KPMG

Super Insights 2023

New competitive battlegrounds

May 2023

KPMG.com/au/SuperInsights2023

Foreword

The superannuation industry has been through the implementation of the Your Future Your Super (YFYS) regime which commenced in November 2021. YFYS aims to:

LINDA ELKINS
National Sector Leader,
Asset & Wealth Management,
KPMG Australia

- make it easier for superannuation to follow a member by a process of stapling thus reducing the creation of unintended multiple accounts;
- address ongoing underperformance by seeking to ensure product performance is tested against industry benchmarks and strengthening the powers of APRA in managing underperforming products;
- make it easier for members to choose a well-performing fund; and
- increase accountability and transparency by focusing trustees and directors on acting in the best financial interests of members.

In practice, this means that Australians are now 'stapled' to the super fund they have, rather than adding an additional fund by default if their choice (or preferred fund) was not known by the employer when they changed jobs. While there is now an increased prioritisation of a member's right to choose, where a choice is not made, the member will stay in their pre-existing fund. Effectively, this is the fund they had in November 2021, or their employer's fund if they are new to the workforce.

So the question is: What are we seeing in the market now these measures are in place?

We are seeing a continuation of the trend for consolidation with ongoing merger activity. We are also seeing greater competition to attract and retain members.

We have identified three key battlegrounds to describe this competitive landscape:

1. mergers and consolidation;
2. member acquisition and retention; and
3. retirement.

As funds compete across these battlegrounds, we are starting to see funds emerging with defined capabilities aimed at these battlegrounds. For example, funds winning through merger activity versus funds winning in voluntary rollovers, and contributions versus those winning in retirement.

Arguably, to win in each of these battlegrounds requires funds to have a different set of capabilities. It is interesting to see how successful funds are emerging in each of these fields.

We have structured this year's report in line with these battlegrounds so we can start to see how competition is driving capability and strategic choices as funds focus on their strengths and strategies to deliver sustainable member outcomes.

Super Insights 2023 includes our interactive Dashboard which allows funds to carry out their own analysis across a series of views and therefore consider their own strengths and weaknesses.

It is also interesting to observe the transformation agenda that is underway in many funds as they seek to build capabilities for the future, keep up with member expectations, and build the resilience expected by regulators and the community.

As always, what is most important to see is whether members are winning from this competition: the answer appears to be yes, with destination funds seeking to improve investment performance, member benefits, decreasing fees for MySuper portfolios and an increasing focus on solutions to secure income in retirement.

The KPMG Super Insights Dashboard contains interactive versions of many of the charts and graphs included in this report, as well as additional information.

Throughout this report, we have tips on how to use the Dashboard to get additional information. For example, the Dashboard enables you to filter the data based on your own preferences. You can view industry and fund metrics for a particular year or segment of the industry, as well as view metrics for an individual fund in comparison to a peer group.

The dashboard can be accessed via our website at:
KPMG.com/au/SuperInsights2023

Additional analysis or information

For any funds seeking additional information or further analysis of the data contained within the KPMG Super Insights Dashboard, KPMG's data analytics and insights team would be more than happy to discuss your requirements. This can include analysis of the performance of your fund against peer or competitor funds, modelling of impacts of potential fund mergers and projections of data. Feel free to get in touch with one of the KPMG contacts in this report.

Super battlegrounds

There are three key battlegrounds for super funds which are the strategic priorities in the current era of intensified competition.

Strategic priorities in the face of heightened competition

1.

Scale – mergers and the rise of the mega-funds

Five new mergers were announced in calendar year 2022, and at least thirteen mergers were consummated in the year 1 July 2021 to 30 June 2022.

Consolidation has produced a dramatic change in the superannuation landscape, and as at 30 June 2022 there were three funds over $150 billion with one of these over $250 billion.

More funds are pursuing inorganic growth strategies and are on the lookout for a merger partner. This is a very competitive market where trustees have the opportunity to negotiate better outcomes for their members.

This also has meant that destination funds have developed the capability to design and pitch solutions to merger partners as well as the capability to undertake the merger activity.

Other funds are considering their sustainability in the face of challenging investment performance, relative fee levels or net flows.

Capabilities required for success in mergers include:

- designing mergers, including degree of flexibility offered to a partner
- identification of suitable partner: market scan
- due diligence for merger
- running the tender
- running the SFT/integration project
- successfully integrating cultures for any teams who move across
- delivering the business plan identified benefits in the combined fund.

2.

Member acquisition and retention

Competition between funds has intensified following the implementation of the choice regime introduced alongside stapling in the Your Future Your Super reforms in November 2021. Funds are fighting to acquire and retain the same members and deliver their organic growth strategies. This year's data only has seven months of post-stapling data, so it is early days to see whether there has been any change in traction for membership growth or net flows.

Individual success stories are apparent within each sector – you can see these by looking at two of our new Dashboard views: view 15 shows the change in Net Cashflow Ratio by fund from 2021–2022, and view 7 shows Accumulation and Pension Growth rates by fund over the five years from 2017–2022.

There is a strong focus in many funds on strategies to boost organic growth. Member acquisition and retention strategies will be key to fund growth, scale and long-term success.

Capabilities required for success in organic growth include:

– brand presence and marketing
– digital capability for acquisition and onboarding creating a seamless experience
– strong relationships with employers
– ability to leverage (and safeguard) the membership data
– exceptional customer journeys, including journeys into retirement phase
– organisational structure to support the strategy.

3.

Retirement

The retail sector, with their strong advice models, are dominant in this space, however, a shift has occurred in the 12 months since our last report, with the industry fund sector adding market share in retirement phase assets at the expense of the retail sector. There are retirement success stories in both sectors. Click into the new view 7 on the Dashboard to see which funds are gaining or losing traction for membership in retirement.

More funds are recognising the importance of assisting their members to transition into retirement, and it has become central to many funds' strategies in response to membership demographics and regulatory imperatives.

Funds are transforming, with some restructuring along value chain lines and Chief Retirement Officer roles, have recently been created in a number of industry funds.

Capabilities required for success include:

– trust in brand
– compelling retirement income strategies that offer income certainty and longevity solutions as part of the mix
– ability to model and demonstrate effectiveness of retirement income strategy for member cohorts, as required by APRA
– payments capability, with associated uplift in expected services for people drawing income
– strong customer journey to transition from accumulation to retirement
– member access to personal advice
– organisational structure to support the strategy.

Strategic priority 1: Scale – mergers and the rise of the mega-funds

Merger activity

There has been significant change in the superannuation fund market from 2021 to 2022 with the completion of at least 13 mergers. The largest of these was the merger of QSuper and Sunsuper, forming the Australian Retirement Trust in February 2022, creating the second largest superannuation fund at $231 billion.

