CoreData

CoreData is a specialist financial services research and strategy consultancy based out of Sydney, Australia. The firm has operations in Australia, the United Kingdom, China and the Philippines. With a primary focus on financial services, CoreData provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies.

SUPERANNUATION SURVIVAL OF THE FITTEST

CoreData

It has been more than 20 years since the introduction of compulsory superannuation in Australia, with the sector undergoing unprecedented growth and change.

While the rise in Superannuation Guarantee (SG) contributions from 9% to 12% from 2013 will ensure the sector continues to grow apace, in this paper we will argue that superannuation funds are at a crossroads whereby inaction is not an option.

In an increasingly competitive environment, only the nimble will survive, with the upheaval of regulatory change forcing widespread consolidation and cannibalisation of member bases in a bid for growth and efficiency.

The future regulatory environment and the repositioning of super funds as providers of not just retirement income but advice, aged care and – in the case of retail funds – banking services, is likely to benefit large superannuation funds who can capitalise on their economies of scale.

It is not so much a case of bigger is better, but one of efficiency and flexibility, with smaller funds that are able to occupy a niche space likely to be just as successful – provided they're able to establish strong value propositions.

But funds, large or small, that are not able to differentiate and fail to respond to the shifting sands will be swallowed up by mid to large players, ultimately reducing the number of funds in the market.

The industry faces major challenges ranging from Government regulation and a tough economic environment to member apathy and the ageing Australian demographic.

This paper Superannuation: Survival of the Fittest draws on the views of some of the superannuation sector's leaders to build a picture of the state of the industry and its growth path.

We will address the key challenges the industry faces in both the short and the long term, and outline the various approaches that funds are taking in an attempt to grow and retain members.

The paper concludes that the industry is likely to see a reduction in the number of funds by up to 40% by 2020, and that those funds who do not act now to reposition their business for growth will become artifacts of the system.

Methodology

The content for this white paper has been formed through primary research including face-to-face and telephone interviews with many of the superannuation industry's thought leaders. Interviews spanned industry, retail and public sector funds, in addition to industry associations.

Primary research conducted by CoreData among its proprietary consumer database of more than 132,000 Australians was also referenced.

Background information was sourced from secondary data via publicly available information and Government reports.

The state of play

A picture of growth and contraction

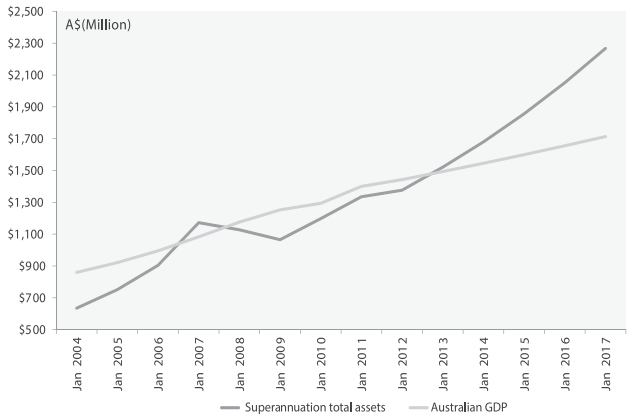
There are approximately 362 superannuation funds in Australia spanning the retail, public sector, industry and corporate superannuation sectors.

Since 2004, the number of super funds has dropped considerably. The number of corporate funds has dropped to 128 today from 1,405 in 2004, while the number of industry funds has almost halved over the same period to 58 from 106. In line with this trend, the proportion of retail funds has declined by 41% to 137 from232 and the number of public funds has fallen by 7% in this period to 39 from 42.

Despite the contraction in the number of funds, the level of superannuation assets under management has grown considerably over this same timeframe. As can be seen in Figure 1.1, the total assets of Australian superannuation funds now represent more than 95% the value of Australia's annual GDP ($1.38 trillion vs. $1.45 trillion), with the level of assets overtaking annual GDP back in 2007, before contracting due to falling markets during the global financial crisis (GFC).

