

## SUPER AND THE FINANCIAL SYSTEM

### Introduction

1. There is considerable uncertainty about the implications for the financial system of the expected growth in superannuation fund assets. It is not even clear what the likely level of superannuation funds in the future will be. The difficulties in estimating the growth of superannuation assets arise because of the uncertainty of fund earning rates, hitherto the major factor in superannuation growth, the extent to which individuals will 'top up' compulsory superannuation coverage and the operation of key components of retirement incomes policy, for example, preservation age, lump sum limits etc. The term 'financial system' is vague and can cover a multitude of matters. For these reasons, the Committee acknowledges that its treatment of the topic in this chapter is more in the nature of a preliminary outline of some of the more topical issues arising from the expected growth of superannuation funds than a definitive analysis of the relevant term of reference.

2. The Committee further acknowledges that there is a degree of overlap between the coverage of this term of reference on the implications for the financial system of the expected growth of superannuation and other terms of reference which were covered in the Committee's first report, *Safeguarding Super*. Therefore it is recommended that Chapters 4, 8, 9 and 10 of that report be read in conjunction with this report.

3. The Committee's approach to the task has been, first, to set the scene by utilising information contained in statistics presently available and evidence from The Treasury, the Australian Bureau of Statistics (ABS), the Insurance and Superannuation Commission (ISC) and other witnesses and to draw out some implications from them. These implications are shown in italics in the following text. The Committee has then considered the evidence made available to it on the implications for the financial system of the growth of superannuation funds. These elements have been drawn together and, where appropriate, certain conclusions and a limited number of recommendations have been made.

4. The information contained in data provided by The Treasury, the ABS, the ISC and evidence to the Committee covers the following matters:

- superannuation contributions
- superannuation fund earnings
- superannuation fund assets
- superannuation and the market for Australian shares
- superannuation and managed funds
- superannuation and national savings
- superannuation and the long-term interests of contributors
- superannuation and unfunded liabilities

## Superannuation Contributions

5. The contributions of individuals and companies to superannuation funds provide the basic source of funds available to these institutions. The funds then invest the contributions to derive additional revenue.

6. The SGC legislation sets out rising levels of compulsory superannuation contributions and hence has the effect of increasing the number and amount of contributions to superannuation funds. The actual total dollar value of increased superannuation contributions in future years has not been clearly established.

7. The Treasury provided estimates of the additional superannuation contributions arising from implementation of the SGC. The estimates were 'derived from simulations conducted on the National Mutual Retirement Incomes Policy Model' and are described as 'rough projections only ... [with the disclaimer that] none of the numbers ... can be regarded as a forecast'.<sup>1</sup> The projections assume certain increases in the coverage rates of superannuation, average weekly earning rates and an inflation rate of four per cent. A full list of the 'more important parameter values used in simulations' is given in Appendix 1 of the above submission from The Treasury.

---

<sup>1</sup> Treasury, 6 May 1992, SG 32 p 3.

---

8. The Committee has noted the Government's decision to establish a Retirement Income Modelling Task Force which will draw on the resources of The Treasury, the Department of Finance and Social Security. The task force will build a demographic, superannuation and accounting model which will keep track of the projected superannuation contributions and benefits for individual groups and will make assessments of the impact of retirement incomes policy over the next 50 years.<sup>2</sup> The Committee expects that the new modelling will build on knowledge and expertise gained from the National Mutual model, hitherto the only model available.

9. The Treasury estimated that the SGC in its first year would increase superannuation contributions by three per cent over what they would be in the absence of the SGC, by eight per cent in the second year, 11 per cent in the third year, 14 per cent in the fourth year, 17 per cent in the fifth year, 20 per cent in the sixth year, 26 per cent in the seventh year, 32 per cent in the eighth year and 39 per cent at full implementation in the ninth year. It appears that the actual level of superannuation contributions in the base year used by The Treasury (1989) is \$402 million, so the growth of superannuation contributions arising from the SGC is significant.<sup>3</sup>

10. The Treasury estimates are based on the Government's original timetable for the SGC, which would have seen it fully implemented in nine years. However, the timetable became eleven years rather than nine in the final legislative form of the SGC. As well, the incremental changes in the percentage contributions through the 1990s were lowered and the threshold payroll level (at which the SGC cuts in) was raised from \$500 000 to \$1 million. Under the legislation, a regulation needs to be made in December 1992 to increase the level of contributions from four to five per cent for firms whose payroll exceeds \$1 million. Finally, Parliament raised the exemption level from the initial proposal of \$250 per month to \$450 per month.

