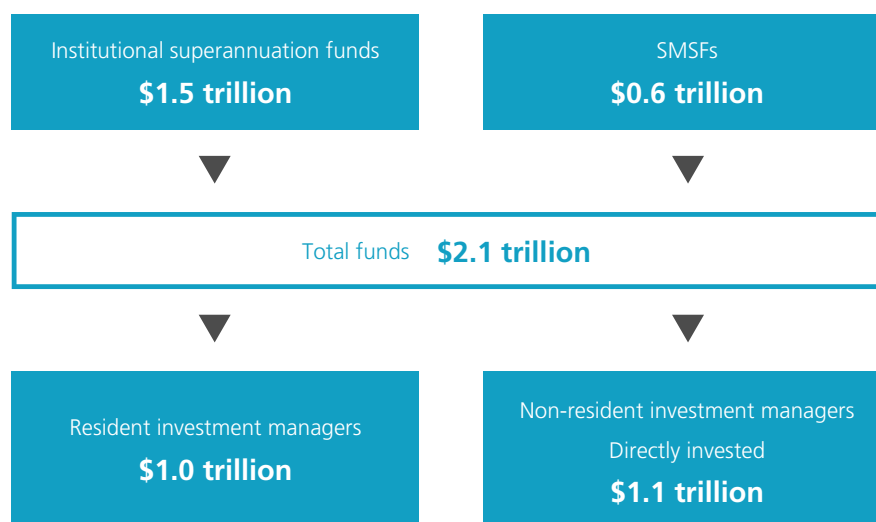
Investment management services

The trustees of Australian superannuation funds have myriad choices with respect to investment management.

Most major Australian financial institutions in Australia offer investment management services either directly or through a subsidiary. There are also a large number of boutique investment managers. Foreign institutions offer investment management services in Australia, through Australian-based branches and subsidiaries, and trustees also invest directly with foreign-based investment managers. In addition, fund trustees have the option to invest some or all of the assets of the fund directly.

Of the \$2.1 trillion of superannuation fund assets (in the September quarter 2016), almost 50 per cent is placed with locally-based investment managers, which includes Australian-based branches and subsidiaries of foreign institutions (Figure 2).³⁹ The remainder is either invested with foreign-based investment managers or directly invested.⁴⁰ SMSFs account for a significant share of directly-invested assets – only around 20 per cent of SMSF assets are invested via pooled managed funds.^{41 42}

Figure 2: Funds management in superannuation, as at September 2016



Source: Australian Bureau of Statistics, *Managed Funds Australia*, ABS Cat no. 5655.0, September Quarter 2016, APRA Quarterly Superannuation Performance, September 2016 and APRA Superannuation Bulletin, June 2016.

The local investment management market is large. In the September quarter 2016, total funds under management in the local investment management industry was \$1.9 trillion.⁴³ In aggregate, assets from funds comprised the largest share of assets under management of local investment managers, at just over 50 per cent. Other major sources of funds include life insurance corporations, public offer (retail) unit trusts and governments.

There are a large number of providers of investment management services in Australia, and the market is far less concentrated compared to the markets for administration and custodial services. For example, the top 20 locally-based investment managers accounted for around 80 per cent of funds under management in 2014.⁴⁴ Market concentration has only marginally diminished over the last five years.

The largest players in the domestic market include the investment management arms of Australia’s retail banks, and local subsidiaries and branches of large global wealth management institutions. The competitive nature of the industry means that the relative size of the top players can change markedly from year to year. Research from Morningstar shows the top ten players in the domestic market at the end of 2014 at Table 7.⁴⁵

Table 7: Assets under management of Australian-based investment managers, as at December 2014

Investment manager	Assets (\$ billion)
State Street Global Advisors Australia	152
Commonwealth/Colonial Group	117
AMP Group	94
Vanguard Investments Australia	73
Macquarie Bank Group	59
BlackRock Investment Management Australia	59
BT Financial Group	58
IFM Investors	54
Schroder Investment Management Australia	52
UBS Global Asset Management Australia	40

Source: Morningstar 2015, Australian Managed Funds Industry.