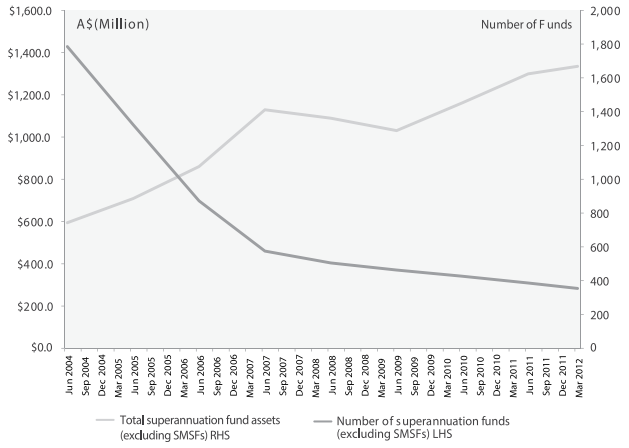
The largest level of growth has been in the self-managed superannuation fund (SMSF) space, which has grown to $416 billion as at March 2012, from $130 billion in June 2004. The assets held in industry super funds have also increased substantially, to $265 billion in March 2012 from$94 billion in 2004.

Figure 1. Australian GDP vs total superannuation assets (2004–2017)



Source: APRA Statistics, Quarterly Superannuation Performance March 2012 Australian Bureau of Statistics

Figure 2. Number of superannuation funds and assets 2004–2012



Source: APRA Statistics, Quarterly Superannuation Performance March 2012

Total assets under management for the industry have grown at an annualised rate of 10.5% from June 2004 to March 2012 and the superannuation industry is predicted to grow at a considerably faster rate than the Australian economy over the foreseeable future.

Based on historical levels of growth, CoreData projects that by 2017 the total assets in the superannuation sector will be close to a third larger than Australia's annual GDP.

As the number of funds is reducing, the level of assets is growing, to the point where the average fund (excluding SMSFs) has grown to $2.6 billion from $300 million in 2004.

In the last 10 years, the superannuation industry has seen unprecedented growth in terms of total assets under management, while also experiencing rapid consolidation.

The industry is currently at a crossroads where funds must choose their growth path, and decide whether organic growth will be enough to remain competitive in the future.

We expect, based on intelligence gathered from the industry, that the number of super funds will shrink by up to 40% over the next decade.

"A significant number of not-for-profit funds have indicated they are considering mergers, so a 40% industry-wide reduction in 2020 is not unrealistic and may even be conservative," says Fiona Reynolds, chief executive officer of the Australian Institute of Superannuation Trustees (AIST).

This means by 2020, two out of five funds that exist today may not be around – and certainly not those that sit idly on the sidelines as the drivers of success flex and change.

Bigger pie, fewer players

To merge or not to merge?

Consolidation is the new reality for Australian super funds. The pressures on the industry are such that smaller funds that are able to operate nimbly, and get under and around larger funds, will become the exception rather than the norm in an industry dominated by larger players.

Mergers and acquisitions are likely to be part and parcel of the landscape over the next 10 years, as many funds seek to maximise operational efficiency and move along the cost curve for the benefit of members.

But while the Australian banking industry is an oligopoly, the superannuation industry is more likely to resemble the licensee sector, whereby there are a small number of large players that dominate the market, and a large number of mid-tier players that occupy a niche position.

Some commentators believe the 'sweet spot' for funds is around $10-15 billion in assets under management, however many argue that it's not size, but efficiency, that will set apart the successful funds from the rest of the pack.

Despite this, it is broadly acknowledged that it will be difficult to maintain a competitive advantage and achieve economies of scale without a sufficiently large asset base, and the expectation is that the vast majority of funds that are sub-$15 billion will be swallowed up by larger funds.

Pauline Vamos, chief executive of the Association of Superannuation Funds Australia (ASFA) says research suggests that funds with more than $10 billion in assets are able to best exploit economies of scale from an administrative point of view.

While this may be true for industry super funds, a recent Australian Prudential Regulation Authority (APRA) paper, Effect of fund size on the performance of Australian superannuation funds found that the evidence for scale for retail funds is less clear cut.