11. As a result of these changes, the percentage change in the level of superannuation contributions during the 1990s is likely to be less than The Treasury assumed, but the general trend and possibly even the final level (that is, a 39 per cent increase over what contributions might have been in the absence of the SGC) are likely to be accurate.

---

<sup>2</sup> Treasurer's Press Release of May 1992.

<sup>3</sup> *Op cit*, SG 32, p i; including Table 1 on the same page.

---

## Superannuation Fund Earnings

12. The financial assets of superannuation funds comprise the contributions and the earnings generated by investment of those contributions. Whilst the SGC will lead to a greater volume of contributions to superannuation (The Treasury's estimate of a 39 per cent increase in superannuation contributions was noted above), it is also likely that the greater share of the growth of superannuation funds will be due to earnings on those contributions. The Reserve Bank of Australia notes that this was certainly the pattern through the 1980s: 'most of the growth [of the superannuation sector] occurred through high earnings rates, rather than through a high level of net contributions by members'.<sup>4</sup>

13. Another significant factor in the growth of superannuation assets is the operation of a broader retirement incomes policy. In this regard, provisions which allow individuals to have access to superannuation funds for other than genuine retirement purposes have the potential to impact on asset growth. Dr Vince Fitzgerald submitted that, in the absence of changes to existing policy, leakages (due to non-preservation of benefits accessible to scheme members on transfer of employment) in excess of \$2 billion annually could occur during the next five years.<sup>5</sup> The Committee notes that both the *Security in Retirement*<sup>6</sup> and *Fightback!*<sup>7</sup> proposals for superannuation reform address this leakage problem and, over time, will significantly reduce it. The final report/s of the Committee will address these problems in detail.

14. The Treasury assumes an eight per cent nominal earnings rate of superannuation funds which reduces to a four per cent real earnings rate once account is taken of its assumption of a four per cent inflation rate. The projections extend over a forty year period, by which time the full effects of the SGC measures on public and private finances are evident.<sup>8</sup> An ASFA survey of superannuation fund investment returns for 5, 10, 15, 20 and 25

---

<sup>4</sup> RBA sub no 190, Edey et al, December 1991, p 21.

<sup>5</sup> Sub no 263, p 2. These estimates were based on assumptions that people aged less than 30 would withdraw all their personal contributions when changing jobs; those aged 30 to 39 would take out an average 33 per cent; those aged 40 to 49 would access 67 per cent; and those over 50 would leave the entire entitlement intact.

<sup>6</sup> Statement by Treasurer, 30 June 1992.

<sup>7</sup> *Superannuation Made Simple*, Senator R Alston, 7 September 1992.

<sup>8</sup> Treasury, SG 32, 6 May 1992, p 18. Treasury notes that its wage and price assumptions have no official status.

year periods using rolling averages revealed a high degree of volatility with the five year real rate of return varying from minus ten per cent to plus 16 per cent. The 15 year rolling averages varied from minus two per cent to plus seven per cent.<sup>9</sup> Table 1 shows the average real rates of return for the 25 year periods at 30 June for the years 1987 to 1991.<sup>10</sup>

25 Years Ended 30 June	Typical Fund Performance	AWE	CPI	Real Rate of Return*
1987	12.7	9.6	7.2	2.8
1988	12.3	9.7	7.5	2.4
1989	12.1	9.8	7.8	2.1
1990	13.0	9.8	7.9	2.9
1991	13.0	9.8	8.0	2.9

\* Rate of return after inflation has been taken into account.