Typically, individual superannuation funds will use the services of more than one investment manager, where different investment managers are selected to invest in particular asset classes, or with respect to a particular investment mandate. This is a significant source of competition in the investment management industry.

Insurance

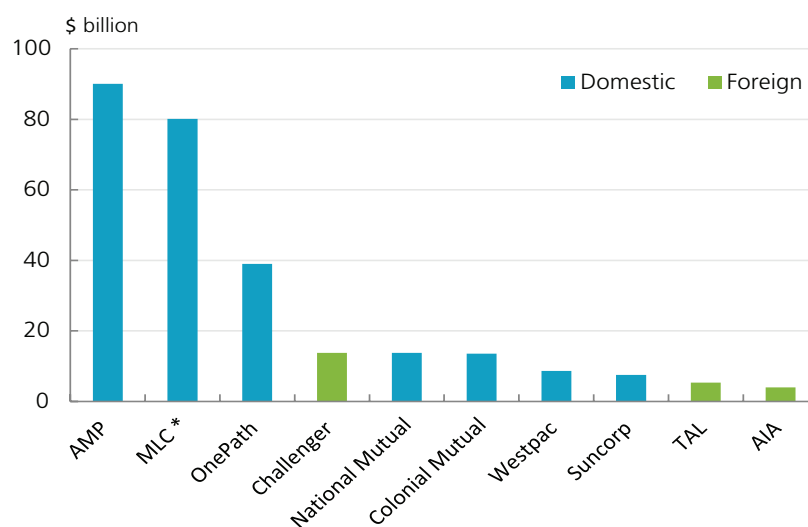
Institutional superannuation funds typically offer members insurance cover for disablement and/or death (hereafter, collectively referred to as life insurance). For all MySuper and some choice products, life insurance is provided on a default, opt-out, basis. Funds are required to place their insurance with registered life companies.

The Australian market for life insurance comprises two main segments – life insurance sold directly to the public (retail) and life insurance intermediated via superannuation funds. The latter generally is provided as group insurance, where a single contract covers an entire group of people within a fund.⁴⁶ Overall, life companies' superannuation business accounts for approximately half of the industry's gross policy revenue.⁴⁷

Overall, the Australian life insurance market comprises around 20 companies that directly write life insurance.⁴⁸ Among these are a small number of large providers, and a larger number of smaller players – some of which service specialist markets. The industry mix has not changed appreciably over the last few years, following a two-decade period of significant industry consolidation.⁴⁹

The major players in the Australian life insurance market are the specialist insurance arms of large Australian commercial financial services institutions and related entities of foreign financial institutions. In terms of gross assets, the market is dominated by Australian institutions. The largest three providers—all Australian—accounted for 75 per cent of total assets in 2015-16 (Chart 15).

Chart 15: Life insurance companies, by total assets

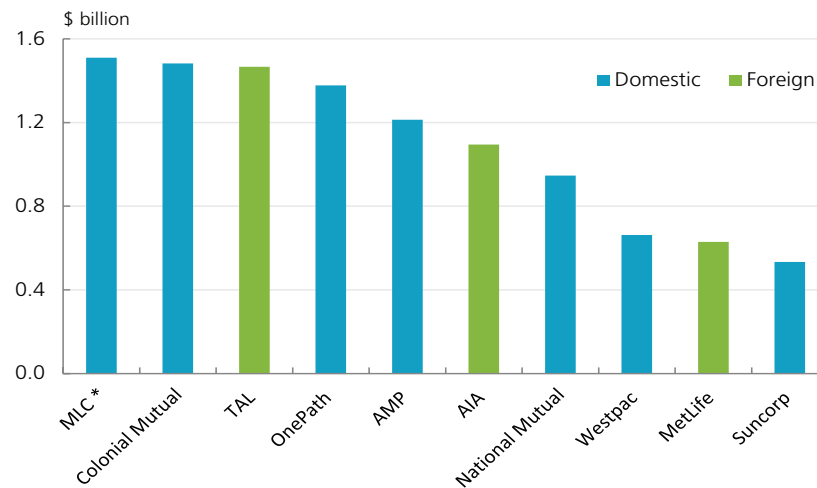


Source: APRA Life Insurance Institution-level Statistics, June 2016.