Factors driving mergers include:

- the imperative for scale to deliver stronger member outcomes
- sustainability considerations in relation to investment performance, fees or net cash flow ratios
- strategic and business plan drivers, from addressing sustainability and contingency planning issues to strategic partnering to increase market positioning.

The rise of the $100b+ mega-funds

We are currently defining a mega-fund as a super fund[1] with $100 billion or more in assets.

In 2015 there was only one mega-fund: AMP.

In 2016 there were two mega-funds: AMP (still the largest) and AustralianSuper.

In 2017 there were the same two mega-funds, with AustralianSuper the largest by assets and AMP the largest by members.

In 2018 there were five mega-funds, with the addition of CFS, NAB/MLC and QSuper. AustralianSuper remained the largest by assets and AMP the largest by members.

In 2019 there was little change to the number or ranking of the mega-funds, with QSuper pulling slightly ahead of the others to become the third largest in assets.

In 2020, there was a dramatic change back to only four mega-funds. AustralianSuper, AMP, and QSuper were joined by new entrant Aware Super, created when VicSuper merged with First State Super and StatePlus and rebranded. Both CFS and NAB/MLC dropped off the list.

AustralianSuper was now the largest by both assets and members, with a significant lead in both. Aware Super was now the second largest in assets and AMP the second largest in members.

In 2021, there were seven mega-funds. New entrant Insignia was created by merger when IOOF acquired MLC and rebranded, becoming the second largest in members and assets after AustralianSuper. Aware Super grew with the merger of WA Super, remaining the third largest in assets, with AMP still the third largest in members. CFS and NAB/MLC re-entered the list, joined by BT.

To see the list of fund mergers completed and announced, with dates, click on our new Dashboard view 'Fund and Trustee Groupings' and refer to the 'Date of Merger/Potential Merger' column.

We have identified all the large mergers and as many of the small ones as we could find, however, there may be some small ones we have not picked up on this list.

[1] In this context super fund may refer to an individual fund or one or more super funds under one brand. Refer to the 'Fund and Trustee Groupings' tab in the Dashboard for details of the current groupings.

In 2022, there were seven mega-funds. New entrant, Australian Retirement Trust, was created when Sunsuper merged with existing mega-fund QSuper and rebranded, becoming the second largest fund in members and assets after AustralianSuper. Insignia became third in both members and assets, followed by Aware Super in fourth position for members and assets.

New entrant UniSuper was fifth in assets, and behind AMP and CFS in member numbers.

Plotting these mega-funds on a chart as at 30 June 2022 shows their relative market position by assets and members.

To see this in the Dashboard, go to view 4: Market Position and select fund size >$100b on the drop-down menu.

You can play a video of the history of this view by ticking 'Show history' at the top right of the chart, and dragging the little dot along the timeline or clicking the right and left arrows to advance the year from 2014 to 2022.

Market position

Two of the seven mega-funds now have a significant lead over the others in terms of Assets Under Management: AustralianSuper and Australian Retirement Trust.

Make-up of the industry – by fund

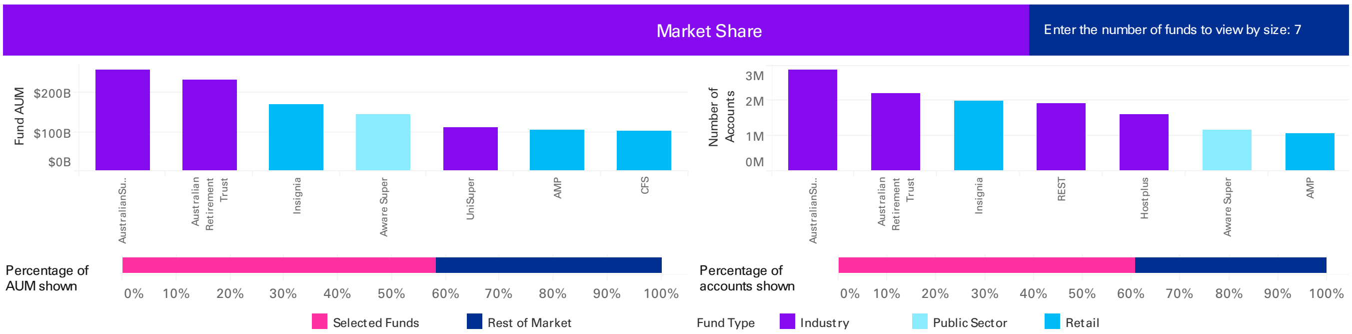
View 1: Industry Overview on the Dashboard shows that following these mergers, there are still seven funds with more than $100 billion in assets in 2022 – the same as in 2021 – however, the list of these mega-funds has changed:

- In 2021 there was one industry fund (the largest, AustralianSuper), two public sector funds and four retail funds.
- In 2022 (refer below) the top seven included three industry funds, one public sector fund and three retail funds.

These seven funds represent 58 percent of assets in the non-SMSF super industry.

To see the top seven funds in the Dashboard, go to view 1: Industry Overview and in the Market Share section on the right-hand side you can select the number of funds to view at a time – select 7.

Market share – 7 largest funds

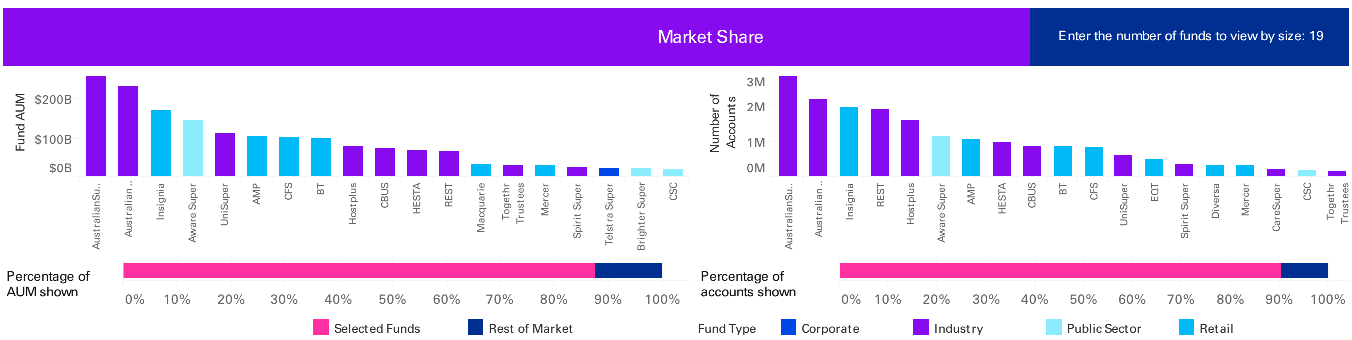


There are another five funds sized between $60 billion and $100 billion (down from six in 2021), then a significant size gap to the next largest fund at $32 billion. There are still just seven funds between $20 billion and $32 billion (same as in 2021), then a long tail of small funds.