15. *The validity of The Treasury assumptions, especially in the context of the current low interest and low inflation climate, about the earnings rate of superannuation funds and the rate of inflation may be questioned, and the assumptions made about them have implications for the effect of the SGC on the financial system. For this reason, it is important that future governments closely monitor medium and long-term fund performance and, if required, be in a position to promote a more efficient and competitive capital market if returns fall below the required benchmark.*

16. In its first report, *Safeguarding Super*, the Committee called for wide ranging prudential controls over fund administration and investment practices and for more stringent auditing by the ISC. That report also recommended that a national database be established by the ISC to allow the community to have access to information about individual fund performance against certain benchmarks. Since the publication of that report, the Committee has received many complaints of poor – even negative – fund earning rates, reinforcing the case for closer scrutiny of fund performance.

<sup>9</sup> *Superfunds*, 14 July 1992, pp 14-15.

<sup>10</sup> *ibid*, p 15.

*Recommendation 1:*

The Committee recommends that the prime regulator of superannuation, the ISC, monitor, report and regularly publish comprehensive aggregate statistics on superannuation, including details of fund earnings.

## Superannuation Fund Assets

### *Sectoral Competition for Superannuation Funds*

17. The ABS identifies five sub-sectors of financial enterprises: the Reserve Bank of Australia; banks; non-bank deposit-taking institutions; life offices and superannuation funds; and other financial institutions. Life offices and superannuation funds are separately defined 'because of the importance of [these] institutions as repositories of long-term household savings'.<sup>11</sup>

18. Life offices and superannuation funds make up 32 per cent of the market activity of these five broad financial groupings. Banks make up 43 per cent (up from 40 per cent in 1989), non-bank deposit-taking institutions make up 15 per cent (down from 19 per cent in 1989) and the Reserve Bank and other financial institutions account for the remainder.<sup>12</sup>

19. The view of the Reserve Bank is that:

... superannuation funds and financial intermediaries and other discretionary funds have largely been competing in different markets, although rollover and other discretionary funds have recently emerged as an area where the superannuation sector may be competing more directly with banks for funds. At the margin, this may have had the effect of increasing the banks' cost of funds by reducing a potential source of lower cost deposits.<sup>13</sup>

20. A number of witnesses submitted that the growth of superannuation would result in significant distortions to the current financial system. The

<sup>11</sup> ABS Australian National Accounts: Financial Accounts – September Quarter 1989 to June Quarter 1991 Cat No 5232.0, June 1992 pp 69-70.

<sup>12</sup> *ibid*, p 11.

<sup>13</sup> RBA, sub no 190, Edey et al, December 1991, p 22.

---

Assistant Governor of the Reserve Bank, Mr Graeme Thompson, whilst acknowledging that the growth of superannuation will provide competition to savings in other forms, expressed an opinion that some of the views 'on the impact on financial flows, have been somewhat overstated and underestimated the capacity of financial markets to deal with these sorts of changes.'<sup>14</sup>

21. Mr Thompson told the Committee that banks had become more active in the superannuation field and were now managing 20 per cent of superannuation funds, which represent about six per cent of assets under the control of banks.<sup>15</sup>

22. The contrasting role of the banks and life offices as borrowers and lenders of funds was pursued vigorously before the Committee. The banks saw their role as taking in depositors' funds and lending them out again for individuals, whom they see as their principal client base. A concern was expressed that if funds were directed away from the banking system, they would be forced to increase interest rates to maintain deposit and lending levels. To this end, ANZ argued that it should be allowed to operate a savings bank superannuation account under ISC rules which apply to complying superannuation funds.

23. In representing life offices, LIFA acknowledged that there was some concern about the inroads banks were making into activities that were formerly the province of life offices, but pointed out that this development was a form of competition with which the life industry would 'cope'.<sup>16</sup> However, the point was made that the retirement savings accounts proposed by some banks should operate under the same rules and regulations as are applicable to superannuation funds. The entry of banks into the field of superannuation was traversed in *Safeguarding Super* and was the subject of several recommendations.<sup>17</sup>

---

<sup>14</sup> Evidence, p 1989.

