Systemic impacts of ‘big super’

David Bell and Geoff Warren

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Systemic risks of ‘big super’: Report overview and aims

- We examined whether **large fund size was beneficial for super fund members** in March 2023
- Current research paper considers what **broader impacts might arise from a big super industry containing some very large funds** … for the Australian economy, markets and population
  - We discuss beneficial impacts, risks and concerns, and issues to address
- **Four main parts**
  a) Background (motivation, literature)
  b) Impacts from a large super industry
  c) What broader effects might flow from large super funds
  d) Recommendations for policymakers and regulators
- We conducted extensive engagement around the draft

Systemic impacts of ‘big super’ – High-level messages

- A large super industry is a boon overall
- Large size brings with it some risks to consider, and issues to address
- Super seems an unlikely source of systemic risk, but might exacerbate system pressures in some situations

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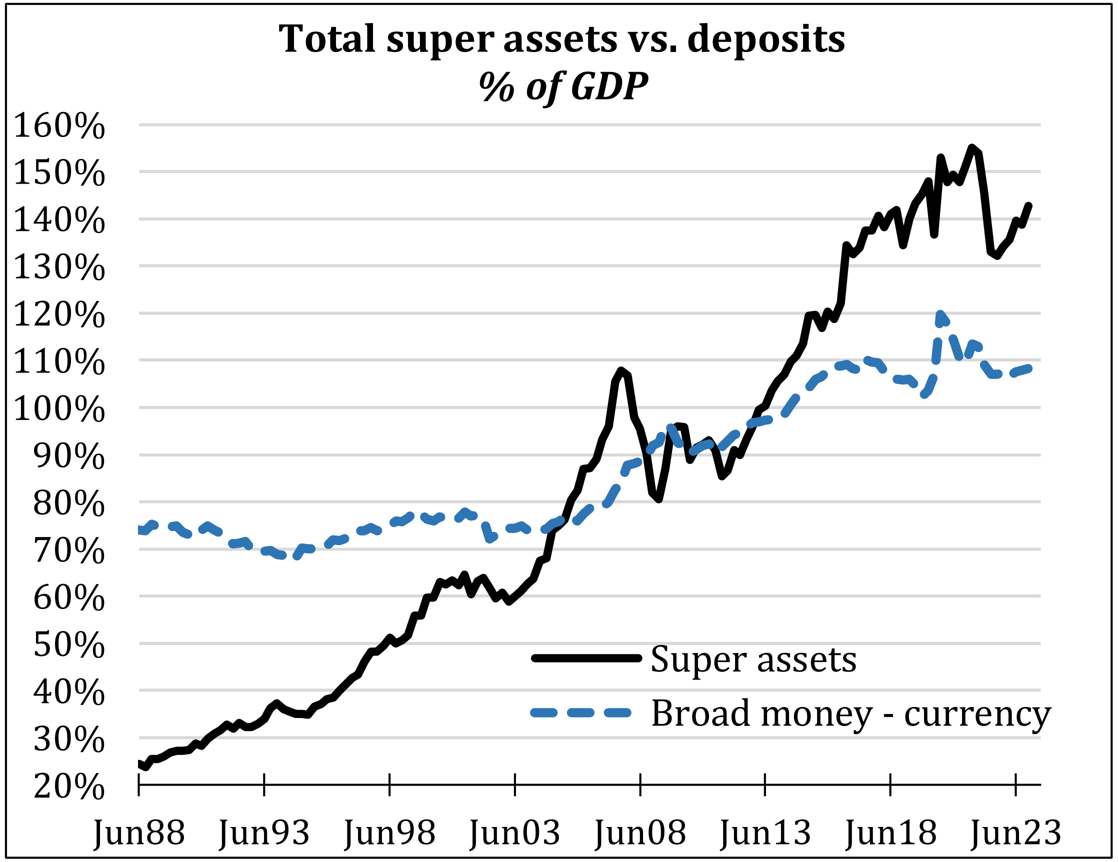
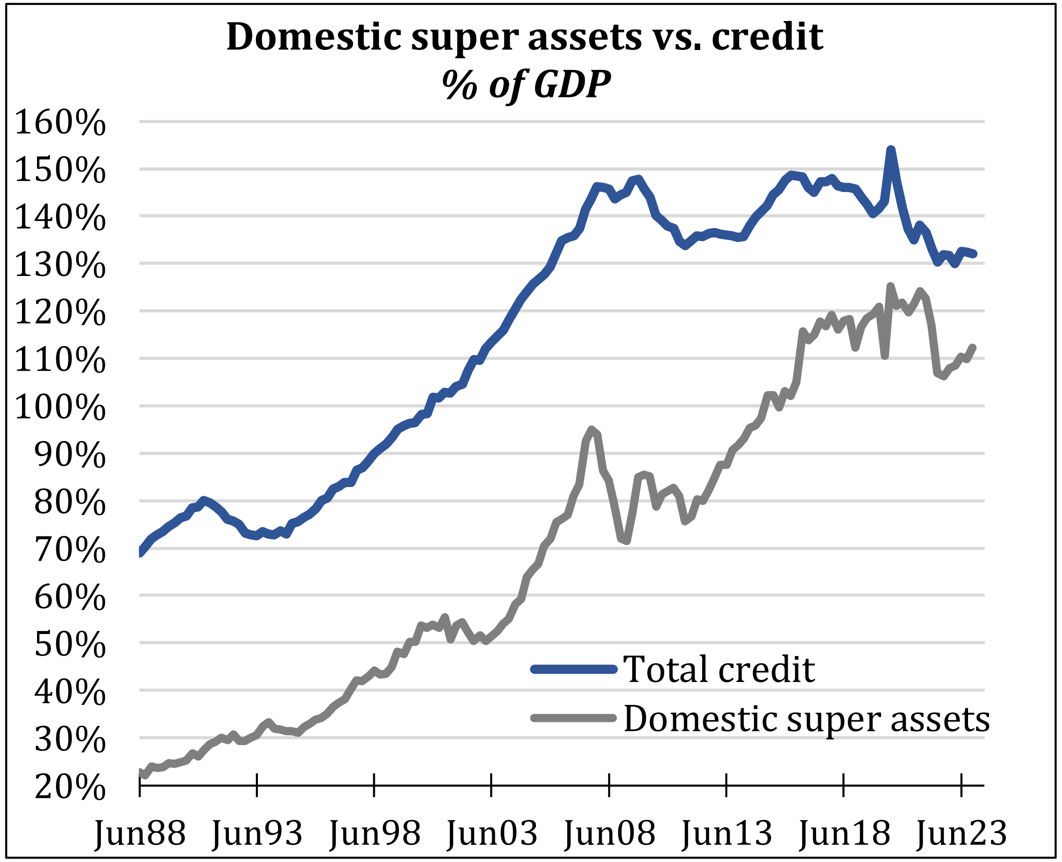
Relative size of the super industry