These top 19 funds above $20 billion (refer below) make up 87 percent of assets in the non-SMSF super industry.

To see the percentage of AUM (assets) and Accounts (members) the selected funds represent, hover over the bars under the chart.

Market share – 19 largest funds



To see merger announcements as at April 2023, click on the 'Fund and Trustee Groupings' view in the Dashboard and view the 'Date of Merger/Potential Merger' column.

Future mergers

Following the strong merger activity in 2021-22, five mergers have already been completed between 30 June 2022 and at the time of writing in April 2023, nine other funds have made merger or MOU announcements.

Mergers will continue to transform the shape of the industry towards fewer, larger funds. There will also be room for small, boutique funds with a clear differentiating value proposition.

Future shape of the superannuation industry

The future shape of the industry will be influenced by both inorganic and organic growth strategies. We now turn to look at trends in organic growth driven by member acquisition and retention strategies.

Strategic priority 2: Member acquisition and retention

Member acquisition and retention in a more competitive environment

A continuing and intensifying trend is the direct competition between funds in order to attract and retain members, often contesting for the same categories – first jobs, changing jobs and the transition to retirement.

However, with the nature of the stapling reforms there is less automatic acquisition at the job change stage, with any change predicated upon pure member choice. There still remains an important role for employers in continuing to engage with new employees and demonstrating value through their super fund relationship.

To achieve their organic growth ambitions, some funds are transforming their organisational structure to become 'digital-first' and investing heavily in their digital capability.

Focus areas include:

– member attraction initiatives such as improving their digital 'front door' and sales funnel, and smoothing their onboarding journeys

– member retention initiatives, investing in member journeys and customer experience in order to engage members and encourage them to stay

– creating smooth member journeys (often including an advice element) from accumulation phase into retirement income phase. This is increasingly important with a more stable membership base (less members joining and leaving due to job change) who will age over time.

Growth, contraction and momentum in 2022

The superannuation industry contracted by 0.5 percent over the year to 2022, following strong growth in 2021.

Some of the large mergers have skewed the data with some funds being reallocated between sectors, and some mergers appearing in the data as inflows. This makes the 2022 data somewhat difficult to analyse. Where we are aware of such effects, we note them in our commentary.

A continuing and intensifying trend is the direct competition between funds in order to attract and retain members.

Growth by sector

In 2021, all industry sectors grew their assets: corporate, industry, public sector and retail funds.

In 2022, public sector lost 40 percent of its assets, and industry funds gained 17 percent – refer to the right-hand side of the Industry Overview chart below.

We note that as part of the creation of Australian Retirement Trust during the year, QSuper's $132 billion was re-categorised from a public sector fund to an industry fund. KPMG believe merger activity explains a large part of this movement, and as such we do not think this is a measure of relative traction in different sectors, but is more a consolidation impact.

Consequently, we cannot see any clear winners in overall sector growth.

To view this data in the Dashboard, select view 1: Industry Overview.

Industry overview

Summary By Size

Fund Size	No. of Members	No. of Funds	Total AUM	Change in No. Funds*	Change in AUM*	Growth in AUM
< $10 B	1.1M	29	$94B	↓	↓	-31%
$10 to $25 B	2.0M	13	$211B	↓	↓	-11%
$25 to $50 B	0.9M	4	$116B	○	↓	-2%
$50 to $100 B	6.3M	5	$385B	↓	↓	-14%
> $100 B	10.7M	7	$1,125B	○	↑	9%
Total	21.0M	58	$1,930B	↓	↓	-2%

Summary By Type

Fund Type	No. of Members	No. of Funds	Total AUM	Change in No. Funds*	Change in AUM*	Growth in AUM
Corporate	0.2M	7	$53B	↓	↓	-9%
Industry	12.5M	22	$1,024B	↓	↑	17%
Public Sector	1.6M	8	$217B	↓	↓	-40%
Retail	6.6M	21	$636B	↓	↓	-6%
Total	21.0M	58	$1,930B	↓	↓	-2%

In terms of fund size, the growth was concentrated in funds with assets over $100 billion, at the expense of smaller funds. Again, KPMG expects that this is largely as a result of some of the merger activity during the year

There are no clear callouts from this data, apart from the fact that small funds are losing assets to larger funds, as we would have expected given the rapid consolidation and merger activity currently underway.

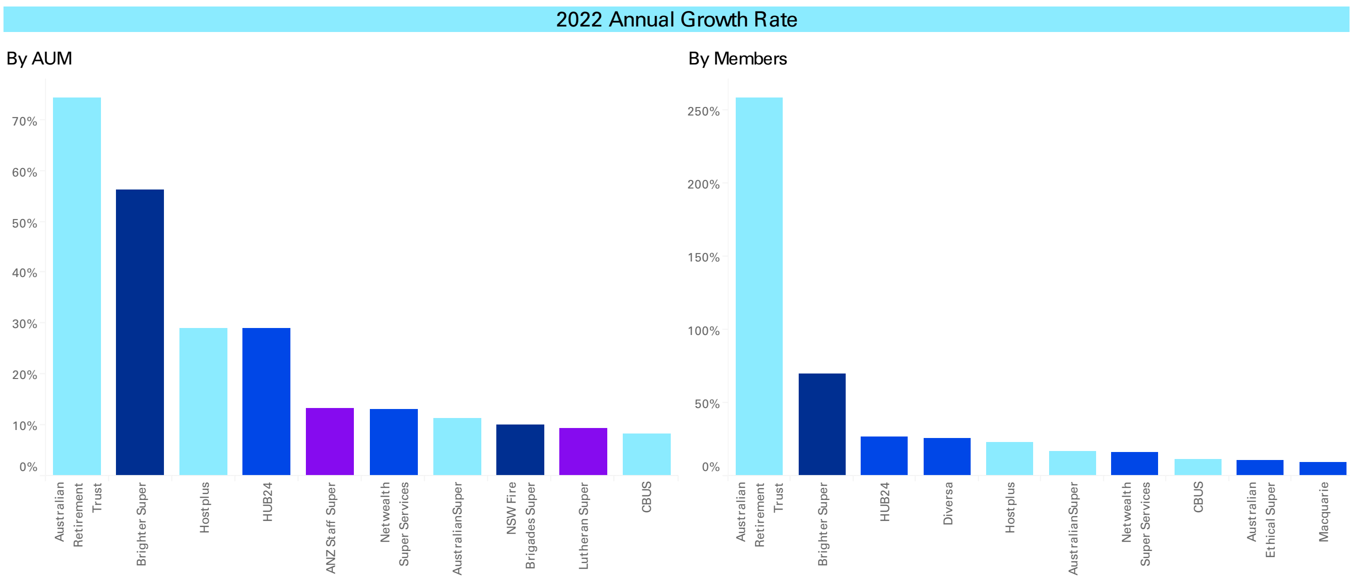
Growth rates by fund

The top 10 funds by growth rate of assets and members can be seen here.