The paper, published in March 2012, concluded that the performance of not-for-profit funds (corporate, industry and public sector funds) improves with fund size. The greatest benefits accrue when not-for-profit funds grow to a multi-billion dollar size.

However, it also found that fund size does not have an overall positive impact on the performance of retail superannuation funds.

According to APRA, between September 2004 and June 2010, larger not-for-profit funds earned higher risk-adjusted gross returns than smaller not-for-profit funds– and that these funds had bigger allocations to asset classes such as private equity and real estate, where the scope for smaller funds to invest is more limited.

Further, larger not-for-profit funds benefited from lower investment expense ratios, indicating an ability to negotiate lower fee schedules with managers, and had significantly lower operational expense ratios – presumably because they can spread fixed costs over a larger asset base.

However, the advantages of scale are not uniform across all asset classes. Paul Cahill, chief executive offer of the $1.6 billion Club Plus, says "larger funds are able to get better returns from certain asset classes such as property, however this is not the case in equities".

Colonial First State, which runs the FirstChoice Superannuation Trust, is no stranger to scale, boasting a hefty $41 billion in assets under management as at June 2011.

Nicolette Rubinsztein, the general manager of strategy at Colonial First State, admits that "the benefits of scale can be elusive".

She says: "Operational costs are significantly levelled off after a certain level, and on the investment side, larger funds often have higher investment costs due to investing in unlisted assets that can be expensive to invest in, but which offer potentially higher rates of return."

The $4.8 billion CareSuper is one fund that recognises the need for scale, having entered into discussions with the $1.6 billion Asset Super around a possible merger in September 2011. If it goes ahead, the merger will take the combined entity to more than $6.2 billion in assets, and approximately 285,000 members.

Both funds already exploit economies of scale to an extent by sharing common service providers, with back office administration through Australian Administration Services (AAS) and custodianship through National Asset Servicing (NAS).

Julie Lander, chief executive officer of CareSuper, believes that "it is hard to get other real benefits without actually merging – there is no pooling of insurance or administration contracts; the same legal entity needs to be combined to get certain benefits of scale."

Big enough to matter, small enough to care

VicSuper is an $8.5 billion fund covering 262,000 workers. The fund started as a Victorian public sector fund, but in 1999 became a public offer fund.

Michael Dundon, chief executive officer of VicSuper, says that "any fund under $2 billion, and below 500,000 members is going to have challenges", and that the sweet spot to maximise efficiency is "at least $15 billion."

However while larger funds have an advantage in terms of their ability to access investments that small funds might be precluded from due to the sheer size and scale of assets being invested, Cahill from Club Plus believes that small funds have the ability to be more nimble and flexible when it comes to bringing new products to market.

For example, Club Plus was the first fund to launch a term deposit for pension members in March 2012 in response to demand highlighted in the fund's annual member satisfaction survey.

"We are currently are in the sweet spot; able to look after the needs of the 100,000 members with a degree of community, and able to move in and out of investments," Cahill says.

Geoff Brooks, manager, corporate brand and marketing at Equipsuper says there's a fine balance which he describes as being "large enough to matter, but small enough to care".

While the industry has already undergone rapid consolidation and growth at a fund level in recent years, the average size of a fund today of roughly $2.3 billion is still well short of the level of assets which the majority of industry players believe will be sufficient to be sustainable and successful in the future.

This begs the question: how can the average fund increase scale to a point where economies of scale kick in, and can this be achieved organically, or are mergers and acquisitions the way forward?

Many super funds believe that partnerships and collaboration are a viable alternative to merging. The Christian super funds are reportedly considering working more closely together on certain projects in order to maintain a competitive advantage.

There is significant scope, for example, for funds to partner in the investment space to achieve economies of scale which they would be unable to achieve on their own.

Investment collaboration is fairly common in the Australian superannuation sector, particularly for property investments. One example is ISPT Super Property, which is co-owned by 23 industry super funds for the purpose of investing in Australian unlisted property.

In April this year, industry super funds AustSafe Super, Club Plus, Energy Super and Intrust Super provided the equity capital via a LaSalle Investment Management unlisted trust, to invest in a property in Sydney for $178.5 million.