<sup>15</sup> *ibid.*

<sup>16</sup> Evidence, p 288.

<sup>17</sup> *Safeguarding Super*, First Report of the Senate Select Committee on Superannuation 1992, p 126, Recommendation 10.2:

The Committee supports the entry of new entrants into the superannuation industry as this will widen consumer choice and introduce more competition to the industry.

The Committee recommends that cross-subsidisation of the administration costs of bank superannuation products and other bank products be legislatively prohibited under the Banking Act and that this be monitored by the Reserve Bank.

24. The Committee notes that the ANZ bank has responded to Recommendation 10.2 of that report, submitting that:

Competitive imperatives of the late 1990s dictate that organisations cannot support sub-viable products, and therefore, cross subsidisation between normal retail banking and superannuation accounts would not be possible.<sup>18</sup>

25. Further, ANZ submitted that a more appropriate paragraph 2 of the recommendation would be:

The Committee recommends that the industry educate consumers to an understanding of the relationship between risk, return and the longer term benefits of a diversified portfolio.<sup>19</sup>

26. *The growth in superannuation funds can be expected to increase the market share of life offices and superannuation funds and to do so at the expense of traditional saving products offered by banks and other financial institutions, for example, building societies and credit unions. It is likely that banks and the other non-bank financial institutions will develop products and services which allow them to compete for superannuation funds and thereby maintain overall market share. The role of the Reserve Bank of Australia and other Government regulatory agencies will be critical if these market adjustments are to proceed in a way which ensures that security of superannuation savings and optimal returns are to be achieved.*

27. The value of the total assets of superannuation funds and ADFs in March 1992 was \$148 billion, an increase of \$18 billion, or 14 per cent, on March 1991.<sup>20</sup> To gain an appreciation of how the assets of superannuation funds and banks compare, it is necessary to look at the total financial assets of life offices and superannuation funds (that is, to include the ordinary business of life offices as well as their superannuation business) – the ABS statistics do not appear to break down these two areas. In June 1991 the total financial assets of banks were \$290 billion compared to assets of \$147 billion held by life offices and superannuation funds. The financial

---

The Committee further recommends that legislation require consumers to be adequately informed about the implications of a low risk profile for bank account superannuation in terms of retirement benefits, and that the ISC and the industry conduct an education campaign to explain to consumers the importance of risky assets in an investment portfolio.

<sup>18</sup> Sub no 73, additional information of 17 June 1992, p 2.

<sup>19</sup> *ibid.*

<sup>20</sup> ABS Assets of Super funds and ADFs: March Quarter 1992 Cat no. 5656.0 July 1992, p 1.

assets of non-bank deposit taking institutions amounted to \$124 billion, and those of other financial institutions \$78 billion.<sup>21</sup>

28. It has been estimated that gross saving through superannuation is approximately six per cent of GDP and that this would increase to seven per cent by the year 2000 and peak at 7.5 per cent in 2005. Net superannuation savings, that is gross superannuation contributions less net payouts, will rise from just over three per cent of GDP in 1992 to just over four per cent in 2000 with a peak level of 4.5 per cent in 2005.<sup>22</sup> The Committee acknowledges that changes to superannuation have considerably reduced its competitive advantage as a savings vehicle. If charges, taxes and anti-competitive practices are not kept to a minimum, the continued growth of superannuation will be in jeopardy.

29. Committee members have received a number of comments from retirees about disappointing returns on their rollover products. Some of these comments have indicated that cross subsidisation between rollover funds and other savings vehicles in the one institution has been occurring.

*Recommendation 2:*

The Committee recommends that the ISC ensures that details relating to costs and fund returns of Approved Deposit Funds and Deferred Annuity investments be published in a succinct summary using a standard format and be made available to investors and prospective investors of these products.

*Distribution of Superannuation Assets*

30. The distribution of superannuation assets totalling \$148 billion in March 1992 was as follows:

- assets in Australia amount to \$128 billion, or 86 per cent;
- assets in the rest of world amount to \$20 billion, or 14 per cent;<sup>23</sup>

<sup>21</sup> ABS Australian National Accounts: Financial Accounts September Quarter 1989 to June Quarter 1991, Cat No 5232.0, June 1992 pp 18-21.