To view this data on the Dashboard, select view 5: Top 10 Funds by Growth.

You can hover over a fund to see its growth rate.

Top 10 funds by growth 2022



However, the figures for the top three fastest-growing funds are all impacted by mergers, so are demonstrating inorganic rather than organic growth.

To view how an individual fund has grown you can look at the number of members and assets by fund in different years. Click on view 22: Accumulation and Pension Accounts by Fund in the Dashboard and hover over each fund. You can select a fund on the drop-down menu. You can select a different year in the top right corner.

Australian Retirement Trust (Sunsuper) merged with QSuper in February 2022 and Post Super (Australia Post Superannuation Scheme) in April 2022. The actual growth rate of Australian Retirement Trust members is 5.4 percent excluding the merger impact rather than the 258 percent implied by the raw numbers.

Brighter Super's growth numbers are also the product of mergers impacting its growth numbers. LGIAsuper merged with EnergySuper on 1 July 2021 and Suncorp Portfolio services in April 2022, then was renamed Brighter Super on 1 July 2022.

Looking along the top 10 growth rates by member, the following funds have numbers impacted by mergers so are not reflecting only organic growth:

- Hostplus merged with Statewide in April 2022
- AustralianSuper merged with LUCRF in June 2022
- CBUS merged with Media Super in April 2022
- Macquarie merged with Definitive in June 2022.

As such, the only funds on the top 10 list where the organic growth in member numbers appear to be without the assistance of mergers are the platforms HUB24 and Netwealth, along with Diversa (a conglomerate trustee) and Australian Ethical Super.

On an asset growth rate view we can add ANZ Staff Super, NSW.

Member sentiment by fund

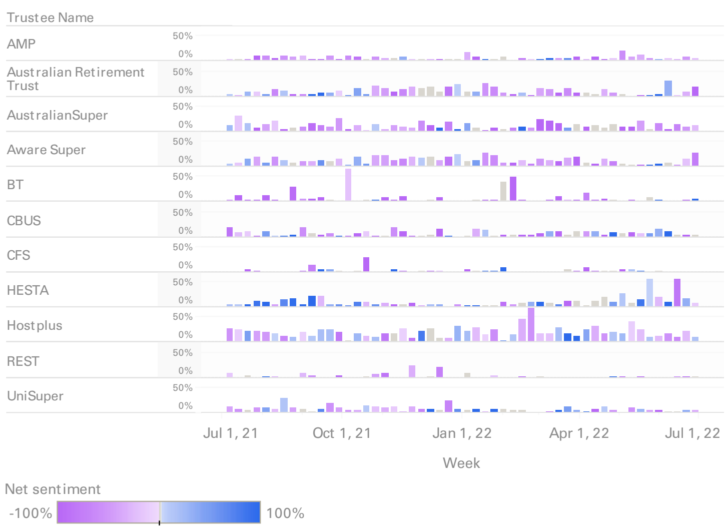
For the first time we have included some analysis from KPMG's Customer Intelligence team on public discussion for some of the larger superannuation funds as they appear across social and other online media sites. We can see here the sentiment as indicated by volume of positive or negative social and online media mentions. This KPMG analysis is powered by Brandwatch, which leverages an AI-model to mark mentions for sentiment.

We have mapped that against the one-year growth in member numbers (noting the raw member growth numbers are impacted by mergers as called out above). It is difficult to draw trends at this stage from member sentiment to membership growth numbers, due to the merger effects and potential lags, however, we will continue to analyse this data in future reports.

To see this information click on view 32: Analysis of Sentiment.

It is interesting to see which large funds have the most share of voice, and also to note the seasonal changes in positive and negative sentiment.

Sentiment and share of voice



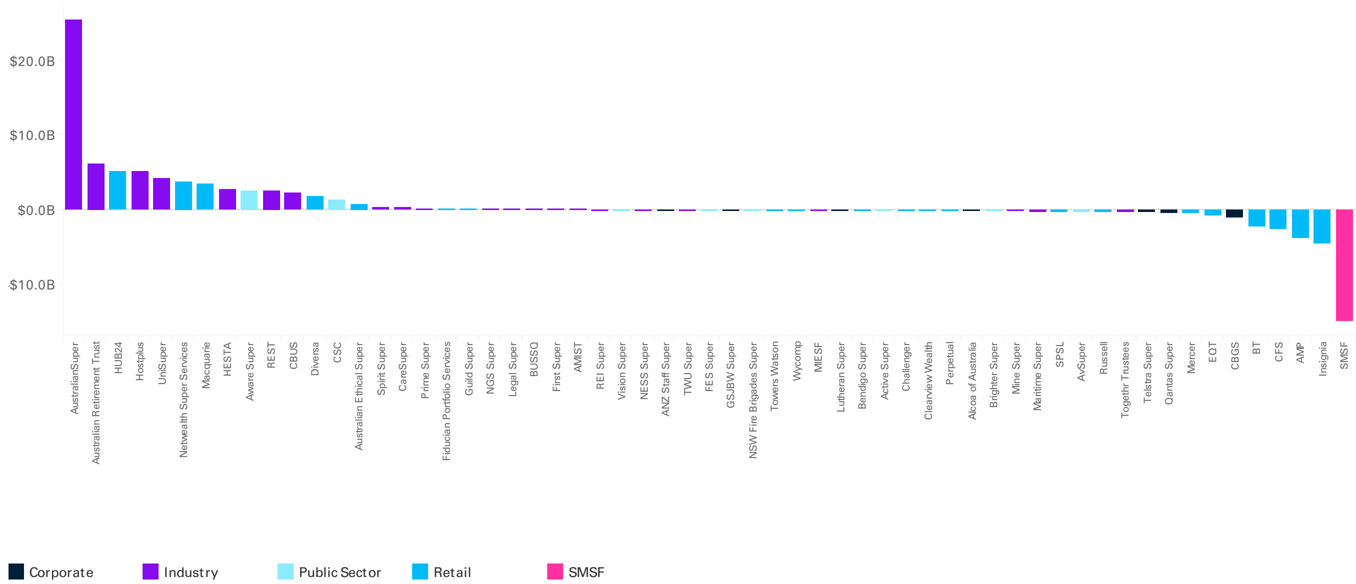
	Negative	Neutral	Positive	Total Mentions	Share of voice	Net sentiment	1 year Member growth *
AMP	214	648	85	947	5.2%	28.4%	-8%
Australian Retirement Trust	312	1,334	156	1,802	9.9%	33.3%	258%
AustralianSuper	357	1,636	158	2,151	11.8%	30.7%	17%
Aware Super	360	1,577	173	2,110	11.6%	32.5%	3%
BT	358	1,098	14	1,470	8.0%	3.8%	-13%
CBUS	193	1,079	72	1,344	7.4%	27.2%	11%
CFS	50	434	27	511	2.8%	35.1%	-2%
HESTA	213	1,395	333	1,941	10.6%	61.0%	5%
Hostplus	518	2,611	349	3,478	19.0%	40.3%	23%
REST	150	422	58	630	3.4%	27.9%	4%
UniSuper	243	1,102	144	1,489	8.2%	37.2%	4%