Funds are also able to collaborate and generate scale through the use of service providers and administrators.

Martin Spedding, executive director of Bluedoor, a technology provider owned by DST Global Solutions, says smaller funds are able to achieve the efficiency of much larger funds through technology investment.

"For example, we know of a fund with only 60,000 members which works at a higher level of efficiency than one with 2.1 million members," he says.

Reynolds of AIST says that "in recent times, the trend has been for funds to merge rather than collaborate to achieve scale but that's not to say there may be more collaboration among funds".

"The not-for-profit super sector has a history of successful collaborations to achieve scale. Superpartners, Industry Funds Management, Industry Fund Services and ISPT are all examples of successful partnerships," she says.

Lander from CareSuper agrees service providers can help to provide scale, and says that cooperation among funds by pooling assets with administrators and investment advisers has worked for funds in the past.

Cbus is a $17 billion fund with some 655,000 members and 75,000 employers for whom it manages superannuation assets, making the fund one of the largest 15 funds in Australia. Despite this, the fund's chief executive officer David Atkin acknowledges that while Cbus is a sizeable fund, "other industries have bigger growth paths".

He says the fund is taking a multi-pronged approach to growth going forward, focusing on both organic and

The quote

Any fund under $2 billion, and below 500,000 members is going to have challenges.

The quote

Brand will be critical in the environment of competition and deregulation.

inorganic growth, and targeting both "the resources boom and white collar markets".

AustralianSuper is an example of a fund which has achieved scale through both mergers and organic growth. It is the second largest fund in the market after AMP, and the recent announcement that the fund won the contract to manage the $1.7 billion IBM staff superannuation fund takes the fund's assets to more than $50 billion.

Chief executive officer, Ian Silk, says that the fund's "organic growth is strong – above workplace growth for the past couple of years". In order to continue this growth the fund is seeking to strengthen its brand through television and other advertising campaigns.

Brand is expected to play an increasingly critical part of the superannuation puzzle in future, as the super industry moves into a commoditised environment with MySuper.

Atkin at Cbus says "brand will be critical in the environment of competition and deregulation". His fund is looking at ways to expand its brand presence in Australia via events such as the inaugural 'Building Australia' AFL match between GWS and Collingwood at Skoda Stadium in July.

AustralianSuper has been hot on the acquisition trail over the last few years, with Westscheme and AGEST joining the AustralianSuper fold in the last 12 months.

But the path to growth via mergers and acquisitions is not without hurdles, as evidenced by the collapse of the intended merger between Equipsuper and Vision Super in June this year.

According to Silk, one of the essential traits for a successful super fund merger is a "good cultural fit; philosophical alignment between boards and management teams."

Brooks from Equipsuper, who spoke with CoreData prior to the announcement that Equipsuper had pulled out of the merger, also stressed that cultural alignment is the major challenge in many mergers.

Announcing the decision to withdraw from the merger, Equipsuper's chairman Andrew Fairley cited factors such as the Vision Super board's failure to meet key dates, provide essential information and for breaching or seeking to change several parts of the Memorandum of Understanding and Shareholders' Deed over the last 12 months.

While the Equipsuper board consists of nine directors – four elected by members and four by employers and an independent chairman appointed by the elected directors, Vision Super's board includes eight directors – four appointed on the nomination of the Australian Services Union (ASU) and four on the nomination of the employer associations Municipal Association Victoria (MAV), Victorian Water Industry Association (VWIA) and Victorian Employers' Chamber of Commerce and Industry (VECCI).

Allegedly, the boards could not agree on the make-up of the newly-merged fund's board and the structure of the investment management under the newly merged entity.

The quote

[Industry fund] members will be at a disadvantage compared to retail funds like ourselves which already have access to capital from shareholders.

Often, it's not the hard factors that trip mergers up. Funds can do all the due diligence in the world to ensure that the merger runs smoothly from an operational perspective, but if the culture of the boards doesn't align, the checklist is as useful as a chocolate tea pot.

Carrot or just stick

One of the driving forces behind the raft of recent mergers and acquisitions is the constantly shifting regulatory landscape.