<sup>22</sup> Fitzgerald & Harper, *Superannuation Preferred or Level Playing Field?*, pp 27-28.

<sup>23</sup> The Committee sought information about long-term trends in this aspect of superannuation but was advised that the series has only recently been established.

- non-financial assets held in Australia comprise \$17 billion, or 11 per cent; and
- financial assets in Australia comprise equities and units in trusts (\$53 billion, or 36 per cent), long-term securities (\$34 billion, or 23 per cent), loans and placements (\$10 billion or six per cent), short-term assets (\$7 billion or five per cent), and cash and deposits (\$7 billion or five per cent).<sup>24</sup>

	Amount \$ billion	Percentage
Assets invested in Australia	128	86
Assets invested overseas	<u>20</u>	<u>14</u>
	148	100

	\$ billion	Percentage of total Superannuation Assets
Non financial assets	17	11
Financial Assets		
• Equities and assets in trust	53	36
• Long term assets	34	23
• Loans and placements	10	6
• Short term assets	7	5
• Cash and deposits	<u>7</u>	<u>5</u>
	128	86

31. A body of evidence alerted the Committee to the likelihood of an increasing level of funds being invested offshore. International diversification by superannuation funds may bring significantly greater returns for the same level of risk compared to a purely domestic portfolio.<sup>25</sup> In acknowledging that the change of the savings base from short to long term should not have any immediate effects on the liquidity structure of the local market, Westpac

<sup>24</sup> ABS Assets of Super funds and ADFs: March Quarter 1992 Cat No 5656.0 July 1992 p 2.

<sup>25</sup> Queensland Government, sub no 128, p 7.

---

submitted that it may lead to increased investment off-shore in nominal terms.<sup>26</sup>

32. *The growth of superannuation funds will result in superannuation institutions varying the placement of their financial and non-financial assets. Particular questions may arise about their placement in overseas assets, in Australian equities and in short-term assets.*

#### *Taxation of Interests in Foreign Investment Funds*

33. The Committee observes that the extent to which off-shore diversification is pursued by superannuation funds may in future be limited should the Government's proposal to tax unrealised gains by Australian interests overseas be implemented. Also included in the proposal are arrangements to change the tax treatment of insurance/superannuation policies which are brought into Australia by migrants. If the initiative is made to apply to superannuation funds, it could limit their ability to maintain an appropriately diversified portfolio and thereby produce satisfactory rates of return on funds under investment. The cost of compliance with the provisions of this policy may also detract from the performance of superannuation funds.

34. *The Committee believes that measures such as these need to be closely scrutinised before being made to apply to an industry which has not been found to be involved in tax avoidance or evasion by way of overseas investment.*<sup>27</sup>

#### *Household financial Assets*

35. Of the financial assets of households and unincorporated businesses, life offices and pension funds account for \$196 billion or 41 per cent (up from 38 per cent in 1989). Also, the flow of net financial transactions by households is strongly into life offices and pension funds and (over 1989-91) out of equities; and in 1990-91, also out of long-term debt securities.<sup>28</sup>

---

<sup>26</sup> Sub no 132, pp 11-12.

<sup>27</sup> ATO media release 92/34 of 15 July 1992, which announced that Professor B Arnold had been appointed to report on the proposed Foreign Investment Funds measures.

<sup>28</sup> ABS Australian National Accounts: Financial Accounts September Quarter 1989 to June Quarter 1991, Cat No 5232.0, June 1992 p 24 and p 64.