Cash flow by fund

Another perspective is to analyse which funds have net cash flow momentum. This chart demonstrates the funds with traction in organic growth, excluding merger effects.

To view net cash flow by fund, click on view 10: Cash flow by Fund – these figures exclude amounts rolled over as part of a fund merger or SFT.

Cash flow by fund



AustralianSuper dwarfed the rest of the industry in 2022, adding a staggering $25 billion in net flows – which is the equivalent to the total assets of a medium-sized superannuation fund! This is a jump from the $14 billion figure in 2021.

In second place by a long margin was Australian Retirement Trust at $6.1 billion, down from the combined $7 billion the component funds attracted in 2021.

In third was HUB24 at $5.1 billion, a jump from its $4 billion in 2021, followed closely by Hostplus at $5 billion, an increase from $2.7 billion in 2021.

Platforms Netwealth and Macquarie appear at number 6 and 7 respectively.

Rounding out the top 10 are UniSuper at number 5, HESTA at 8, Aware Super at number 9, and REST at 10.

Most funds in the industry by number are at, or close to, zero net flows.

A group of corporate and retail super funds as well as SMSFs are in net outflow, although generally less than observed in 2021.

Impact of stapling

The introduction of ‘stapling’ legislation in November 2021 heralded a new era of competition for super funds.

Many funds have relied on a flow of new members from employers when new employees joined companies, either through corporate superannuation arrangements, or through award agreements.

Now Australians are ‘stapled’ to the super fund they had in November 2021, rather than changing funds by default when they change jobs. Members have choice of funds, and can choose a new fund at any time. If they do not exercise choice, they will remain in the same fund for life.

We were interested to see whether stapling has started to change the momentum of funds. This year’s data only has seven months of post-stapling data, so it is early days to see whether there has been any change in traction for membership growth or net flows. We will keep monitoring this in future reports.

Flows momentum

Which funds are gaining and losing flows traction between 2021 and 2022? This chart shows the change in net flows between June 2021 and 2022, noting stapling came into effect in November 2021.

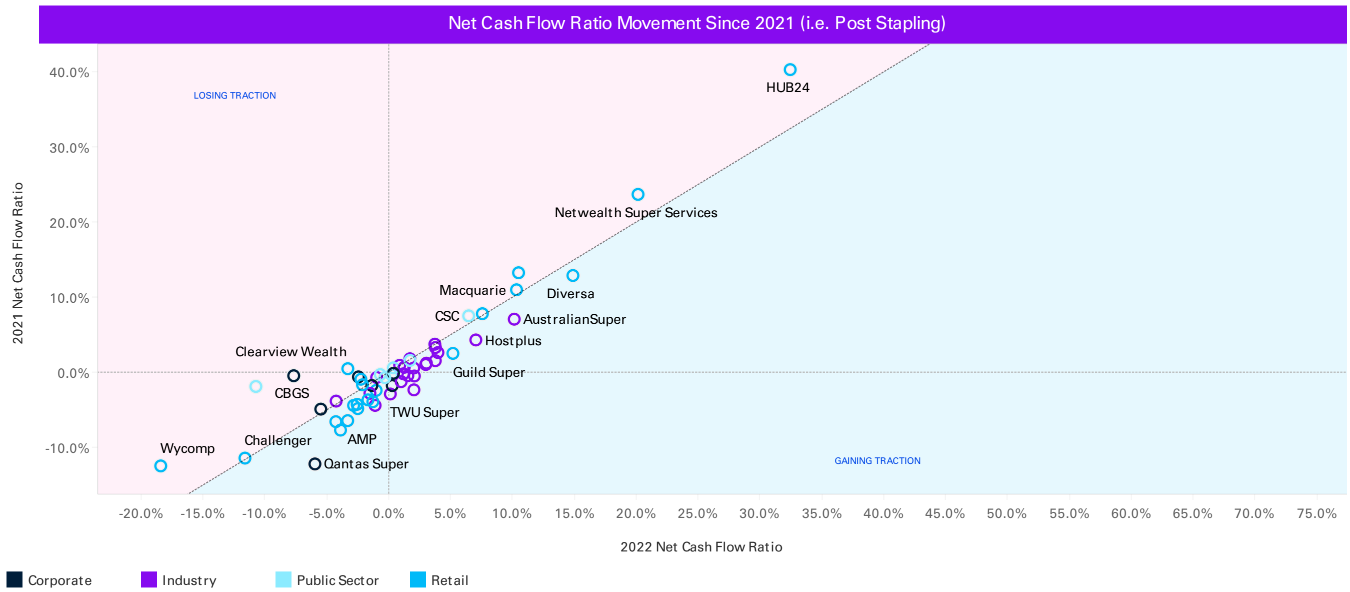
Funds in the blue zone have increased their net cash flow, and in the pink zone have reduced their net cash flow since 2021.

To see this information click on view 15: Net Cash Flow Ratio Movement Since 2021. The funds on the left in the light pink zone have a lower net cash flow in 2022 than in 2021.

Hover over a fund to see details.

Cash flows from mergers have been excluded.

Net cash flow



HUB24 and then Netwealth are by far the fastest-growing funds by cash flow, but both lost some traction from 2021 to 2022.