* On 3 October 2016, National Australia Bank (NAB) completed the sale of 80 per cent of its life insurance business (part of MLC, which is a subsidiary of NAB) to Nippon Life Insurance Company (Japan). NAB has retained the remaining 20 per cent, and rebadged it as MLC Life.

However, this understates the degree of competition in the market. In terms of direct premium revenue, the market is far less concentrated. In 2015-16, the largest seven players wrote 75 per cent of premiums, two of whom are related entities of foreign financial institutions (Chart 16). More broadly, the distribution of revenues is more even when compared with total assets.

Chart 16: Life insurance companies, by net policy revenue



Source: APRA Life Insurance Institution-level Statistics, June 2016.

Note: Net policy revenue is policy revenue net of outward reinsurance premiums.

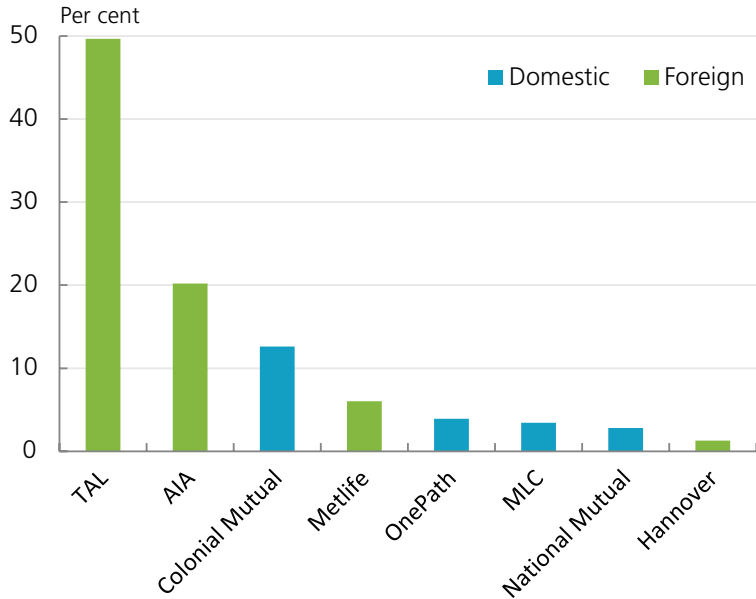
* On 3 October 2016, National Australia Bank (NAB) completed the sale of 80 per cent of its life insurance business (part of MLC, which is a subsidiary of NAB) to Nippon Life Insurance Company (Japan). NAB has retained the remaining 20 per cent, and rebadged it as MLC Life.

For retail superannuation funds, insurance is often—but not always—provided by a related corporate entity. Many of Australia’s large commercial financial services institutions have life insurance arms within the broader corporate group – this includes the big four retail banks and AMP. It is therefore unsurprising that trustees within these organisations often source life insurance services from within the same corporate group – noting that fund trustees have a statutory obligation to consider members’ best interests in selecting insurance.

APRA research concludes that for around half of superannuation funds in the retail sector, the fund trustee is related to the insurance provider.⁵⁰ For example, some of BT’s superannuation products provide life insurance through Westpac Life Insurance Services Limited (a related entity), whereas other products provide insurance through an unrelated external provider.⁵¹

For industry, corporate and public sector funds, life insurance is almost exclusively provided to members via external providers. The market for insurance provision to all-profit-to-member funds is dominated by a small number of players. However, in contrast to the broader market for life insurance, this market is dominated by foreign providers. Chart 17 shows insurance companies’ market share of insurance provided to the larger industry, corporate and public sector funds (on the basis of total fund assets).