Reforms such as SuperStream, which aims to improve the back office efficiency of the super industry, and MySuper, whereby existing default funds will be replaced by a simple, low cost default product intended to bring more transparency and comparability of default super products, pose challenges for funds from both a compliance and operational perspective.

Many of those interviewed for this paper feel regulation is the key challenge for the superannuation industry in both the short and the long term.

As Cahill from Club Plus puts it: "How can you make any plans when things are in a state of flux?", referring to both super funds and individuals attempting to invest retirement savings.

Lander of CareSuper agrees that regulation is a real challenge. "It's like going around a rally track, with all the effort needed to put the new regulation in place, and then you have to go around the same track all over again," she says.

She says the cost of regulation is in member communications, consulting fees, and most significantly, the internal time taken up justifying why the fund is doing what it is doing; time that could be spent further improving the fund for the benefit of members.

One of the key pillars of the SuperStream reform package is auto-consolidation, whereby members with low account balances will be required to 'opt out' if they do not want their balance to be automatically consolidated into their main active super account from January 2014.

The reforms will significantly reduce the number of superannuation accounts in Australia, which currently stand at approximately 31 million, or about two accounts for everybody in Australia between the ages of 15 and 65.

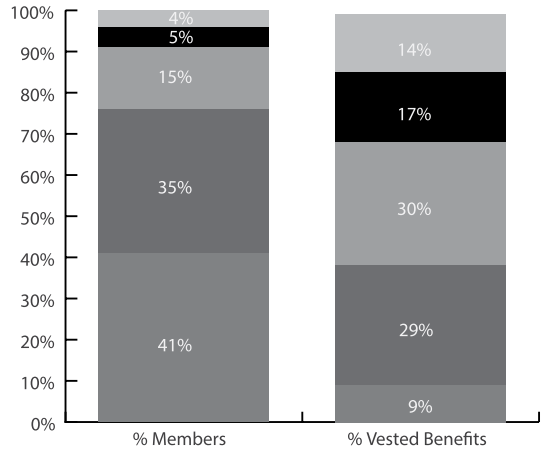
Auto-consolidation represents a considerable potential loss of revenue for funds from the fees gained on low balance accounts and was cited by CareSuper as a driver for considering the merger with Asset Super.

Lander says that "reduced revenue will be associated with auto-consolidation, and merging can potentially lessen the impact of this."

Another catalyst for consolidation is the new APRA prudential standards for superannuation governance, which create an additional administrative burden for funds.

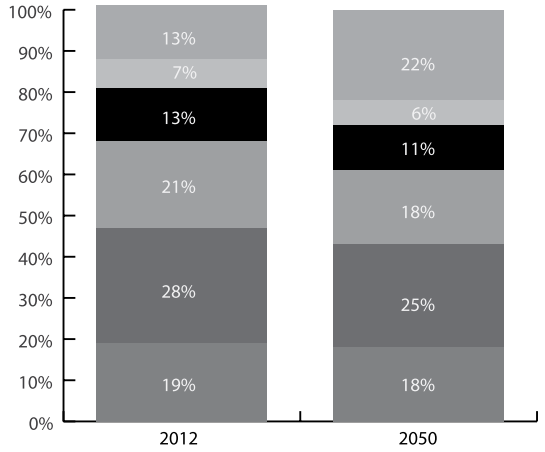
The APRA standards span areas such as operational risk and governance, and include a requirement to hold financial resources for operational risk which will make it hard for funds which do not already have large capital balances.

Figure 3. Largest 200 Superannuation funds demographic breakdown



Source: APRA, Superannuation Fund-level Profiles and Financial Performance (released February 2012)

Figure 4. Australian population 2012 – 2050



Source: Australian Bureau of Statistics, 3222.0 Population Projections, Australia)

"Industry funds will have to withhold part of the fees which they are raising from services used for existing members in order to meet these requirements. Members will be at a disadvantage compared to retail funds like ourselves which already have access to capital from shareholders," says Peter Chun, general manager product and channel development at Colonial First State.

The requirement is that funds meet a target amount of resources necessary to address 'potential operational risk losses' in business operations.