For the largest 12 super funds over $50 billion their relative flow traction from 2021 to 2022 was:

RANKING BY ASSET SIZE	FUND NAME	NET FLOW 2022	GAINED/LOST TRACTION SINCE 2021
1	AustralianSuper	10.1%	Gained
2	Australian Retirement Trust	3.7%	Lost slightly
3	Insignia	-2.5%	Gained
4	Aware Super	1.7%	Gained slightly
5	UniSuper	3.7%	Gained
6	AMP	-3.4%	Gained strongly
7	CFS	-2.3%	Lost
8	BT	-2.2%	Lost
9	Hostplus	7.0%	Gained
10	CBUS	3.0%	Gained
11	HESTA	3.9%	Gained
12	REST	3.7%	Gained

Post stapling, new members to the Australian workforce are likely to join and then stay in funds associated with their employer.

With many first jobs being in retail, hospitality and construction, it was expected that funds associated with those sectors, such as REST, Hostplus and CBUS would over time start to gain more traction in new members and flows. Whilst it is early days, with less than a year since the introduction of stapling until 30 June 2022, all three of those funds have healthy net flow percentages (above 3 percent) and have gained traction since 2021.

However, AustralianSuper dominates these numbers with the healthiest net flows and continuing traction.

Australian Retirement Trust, UniSuper and HESTA also demonstrate healthy net flow numbers.

Voluntary contribution per active member

Despite industry funds leading overall voluntary contribution inflows with AustralianSuper's $6 billion and Australian Retirement Trust's $3.4 billion being the two of the three largest in the industry, it was still the retail sector that had the highest average contributions per active member.

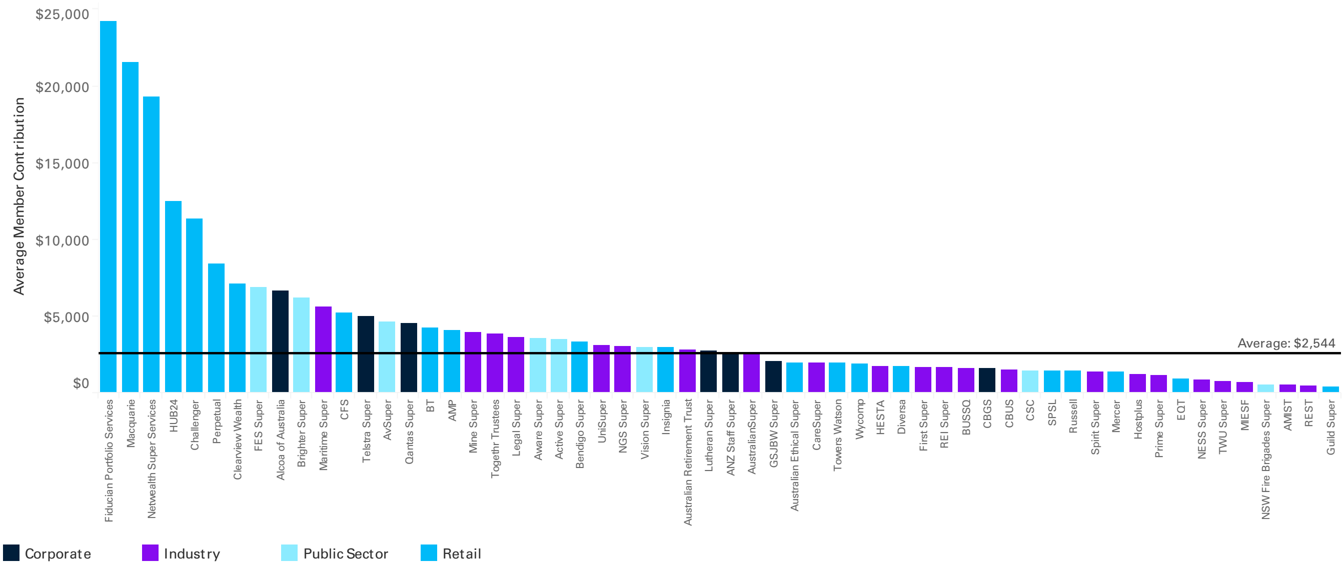
Seven of the top ten funds for average voluntary contributions per active member were retail this year up from six in 2021. The other three positions were a public sector fund (Fire and Emergency Services FES Super), corporate fund (Alcoa of Australia) and industry fund (Brighter Super).

To see this information click on view 16: Voluntary Contribution Per Active Member.

Hover over a fund to see details.

These are contributions in addition to SG and include salary sacrifice and personal contributions.

Voluntary Contributions per Active Member



The average level of voluntary contribution (salary sacrifice and personal contributions) per active member to June 2022 was $2,544, up 33 percent from $1,911 last year.

The retail sector saw an increase of 39.9 percent in the average member contribution, from $2,644 to $3,699. This compares to the industry sector increase of 45.5 percent, from $1,280 to $1,863.

Strategic priority 3: Retirement

The problem statement for super fund members

In the year 2020, just over half of the baby boomer generation had reached age 65. APRA predicts that 3.6 million Australians will retire in the ten years from 2021 – refer quote at right.

These retirees are faced with the challenge of extracting an income from their savings and the Age Pension that will last them a lifetime, whilst being unsure how long they'll need it to last. They face risks including investment (market fluctuations), inflation (the buying power of their income) and longevity (the risk of outliving their assets).

There is now a critical mass of retirees with a common unmet need – dealing with their longevity risk and achieving a certain income for life.

Retirees who have locked in their level of income can spend with confidence, and have a higher standard of living. Without income certainty, retirees spend less to preserve their capital and reduce their risk of running out of money, locking them into a lower standard of living than they can actually afford.

The regulatory imperative for super funds

The Retirement Income Covenant requires trustees to prepare a retirement income strategy to assist members to achieve and balance three objectives:

1. maximising their expected retirement income
2. managing expected risks to the sustainability and stability of their expected retirement income
3. having flexible access to expected funds during retirement.

All super funds published their retirement income strategy at 1 July 2022.

In terms of assessing their retirement income products and strategies, APRA expects[4] that by 30 June 2023 (and annually thereafter) trustees will:

- undertake annual outcomes assessment of retirement income products
- assess initial impact of retirement income strategy as part of business performance review
- capture annual review findings in business plan.

Testing retirement income products, and the retirement income strategy as a whole, requires an analysis for each member cohort of whether the strategy and the product(s) being offered produces an optimal outcome balancing points 1, 2 and 3 above.

"Over the next 10 years, an estimated 3.6 million Australians will move from the accumulation phase to the retirement phase of superannuation, with somewhere in the region of $750 billion in aggregate retirement savings."