Chart 17: Market share of life insurance companies, all-profit-to-member funds, total assets basis⁵²



Source: APRA Life Insurance Institution-level Statistics, June 2016.
 Note: Total assets basis.

QSuper is the major exception to this rule. QSuper is the largest public sector fund in Australia, with total assets of approximately \$65 billion. Last year QSuper established a wholly-owned registered life company (QInsure), which provides life insurance to QSuper members.

Most Australian superannuation funds provide at least some advice options for their members. In broad terms, advice can be categorised according to the degree that it is tailored to members' particular circumstances.

- General financial product advice is advice about a product generally, but does not take into account any of the recipient's relevant circumstances (objectives, risk tolerance, financial situation or needs), nor does it make any recommendations.
- Scaled personal advice relates to a member's specific circumstances, but is limited in scope (by agreement between the adviser and the member), to one or more specific topics. So-called intra-fund advice is a form of scaled advice confined to matters relating to a member's interest in their superannuation fund – the costs of which can be covered (in whole or in part) by the administration fee charged to all fund members.
- Comprehensive financial advice is tailored to individual circumstances, and typically relates to a range of financial products and options. In contrast with intra-fund advice, members who receive comprehensive advice are charged a fee that, in some circumstances, can be deducted from their account.

Provision of advice through superannuation funds is part of a larger advice market. Australians can obtain advice on financial products through a number of channels, including superannuation funds, banks, dealer groups and insurance companies.

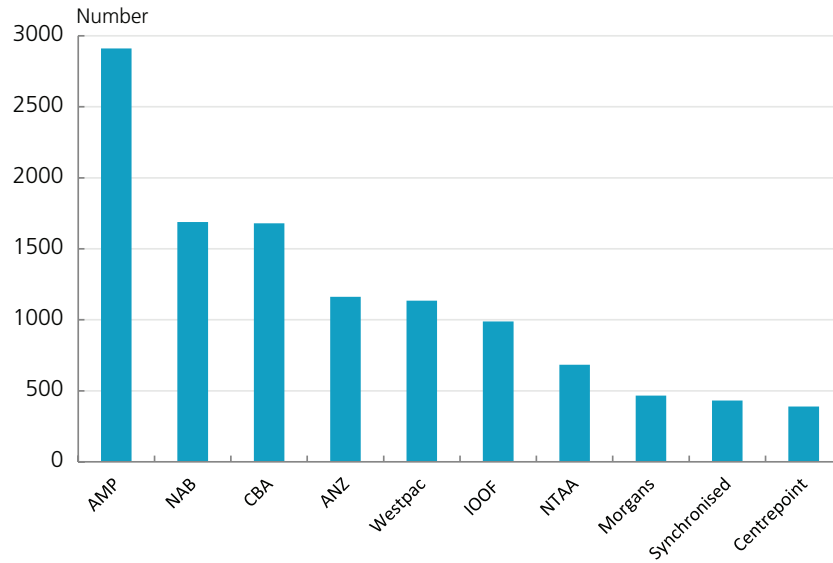
Overall, ASIC data shows that there are approximately 25,400 persons licensed to provide personal advice in Australia, though not all of these are active advisors. These advisors are aligned with approximately 1,550 separate entities, from single advisors to large dealer groups.

Dealer groups are the distribution arms of financial institutions for financial planning services. The 100 largest of these dealer groups account for approximately 20,900 advisors. In many cases, a single large corporate entity controls a number of separate dealer groups – often the result of acquisition activity.

Australia's large commercial financial services institutions have a significant presence in the market for personal advice. The largest five providers are Australia's big four retail banks and AMP (Chart 18). These institutions account for almost 35 per cent of advisors licensed to provide personal advice. Other large players include other vertically-integrated financial services institutions (such as IOOF and Morgans Financial) and specialist advice firms (such as Synchronised Business Services and Centrepont Wealth).