While the discussion paper issued in September last year did not propose a minimum target level of operational risk reserves, APRA noted that policy proposals for operational risk capital requirements in other APRA-regulated

industries have suggested a minimum amount of 0.25% of funds under management.

But while some funds are grappling to understand the sheer scope of changes that impact on their ability to focus on the day-to-day provision of products and services for members, AustralianSuper's Silk is more forgiving.

"People need to remember that the Government set up the super system," he says. Further, he says the Government should be credited with aiding the industry's continued growth via the increase in compulsory SG to 12% by 2020, from 9% today.

However, a likely consequence of the growing superannuation pie and its increased importance to Australians is further tinkering from government, with Silk admitting this is a reality.

Total superannuation assets are now larger than the value of all listed companies on the ASX, so Silk says that "[the superannuation sector] is an important part of the economy, and government will be involved".

One area that receives much speculation from industry is the potential expansion of the modern awards and the impact this would have on market consolidation.

The awards determine which funds apply to each industry and are a result of superannuation's origin in the industrial relations system. Most modern awards contain a list of default superannuation funds and where the award applies to an employer and its employees, the employer is able to select one of the funds listed as their default fund.

It is broadly expected that the Coalition would open up the awards system if they were to form Government, with many suggesting this could act as further stimulus for mergers and acquisitions due to increased competition from the retail sector.

The pig in the python

One of the key challenges – and opportunities – for the superannuation sector over the coming years is the 'pig in the python' that is Australia's ageing population.

According to the Australian Bureau of Statistics, in the next 18 years to 2030, the proportion of Australians aged over 60 years will increase to 24% from 20% today. By 2050, some 28% of the population will be aged over 60.

The shift from accumulation to decumulation among the Baby Boomer generation brings with it a need for a whole new suite of products and services tailored to this demographic.

Spedding of Bluedoor says that "we will now see an increasing focus on members in the drawdown phase. Every fund will have to focus on developing new products for these high value members."

The fact that these older members account for the majority of super fund assets makes the need for innovation in the post-retirement space even more critical.

Members of the top 200 funds in Australia who are over50 years old make up 24% of all members, but represent61% of all vested benefits.

At the higher end of the demographic spectrum, those members who are aged over 60 make up only 9% of members, but represent 31% of vested benefits.

Vamos from ASFA believes that the post-retirement space is the biggest opportunity for the superannuation industry over the next 10 years.

However, while this space represents a major opportunity, it is also a major challenge over the medium to long term.

The quote

The equities space in Australia is shrinking, which will force funds into international markets.

After 20 years of accumulation, the post-retirement market is still in its infancy.

Vamos believes consolidation in the industry will be driven in part by the ageing population, and the desire to keep older high value members.

The emphasis is shifting from wealth accumulation to the provision of retirement income as those high value members who have spent the past 20 years accumulating funds towards their retirement begin to draw down on their savings.

Cahill from Club Plus says we are already seeing the "demographic bump" as older members take money out of the system.

In addition, many members are opting to set up their own SMSF as they reach this critical life stage, with SMSFs the fastest growing sector within the superannuation industry. The SMSF sector has grown to more than $409 billion in2011 from $130 billion in 2004, and now represents 31% of total super fund assets, up from 21% in 2004.

However CoreData's research among the over 50s in 2012 shows that close to six in 10 respondants with SMSFs are finding compliance to be a considerable hassle, raising the possibility for super funds to develop products which give members a greater degree of control over their superannuation investments without the administrative hassle.

The new platform developed for AustralianSuper by UBS and FNZ, which gives members the option of investing in a range of direct products such as shares, ETFs and term deposits, is one example of how funds are attempting to provide a conduit between a purely outsourced offer and an SMSF.

To date, most of the post-retirement innovation has been in the retail sector, particularly when it comes to Allocated Pensions.

Retail funds dominate the pension space in pure member numbers, with the only non-retail funds with more than 10,000 pension members not public offer funds: (CSS Fund, Public Sector Superannuation Scheme, UniSuper and State Public Sector Superannuation Scheme).

Colonial First State has the highest Allocated Pension market share, and Rubinsztein says the group views the retirement challenge as "more of an advice than a product challenge".