HELEN ROWELL
APRA Deputy Chair, November 2021[2]

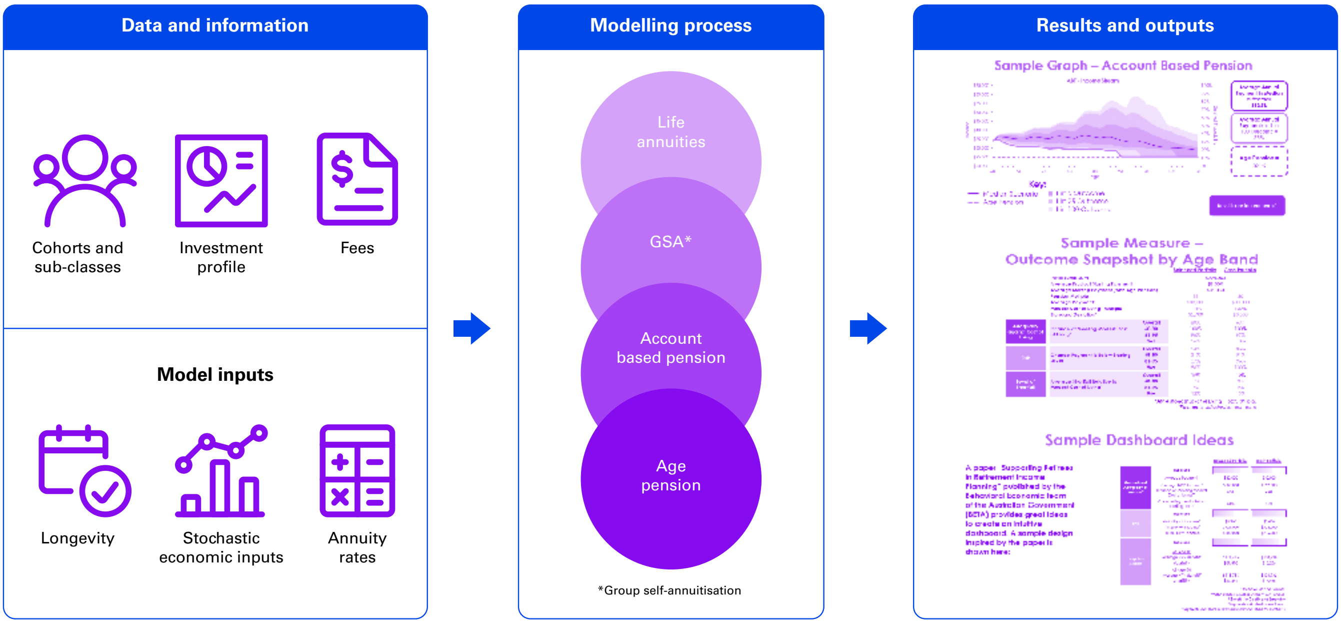
[2] APRA Deputy Chair Helen Rowell – Speech to the Australian Financial Review Super and Wealth Summit, 22 November 2021

[3] The best financial interests covenant and SPS 515 already require RSE licensees to make evidence-based decisions based on the outcomes they are seeking to achieve for their members, and to monitor and review their product offerings. The DDO regime adds to this imperative.

[4] https://www.apra.gov.au/implementation-of-retirement-income-covenant

Retirement Income Strategy Review – KPMG member outcomes model

Our modelling process



The opportunity for super fund trustees

Members are ranking certainty of income as a first priority in super fund member preference surveys across a number of funds. They will be looking to their super funds to help them to decide which strategy to implement in retirement.

Attractive retirement income offerings will be a prerequisite for success, as members look to their super fund as a trusted source for retirement solutions. Consideration of longevity insurance solutions is front of mind for many trustees, given their members' desire for secure income.

Some super funds are changing their organisational design to facilitate a focus on member experiences and journeys in general, and the retirement journey in particular. This has included the creation of a Chief Retirement Officer role in a number of industry funds including AustralianSuper, Australian Retirement Trust and Aware Super.

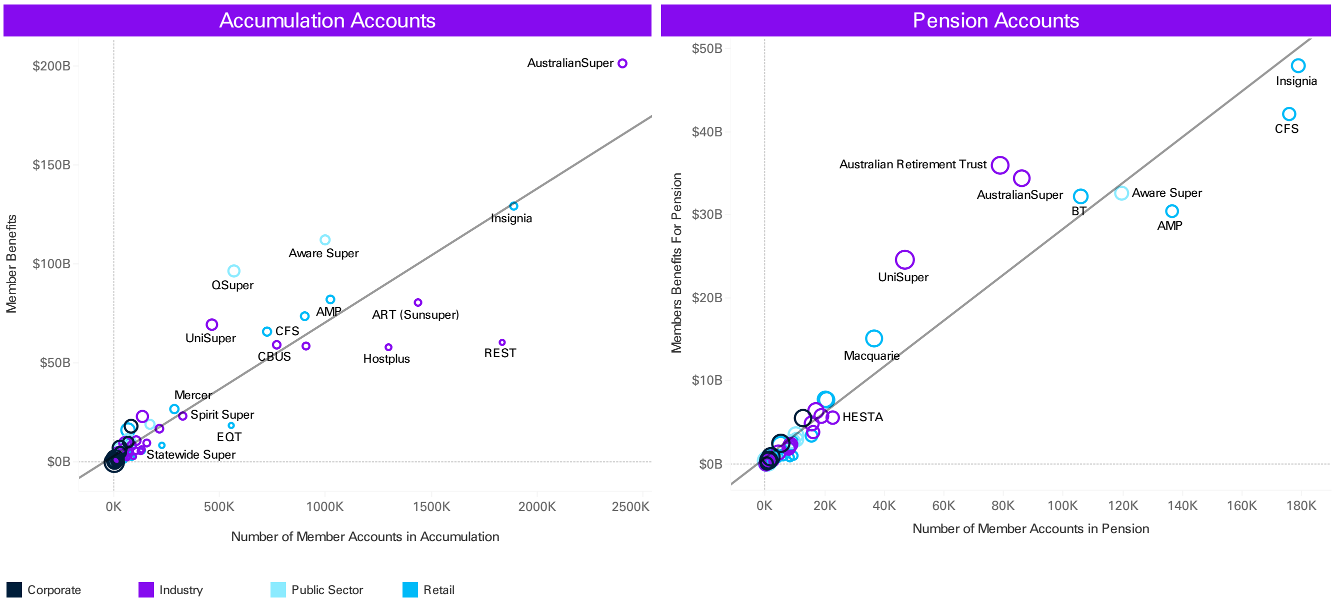
Super funds who can educate, assist and advise members into suitable retirement income strategies will be able to retain their members in retirement, protecting scale and the ability to deliver better outcomes for all members.