Notwithstanding significant industry consolidation in recent years, there are still a large number of mid-size operators in the market. Indeed, there are approximately 100 entities, including those with multiple dealer groups, which have between 20 and 100 advisors. In addition, there are many hundreds of entities with fewer than 20 advisors.

Chart 18: Number of licensed advisors, by controlling entity⁵³



Source: ASIC Financial Advisers Dataset.

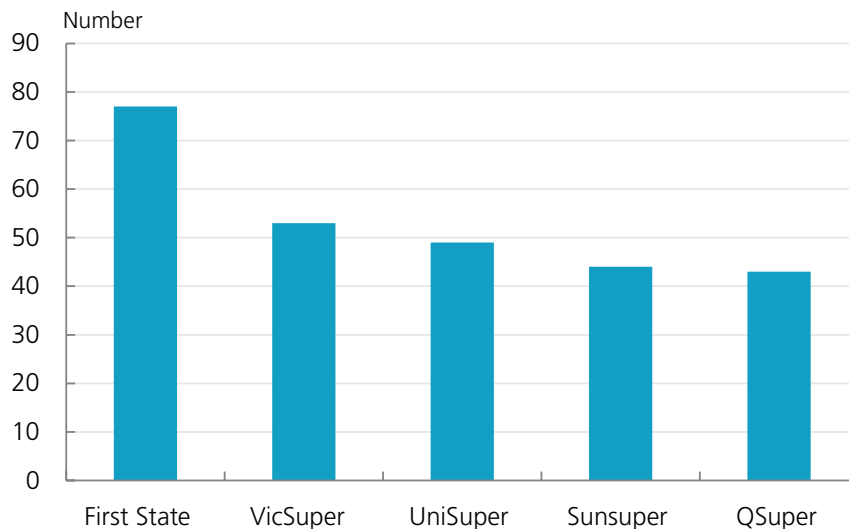
In providing advice services to members, the superannuation industry, engages a subset of advisors. Approximately 85 per cent of advisors licensed to provide personal advice can provide advice on superannuation products. However, only a small proportion of these would provide personal advice to clients as intermediated through their superannuation fund.

For superannuation funds, there are a number of ways that trustees can structure their advice capacity, through a combination of in-house and outsourced advisors.

With respect to the retail sector, the large commercial financial services institutions that operate superannuation funds typically also have significant networks of financial advisors (often comprising multiple dealer groups). These organisations provide advice services to fund members from within their corporate group. This includes the big four retail banks and AMP.

Some of Australia's largest industry and public sector superannuation funds have significant in-house advice capacity. For a sample of large industry and public sector funds, Chart 19 shows the number of advisors that are licensed with particular funds. Corporate superannuation funds, such as TelstraSuper, also have in-house advisors.

Chart 19: Number of licensed advisors, by entity



Source: ASIC Financial Advisers Dataset.

In another form of in-house advice, some funds directly employ advisors that are actually licensed with other organisations. However, the extent of this practice is difficult to determine as it is not captured in the ASIC data.

There is a range of third party providers in the market. For many organisations that provide services to fund trustees, advice services represent just one of those services. Mercer has around 70 licenced advisors and Link has approximately 30 licenced advisors. Industry Fund Services is a source of outsourced advice (and other services) for industry funds and has around 110 licenced advisors.⁵⁴

Some superannuation funds have combinations of the above models. For example, some funds outsource the provision of comprehensive advice to their members, but retain intrafund advice services in-house.



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22. Donald, M. S. and Nicholls, R. 2014, *Bank Custodians and Systemic Risk in the Australian Superannuation System*, University of New South Wales Centre for Law, Markets and Regulation, CLMR working paper no. 14-4, July 2014).
23. KPMG 2015, *Supertrends: The Trends Shaping Australia's Superannuation Industry*.
24. Link Group 2015, *Prospectus: Initial Public Offer of Ordinary Shares*.
25. MorningStar 2015, *Australian Managed Funds Industry*.
26. Qu, J.Z. 2014, 'An Efficiency Study of the Australian Superannuation Industry', APRA.
27. Rainmaker 2015, *Superannuation Industry Revenue Report 2015*.
28. Rice Warner 2014, *Ageing and Capital Flows: Financial System Inquiry*.
29. Rice Warner 2016, *Underpinning Superannuation Growth*, 22 September.