Industry funds have been late to the party, however Silk believes there is "likely to be a convergence between super and non-super savings", with AustralianSuper's member direct option, term deposit products and establishment of a retirement division and pension a reflection of this trend.

Dundon from VicSuper agrees that advice is a key means in which funds can meet the needs of and retain post-retirees, given that "tax and the regulatory environment is not conducive to new products."

As both industry and retail funds seek to do more in the post-retirement space, and industry funds increasingly focus on the provision of advice to members, the lines between industry and retail funds are blurring.

Along with developing product and advice solutions in order to hold onto older members, some funds perceive an added benefit of consolidation to be retention of demographic balance among their membership.

Funds with an ageing membership could look for potential merger partners with a younger member base, so that the proportion of members accumulating funds counters somewhat the outflow of funds among post-retirees.

Lander from CareSuper says that "merging with a fund that has a substantially older demographic, from a cash flow perspective, is not overly attractive."

While the profile of members within Equipsuper and Vision Super was relatively similar, Brooks says seeking a partner with a different profile to complement one's own is a sensible move that the fund might consider in the future.

A rising tide in a shallow market

Another likely consequence of the transition of the Baby Boomers into retirement and beginning to draw down a retirement income is a shift in super fund asset allocation.

The Boomer phenomenon, coupled with the rise in SG to 12%, poses a potential problem for funds, given that the Australian markets in their present form are rather shallow – particularly the corporate bond market.

Australian super funds are known for having an excessive equity bias. On average, the top Australian super funds have 31.5% of their assets in Australian equities according to APRA. However, as the growth of superannuation assets continues apace, opportunities in the domestic markets will be harder to come by.

If funds do not diversify, the Australian sharemarket will become crowded out and overvalued in the medium term.

Reynolds from AIST believes that as we see mega funds emerge, there will be much greater potential for direct ownership of assets.

"We've seen a lot more of this occurring among some of the big overseas-based pension funds. We can expect to see funds play a greater role in supporting new tech projects, local infrastructure projects, social infrastructure such as hospitals, social housing etc," she says.

Australian fixed interest is of considerable interest to many of those we spoke to, however, the investment landscape is challenging due to the lack of inflation linked and corporate bonds.

Data from the Reserve Bank of Australia suggests Australian corporates had issued $133 billion offshore – over three times as much as the $43 billion issued in Australia – between January and October 2011. Banks and other financial institutions issued $336 billion offshore, nearly twice as much as the $182 billion issued in Australia.

There is widespread recognition of a need for a deeper corporate bond market in Australia, and late last year, Treasurer Wayne Swan announced plans to pump up the domestic listed retail corporate bond market in Australia through means such as streamlining disclosure and liability requirements, and reportedly (although it wasn't in the discussion paper), a listed market for Commonwealth bonds.

Funds recognise that with consolidation afoot, the bigger they get, the more difficult it becomes not to mimic an index fund; that the Australian sharemarket is heavily concentrated and that it may not be the best place to be for retiring members.

But there's also peer risk to consider. It's one thing to recognise the need to diversify away from shares, but who wants to be the one to go against the grain in a market that's highly competitive, where members (that bother to choose) make their choice of fund based primarily on tangible factors like fees and returns?

Dundon from VicSuper sums it up when he says: "Over100 years Australian equities have done well; it has been the best performing market in the world, but we are possibly too exposed to it".

Many members whose portfolios were decimated by the GFC and are approaching retirement are likely to adopt a more risk averse approach as their investment time horizon shortens, and not only that – the simple fact is that the Australian sharemarket will not be able to absorb the level of funds that superannuation funds will need to allocate over the medium to long term.

So where will these funds go? International markets are the obvious conclusion, with many super fund CEOs pointing to greater allocations to infrastructure and fixed income.

"Equities provide liquidity, as shown in the GFC," says Cahill. "However, the equities space in Australia is shrinking, which will force funds into international markets".

There is broad consensus that the Australian sharemarket is not big enough to sustain the future influx of additional SG contributions, and that funds will have to look offshore for other investment opportunities.