36. *The growth of superannuation funds is likely to be accompanied by an increase in the share of life office and pension funds in household financial assets. However, since superannuation funds need to be able to invest their funds somewhere, the net effect on the financial system may not be as dramatic as it appears.*

## Superannuation and the Market for Australian Shares

37. The size of the Australian share market in June 1991 was \$291 billion of which 73 per cent was made up of shares issued by private corporate trading enterprises, 14 per cent was shares issued by banks, four per cent was shares issued by non-bank deposit-taking institutions and a further four per cent was shares issued by other financial institutions. The remaining five per cent is mainly attributable to public authorities.<sup>29</sup>

38. The ABS comments:

Of the total [shares] on issue, the rest of the world was by far the biggest holder. At June 1991 non-residents held shares valued at \$102 billion (35 per cent). Households' apparent holdings at June 1991 were \$67 billion (23 per cent). This estimate is, however, derived residually and so needs to be treated cautiously.

Life offices and superannuation funds were the next biggest holder of shares. At June 1991 this sector held shares valued at \$50 billion which was about 17 per cent of the total.<sup>30</sup>

39. Of equities issued by private corporate trading enterprises (\$212 billion), banks held \$3 billion or one per cent, life offices and superannuation funds held \$40 billion or 19 per cent, households and unincorporated businesses held \$42 billion or 20 per cent, the rest of the world held \$88 billion or 41 per cent, cross shareholdings accounted for \$25 billion (12 per cent) and the remainder was in the hands of government and other minor holders.

40. Of equities issued by banks; households and unincorporated businesses held \$20 billion or 50 per cent, the rest of the world held \$7 billion, or 18 per cent, banks held \$5 billion or 12 per cent, and life offices and

<sup>29</sup> *ibid*, p 38.

<sup>30</sup> *ibid*, p 28.

---

superannuation funds held \$4 billion, or ten per cent, with the remainder in minor holdings.<sup>31</sup>

41. *As already noted, the growth of superannuation funds may be expected to lead to a shift of certain household financial assets into superannuation.*

42. The attractiveness of 'blue chip' equities, especially now that dividend imputation has been introduced, was alluded to by a number of witnesses. Rob Patton, of the Institute of Actuaries, informed the Committee that dividend imputation had the effect of reducing the tax on investment income of superannuation funds from 15 to somewhere between five and ten per cent. He estimated that the use of the imputation system had the potential to add one percentage point to investment yields.<sup>32</sup>

43. Mr Don Mercer, from ANZ, stated that the relative attraction of equities in the midst of increases in superannuation funds would place some buying pressure on the best quality stocks (that is, those which have dividend imputation); however, he expressed some reservations about the rate at which the supply of high quality equities would grow and felt that this would depend on other initiatives, for example major programs of privatisation, occurring.<sup>33</sup>

44. To the extent that it is possible that the growth of superannuation could lead to investment in blue chip equities at the expense of other investments, which are also needed if the economy is to experience balanced and dynamic growth, the Committee believes that trends in this domain should be monitored by Government.

*Recommendation 3:*

The Committee recommends that the Government monitor trends in changes in the investment portfolios of superannuation funds to enable appropriate judgements and decisions to be made about the extent of diversification.

---

<sup>31</sup> *ibid*, p 38.

<sup>32</sup> Evidence, p 20.

<sup>33</sup> Evidence, p 458.

## Superannuation and Managed Funds<sup>34</sup>

45. The proportion of superannuation funds invested through professional fund managers in June 1991 was just below the proportion of total managed funds (superannuation and all other managed funds) under professional management:

- \$41 billion or 53 per cent of superannuation funds and ADFs were invested through fund managers but this figure rises to 71 per cent when account is taken of the superannuation business of life offices;
- This compares to a figure of \$156 billion or 75 per cent of total managed funds invested through professional fund managers.<sup>35</sup>

46. *It is reasonable to expect the proportion of superannuation funds invested through fund managers to rise with both the growth of superannuation funds and the increased levels of expectation of superannuation contributors with respect to fund performance.*

47. A limited number of firms control a large share of the total funds under management. Of the total superannuation funds, ADFs and life insurance offices under management, three managers control 46 per cent of these funds (amounting to \$10 billion or more of assets each), four managers control 21 per cent of the funds (amounting to \$5-10 billion of assets), nine managers control 19 per cent of the funds (amounting to \$2-5 billion), nine managers control nine per cent of the funds (amounting to \$1-2 billion), and 28 managers control five per cent of the funds (amounting to less than \$1 billion).