Data sources: ABS, RBA

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Impacts of a larger super industry

Beneficial impacts

1. Pool of funding for retirement income
2. Professional management of individual savings
3. Better stewardship of capital
4. Broadening out the sources of financing for business

Risks and concerns

1. Market (i.e. growth) exposure loads up on economic risk
2. Operational support systems
3. FX hedging
4. Investing in similar ways
   - Unreliable funding source?
   - YFYS test and peer focus
   - Market depth and resilience
5. Service supplier concentration
6. Member exposure to scams
7. Disruptive policy changes?

Other

1. Super an unlikely source of systemic risk
   - Absence of leverage
   - Absence of clear mechanisms for contagion
   - ‘*Super ain’t banks*’

   … but might exacerbate system pressures in some situations
2. Governance and culture change in super industry
3. Potential impacts on BOP, interest rates and A$

(Roughly in order of systemic importance)

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Australian super industry breakdown (FY 2023)

Rank / Number	Fund	Total assets ($bn)	% of total super assets	% GDP	Member accounts ('000)	% of total APRA fund accounts	Total net inflows ($bn)	% GDP
1	AustralianSuper	300.4	8.3%	11.6%	3,255	14.7%	19.8	0.8%
2	Australian Retirement Trust	272.1	7.5%	10.5%	2,410	10.9%	7.5	0.3%
3	Insignia Financial	180.6	5.0%	7.0%	1,863	8.4%	-2.9	-0.1%
4	Aware Super	161.4	4.5%	6.2%	1,195	5.4%	2.1	0.1%
	Top four	**914.4**	**25.3%**	**35.4%**	**8723**	**39.4%**	**26.5**	**1.0%**
5	UniSuper	124.7	3.5%	4.8%	649	2.9%	4.3	0.2%
6	AMP Super	111.0	3.1%	4.3%	942	4.3%	-2.4	-0.1%
7	Colonial First State	106.4	2.9%	4.1%	813	3.7%	-1.7	-0.1%
8	HOSTPLUS	100.1	2.8%	3.9%	1,781	8.0%	6.1	0.2%
9	Cbus Super	83.7	2.3%	3.2%	917	4.1%	2.6	0.1%
10	HESTA	75.8	2.1%	2.9%	1,027	4.6%	2.8	0.1%
	Top ten	**1516.1**	**42.0%**	**58.6%**	**14852**	**67.1%**	**38.2**	**1.5%**
11	REST	75.3	2.1%	2.9%	2,023	9.1%	3.8	0.1%
12	Mercer Super	67.4	1.9%	2.6%	848	3.8%	-0.5	0.0%
13	BT Super	67.4	1.9%	2.6%	284	1.3%	-2.1	-0.1%
14	CSC	56.0	1.5%	2.2%	690	3.1%	0.2	0.0%
15	Care Super / Spirit Super	48.9	1.4%	1.9%	571	2.6%	0.7	0.0%
	Funds > $50bn assets	**1,831**	**50.7%**	**70.8%**	**19,269**	**87.1%**	**40.5**	**1.6%**
16-65	Other APRA-regulated	346	9.6%	13.4%	2,859	12.9%	13.6	0.5%
65	**Total APRA-regulated***	**2,177**	**60.3%**	**84.2%**	**22,127**	**100.0%**	**54.1**	**2.1%**
	Other funds (residual)	495	13.7%	19.1%				
594,334	SMSFs	880	24.3%	34.0%				
	Total super industry	**3,614**	**100.0%**	**139.7%**			**50****	**2.0%**

Data sources: ABS, APRA, ATO

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Banking industry breakdown (FY 2023, Residential)

Bank	Assets ($bn)	% total	% GDP	Loans and finance leases ($bn)	% total	% GDP	Deposits ($bn)	% total	% GDP
Commonwealth	1,154	21.6%	45%	791	23.3%	31%	720	25.3%	28%
Westpac	1,032	19.3%	40%	654	19.3%	25%	547	19.2%	21%
National Australia Bank	945	17.7%	37%	573	16.9%	22%	483	17.0%	19%
ANZ	709	13.3%	27%	449	13.3%	17%	364	12.8%	14%
Top four	**3,841**	**71.8%**	**148%**	**2,467**	**72.8%**	**95%**	**2,115**	**74.2%**	**82%**
Macquarie Bank	254	4.7%	10%	131	3.9%	5%	136	4.8%	5%
Bank of Queensland	120	2.2%	5%	23	0.7%	1%	70	2.5%	3%
Bendigo and Adelaide	112	2.1%	4%	16	0.5%	1%	70	2.4%	3%
ING Australia	100	1.9%	4%	19	0.6%	1%	51	1.8%	2%
Suncorp-Metway	93	1.7%	4%	14	0.4%	1%	51	1.8%	2%
HSBC Australia	60	1.1%	2%	11	0.3%	0%	32	1.1%	1%
Top ten	**4,579**	**85.6%**	**177%**	**2,681**	**79.1%**	**104%**	**2,524**	**88.6%**	**98%**
Remainder (55 banks)	772	14.4%	30%	707	20.9%	27%	325	11.4%	13%
Total	**5,351**	**100%**	**207%**	**3,388**	**100.0%**	**131%**	**2,849**	**100%**	**110%**

Data sources: ABS, APRA

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Broader impacts arising from bigger super funds

- **Industry not overly concentrated, and no super fund large enough to be consider a SIFI** (yet)
- **Problems at a large fund would be felt by its members, but should remain largely localised**
  - Could lead to losses for many Australians who are members of the fund
  - A 'run' on a fund is unlikely but possible; but the assets will get transferred
  - Super funds cannot 'fail' in the same sense as banks
- **Size changes fund behaviour**
  - Governance and culture needs to shift
  - Increasing internal management, and (ultimately) overseas offices
  - Withdrawal from certain sectors, which might cause some issues, e.g. small companies
  - Improved scope to supply funding in 'big ticket' assets, which may help, e.g. infrastructure
- **Size brings influence, which might be used for good or ill**
  - *Good:* Improved stewardship of capital, including oversight of management and ESG engagement
  - *Ill:* Attempting to influence policy with intent of rent-seeking; regulatory capture

Recommendations for policymakers and regulators

Areas where attention might be refocused

- **System-level matters** – Shift in focus from just individual funds to include a systems lens (some welcome moves)
- **YFYS performance test** – Consider the potential for systemic effects

Potential points of vulnerability to investigate

- **Operational support systems** – Area of risk that needs to be better understood
- **Scams** – Already a key area of focus for the authorities. Worth having a closer look at retirement phase.
- **Concentration in service providers** – Another area of risk that needs to be better understood