Endnotes

1. Annual nominal GDP.
2. ASFA 2013, Australian Superannuation: An Example of Asset Building in Practice.
3. Some public sector funds are set up under an Act of Parliament, and are not set up as a trust. These are Exempt Public Sector Superannuation Schemes (EPSSSs). EPSSSs are not regulated by APRA or the ATO, but are supervised by the relevant state government or by the Commonwealth Government.
4. A Retirement Savings Account (RSA) is a particular superannuation product that is not set up as a trust. RSAs operate under the Retirement Savings Account Act 1997.
5. For an example of a fund trust deed, see <https://www.australiansuper.com/~media/Files/BoardGovernance/TrustDeedAustralianSuper20150422.ashx>.
6. Registration of RSEs is affected under Part 2B of the Superannuation Industry (Supervision) Act 1993 (the SIS Act).
7. The intermediated/institutional funds sector also includes Exempt Public Sector Superannuation Schemes. See Footnote 3 for more detail.
8. In practice, the trustees of many SMSFs are incorporated. This is permitted under the Superannuation Industry (Supervision) Act 1993 (the SIS Act), as long as all funds members serve as directors of the trustee company (see Donald, M. S. and Nicholls, R. 2014, Bank Custodians and Systemic Risk in the Australian Superannuation System, University of New South Wales Centre for Law, Markets and Regulation, CLMR working paper no. 14-4, July 2014).
9. The discrete superannuation funds would have separate trust deeds.
10. Rainmaker 2015, Superannuation Industry Revenue Report 2015.
11. Donald, M. S., Bateman, H., Buckley, R., Liu, K. and Nicholls, R. 2016, 'Too Connected To Fail: The Regulation of Systemic Risk Within Australia's Superannuation System', Journal of Financial Regulation, vol. 2, no. 1.
12. APRA 2005, Classification of Superannuation Entities.
13. ASIC, MoneySmart website (<https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/choosing-a-super-fund/types-of-super-funds>), accessed 12 September 2016.
14. These are Exempt Public Sector Superannuation Schemes (see Footnote 3 for more detail). To make matters more complicated, not all Exempt Public Sector Superannuation Schemes are accounted for in the APRA data. Those funds that are accounted for report to APRA under agreement between the Commonwealth Government and each of the State and Territory governments (APRA 2005, Classification of Superannuation Entities).
15. Calculated on an average member-benefit basis. For an individual fund, total member benefit is total assets less total liabilities.
16. As at June 2016, for retail funds the average was \$42,017, for industry funds the average was \$41,950.
17. APRA notes that Total assets is the sum of assets held in respect of the product or lifecycle stage, where an asset represents a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity. This includes: investments, securities purchased under agreements to resell and securities borrowed, derivative assets, current tax assets, and deferred tax assets (APRA Annual Superannuation Bulletin, June 2015).
18. The Australian Government Employees Superannuation Trust.
19. For a detailed discussion on the regulatory barriers to mergers see ASFA's submission to the Productivity Commission's review of the competitiveness and efficiency of the superannuation system (See <http://www.superannuation.asn.au/policy/submissions> (ASFA 2016, Submission to the Productivity Commission: How to Assess Superannuation Competitiveness and Efficiency)).
20. SMSFs comprise the majority of small funds – i.e. funds with fewer than 5 members. As of September 2016, SMSFs accounted for 99.6 per cent of small funds.
21. In particular, the triggering of CGT events, such as the realisation of otherwise unrealised gains and the inability to carry forward losses, can prevent a trustee from entering into a successor fund transfer arrangement.
22. See <http://www.superannuation.asn.au/policy/submissions> (ASFA 2016, Submission to the Productivity Commission: How to Assess Superannuation Competitiveness and Efficiency).
23. For the financial year ending 30 June 1996 and 30 June 2016 respectively.
24. The most significant rate of growth (13 per cent) in the number of SMSFs occurred in 2007. This coincided with the introduction of the then Government's Superannuation Simplification measures, which in effect encouraged the making of large contributions of up to \$1 million during a limited transitional period.
25. As at September 2016, there were 249 institutional funds that report to APRA, 230 of which were regulated by APRA.