---

<sup>34</sup> A managed fund is any fund established for pooling money from investors to invest in financial and non-financial assets, for example:

- statutory funds of life insurance offices,
- superannuation funds and ADFs
- public unit trusts,
- cash management trusts,
- common funds, and
- friendly societies.

<sup>35</sup> Dene Baines and Suzanne Hartshorn *Managed Funds in Australia* in ABS *Australian Economic Indicators*: February 1992 Catalogue No. 1350.0 p xii. Note that this article states that 'approximately \$97 billion of superannuation money was invested through professional fund managers' [footnote to Table 1 in the article.] The figure of 71 per cent is calculated by dividing \$97 billion by \$137 billion, the latter being the total unconsolidated value of the superannuation business of life offices, super and ADFs (also shown in Table 1 in the article).

48. Of the total funds under management, five managers control 49 per cent of the total funds (the funds amounting to \$10 billion and above each), three managers control 12 per cent of the total funds (the funds amounting to \$5-10 billion), 16 managers control 29 per cent of the total funds (the funds amounting to \$2-5 billion), five managers control four per cent of the total funds (the funds amounting to \$1-2 billion), and 24 managers control six per cent of the total funds (the funds amounting to less than \$1 billion).<sup>36</sup>

49. The Committee heard differing viewpoints about the impact of the growth of superannuation funds on the funds management industry. A number of witnesses agreed with Metway Corporation that the SGC, in conjunction with existing award superannuation arrangements, will lead to greater concentration of fund managers, with only a handful of very large funds controlling the bulk of superannuation assets. This could mean that poor investment decisions of a few large funds managers could have disproportionate consequences for the wider Australian economy. The already high concentration of funds management in the banking industry should be taken into account in assessing this assertion.<sup>37</sup>

50. Another dimension to the concentration issue is that a few large fund managers could exercise enormous and undue influence on the stock market; whereas a capacity for superannuation funds to have access to smaller managers who have niche market expertise in small growth stocks would assist the capacity of medium sized firms to have access to stock market capital.<sup>38</sup>

51. Expressing another view, AMP considers that the growth of superannuation will lead to new fund managers entering the market which would have the effect of increasing competition and possibly lowering management fees.<sup>39</sup> BT Australia Ltd observed that the degree of concentration in the superannuation industry is less than that in the banking

---

<sup>36</sup> ABS 'Concentration Table of Funds by Amount of Total Funds Under Management' and 'Concentration Table of Funds, by Amount of Super Funds, ADFs and Life Insurance Offices Funds Under Management' in Private Finance ABS 'Professional Fund Managers: Sources of Funds'.

<sup>37</sup> Metway Corp, sub no 117.

<sup>38</sup> InTech, sub no 244, p 1.

<sup>39</sup> AMP, sub no 120.

and other major industry sectors, and that vigorous competition exists between superannuation fund managers.<sup>40</sup>

52. *It is not clear whether the growth of superannuation funds will increase the concentration of funds under professional management or result in anti-competitive practices which could result in lower investment returns for contributors. Therefore the Committee reiterates its recommendation in Safeguarding Super.*

Recommendation 8.3:

The Committee recommends that the TPC monitors the funds management industry to ensure that it remains open and competitive.

## Superannuation and National Savings

53. The Treasury notes that:

... the impact of the SGC on national saving has the following components:

- an increase in net private saving due to
  - an increase in net private **superannuation saving**<sup>41</sup> (measured as contributions plus earnings less fund payouts), partly offset by
  - a reduction in **other forms of private saving**;
- *plus* an increase in public saving due to
  - a reduction in **age pension outlays**, partly (and in early years more than fully) offset by
  - an increase in the cost of the **superannuation tax concessions**.<sup>42</sup>

---

<sup>40</sup> BT Aust Ltd, sub no 105.

<sup>41</sup> The Committee notes that evidence it has received indicates that these savings can be significantly diminished by increased charges, fees and taxation on contributions and fund income.

<sup>42</sup> The Treasury, sub no SG 47, 11 May 1992, p 2.