Matters where prior preparation seems required

- **Run on a fund** – Construct early warning systems and pre-plan
- **International operations** – Special regulatory oversight for funds investing through overseas offices

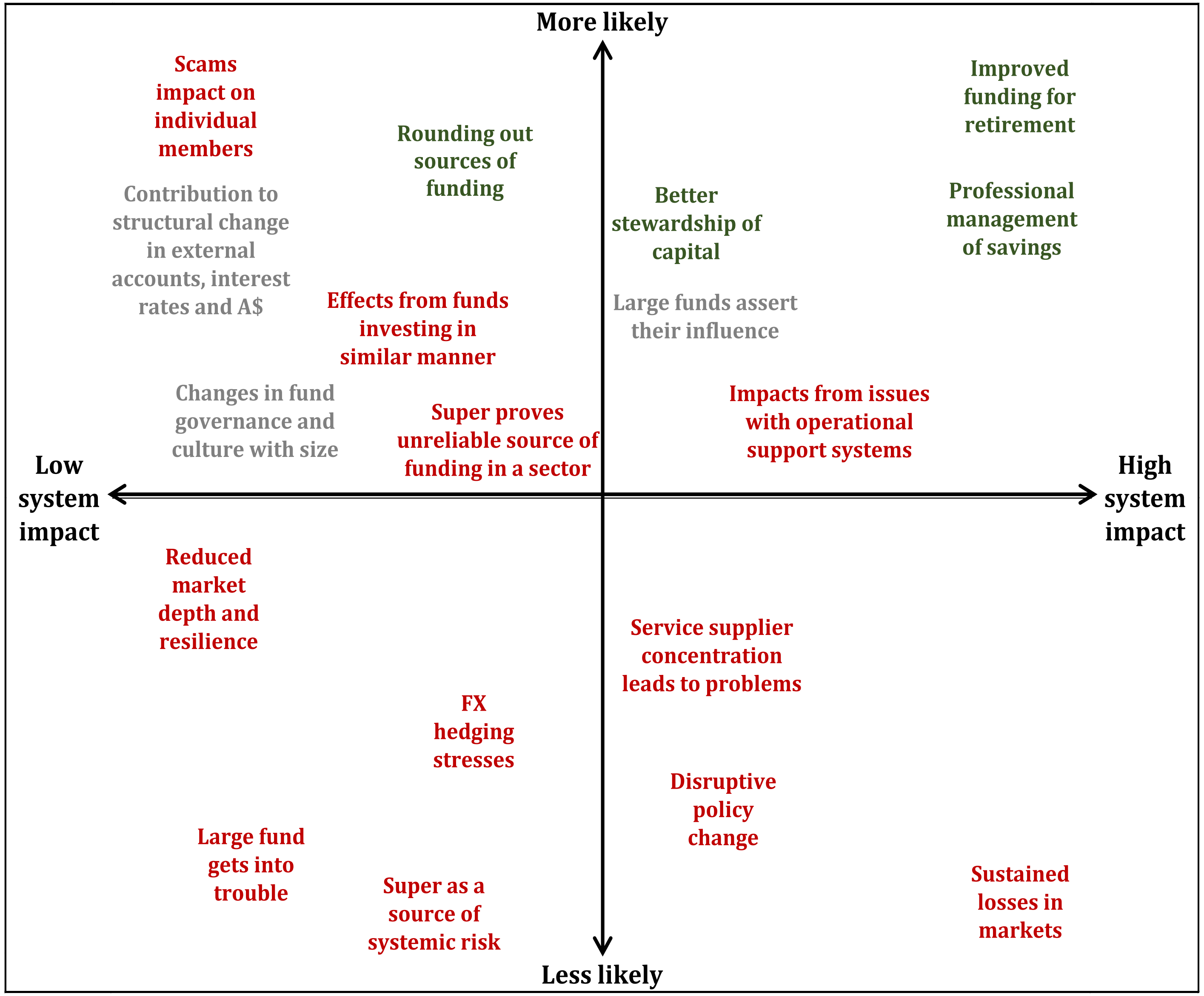
Issues to monitor

- **FX hedging** – Monitor as source of liquidity pressures on funds and possibly counterparty risk
- **Use of influence** – Keep watch on activities of large funds; be alert to the risk of regulatory capture

Topics to research

- **External linkages** – BOP, interest rate and A$ impacts might be worthy research topic
- **Reliance of sectors on funding from super funds** – Any sectors harmed if super funds exit?

Systemic impacts of 'big super' – Overview



***Legend**: **Green** = beneficial effect; **Red** = potentially adverse effect; **Grey** = Mixed effect*

Recap of high-level messages:

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