26. The APRA data exclude those public sector funds that are not required to report to APRA (Except Public Sector Superannuation Funds – see Footnote 3).
27. Qu, J.Z. 2014, 'An Efficiency Study of the Australian Superannuation Industry', <http://www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Documents/Zhiwei-Qu-2013.pdf>.
28. APRA publishes data for 219 individual funds in its annual fund-level superannuation statistics publication (Annual Fund-level Superannuation Statistics).
29. Individual superannuation entities are registered under Part 2B of the Superannuation Industry (Supervision) Act 1993 (the SIS Act).
30. Rainmaker estimates that around one-third of total fee revenue ultimately is paid to Australia's major retail banks (Rainmaker 2015, Superannuation Industry Revenue Report 2015).
31. Rainmaker 2015, Superannuation Industry Revenue Report 2015.
32. Link Group 2015, Prospectus: Initial Public Offer of Ordinary Shares.
33. Link Group 2015, Prospectus: Initial Public Offer of Ordinary Shares.
34. Donald, M. S. and Nicholls, R. 2014, Bank Custodians and Systemic Risk in the Australian Superannuation System, University of New South Wales Centre for Law, Markets and Regulation, CLMR Working Paper No. 144, July 2014.
35. Ibid.
36. Australian Custodial Services Association 2014, Second Round Submission to the Financial System Inquiry.
37. Australian Custodial Services Association, <http://acsa.com.au/?page=AUSCustody>, accessed 14 June 2016.
38. Donald, M. S. and Nicholls, R. 2014, Bank Custodians and Systemic Risk in the Australian Superannuation System, University of New South Wales Centre for Law, Markets and Regulation, CLMR Working Paper No. 144, July 2014.
39. The Australian Bureau of Statistics defines a resident investment manager as one that is ordinarily domiciled in Australia, and includes Australian-based branches and subsidiaries of foreign businesses. All foreign branches and subsidiaries of Australian businesses are included in non-resident entities.
40. Australian Bureau of Statistics, Managed Funds Australia, ABS Cat no. 5655.0, September Quarter 2016.
41. Rainmaker 2015, Superannuation Industry Revenue Report 2015.
42. SMSFs invest in term deposits, direct shareholdings of Australian companies, residential real estate and business real property (when the member has a small business).
43. Australian Bureau of Statistics, Managed Funds Australia, ABS Cat no. 5655.0, March Quarter 2016.
44. Morningstar 2015, Australian Managed Funds Industry.
45. Morningstar 2015, Australian Managed Funds Industry.
46. For the year ended September 2016, 73 per cent of total gross premium revenue (for the whole life insurance industry) from companies' superannuation business was group rather than individual insurance (APRA, Quarterly Life Insurance Performance, September 2016).
47. APRA, Quarterly Life Insurance Performance, September 2016.
48. This excludes reinsurers.
49. APRA 2013, Insight, Issue Three, 2013.
50. APRA 2012, Superannuation and insurance: Related Parties and Member Cost.
51. BT Super for Life PDS (<http://www.bt.com.au/pdf/btsfl-PDS.pdf>) and BT Lifetime – Personal Super PDS (http://www.bt.com.au/downloads/offerdocs/btisp_super_plan.pdf), both accessed 20 June 2016.
52. Derived from the PDSs for all funds with total assets >\$5,000 billion.
53. ASIC, Financial Advisers Dataset (<https://www.data.gov.au/dataset/asic-financial-adviser>).
54. ASIC, Financial Advisers Dataset (<https://www.data.gov.au/dataset/asic-financial-adviser>).