However there is also the potential for greater investment in infrastructure in Australia, which is in a poor state compared to many modern economies, such as South Korea, Sweden and Singapore.

While many super funds are already investing in infrastructure, increased investment in Australian infrastructure could offer a viable alternative investment channel, provided there are the opportunities to do so.

The Snowy Mountains Scheme, which reportedly cost a 2012 equivalent of approximately $7.37 billion, could be paid for with just 7% of the total cash holdings that Australian super funds are sitting on. The national broadband network, at a cost of $35.9 billion, could be paid for with roughly a third of the super funds' cash, while projects that seem like they don't have any hope of coming to fruition, such as a second Sydney airport, or a new metro rail network, could also be funded by Australia's super investors.

Yet many argue that the requirement for liquidity by members post-retirement is at odds with the nature of the investment.

Dundon from VicSuper says infrastructure investment is attractive, but the "challenge is liquidity in order to meet members' cash flow and switching needs in period of excessive volatility".

Chun from Colonial First State believes that while the infrastructure space will be opened up in the future, with the pool of assets being so large, the asset class will still not be big enough.

ASFA produced a paper called Challenges of Financing Infrastructure in May 2011, which called for the superannuation sector to become a permanent partner at the table for discussion around Australian infrastructure investment, in order that a clear national pipeline of infrastructure is developed.

Unfortunately, the political process in Australia has to date not been conducive to making these kinds of infrastructure deals an attractive investment target for them-superannuation industry.

Conclusion

Over the relatively short history of the Australian superannuation industry the only constant has been change.

With the number of funds broadly expected to fall by up to 40% in the next 10 years, and growth in total assets under management far outstripping the growth of the Australian economy, funds must act now to position for the changes or risk becoming an artefact of the system.

Growth is a necessary component of this evolution, and for many funds, while there are opportunities for collaboration, economies of scale will not be achieved without merging.

Regulation will continue to cause major headaches for funds, and is likely to prompt further consolidation and rationalisation across all superannuation sectors.

The SuperStream and MySuper reform packages are also forcing greater homogenisation of products and services, blurring the line between industry and retail funds, and these, coupled with the potential for the opening up of the modern awards, make brand a more critical piece of the superannuation puzzle.

The most transformational change, however, that the industry faces is the 'pig in the python' as high value, older members begin to retire and draw down their superannuation nest egg, prompting a shift in focus from accumulation to decumulation.

This new reality means post-retirement products and services will be a key differentiator among funds, and will be a necessary means for avoiding leakage to the SMSF sector and competitor funds.

Direct investment options are likely to play a bigger part of the offer from those funds that survive and thrive in the coming decade, as will greater offshore investment and expansion into alternative asset classes.

In times of change, the fast eat the slow, and standing still is a death wish.

The superannuation industry is fortunate in that its growth is mandated by government under SG, unlike most financial services industries.

But funds that rest on their laurels are neither attractive acquisition targets, nor capable of achieving the organic growth necessary to thrive – leaving them destined for extinction.

The quote

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The quote

The superannuation industry is fortunate in that its growth is mandated by government under SG, unlike most financial services industries.

About CoreData

CoreData Group was established 10 years ago as a research consultancy specialising in financial services. Having expanded successfully to the UK, we are now developing businesses in the US, South America, South Africa and continue to grow our operations offices in Asia.

Our passion is finding insight for our clients. We know the world has changed and we believe the most successful brands in the financial services industry will be those that embrace these changes and view them as a growth opportunity.

Our mission is to turn reliable data into insights that drive growth. We provide strategic and targeted insights to achieve your business goals – whether that is raising brand awareness, developing positioning and social authority, or simply maximising customer satisfaction.

We are a people agency – we believe the work we deliver is a function of the people in our team and we work every day to give our people the tools and support to be the best they can be. Our diverse and highly motivated team enjoys working closely together to help our clients use all their potential to stand out in a competitive market.

Those individuals who work with our superannuation fund clients are experienced financial services professionals, which means that they understand the challenges funds face and have the knowledge to provide recommendations and solutions for overcoming these hurdles. **FS**

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