Trends – who owns the retirement space?

This view shows the market position of different funds by assets and members, for the accumulation accounts on the left, and pension accounts on the right. The higher up the chart, the more assets under management and the further right, the more members a fund has.

To view this data in the Dashboard, select view 22: Accumulation and Pension Accounts and Benefits by Fund.

Accumulation & Pension Accounts and Benefits by Fund



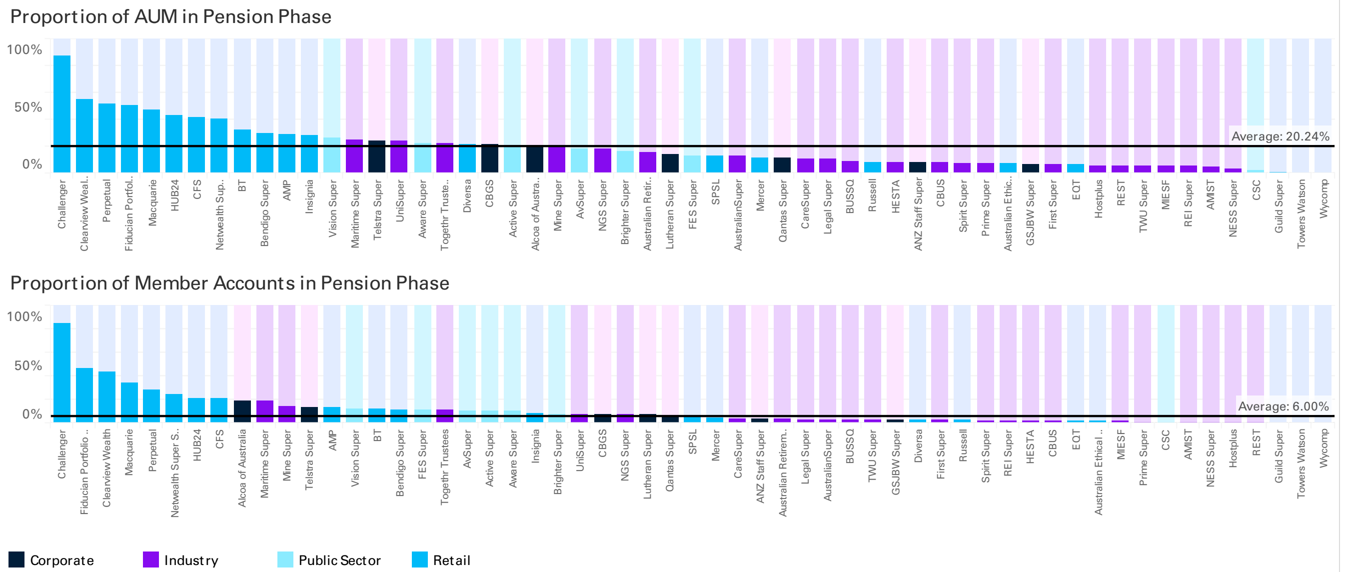
While the funds that dominate in the accumulation space are the same as those that dominate in overall size and scale, there is a different set of funds that have traditionally been successful in the retirement space.

Historically the retail sector has dominated the market for pension accounts, driven by greater advice traction and a generally older member demographic.

The funds with the highest proportion of pension assets and members are shown on the right hand side above:

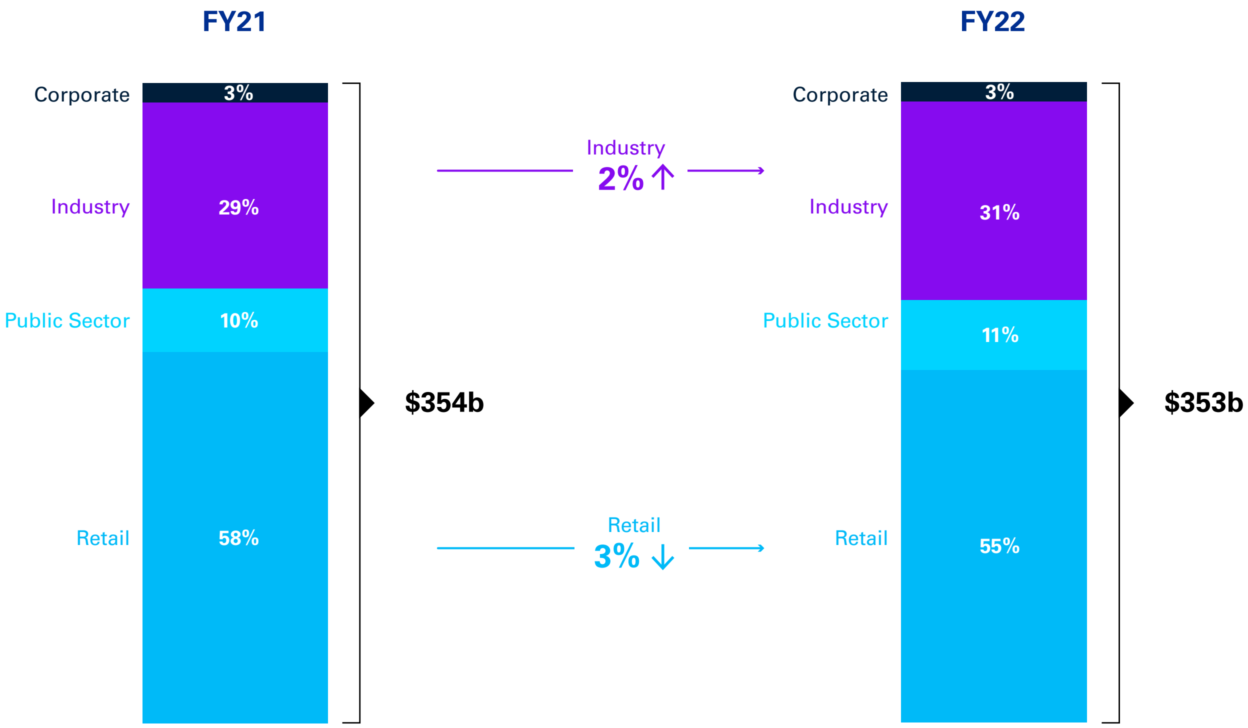
To view this data in the Dashboard select view 26: Proportion in Pension Phase by Fund tab.

Proportion in Pension Phase by Fund



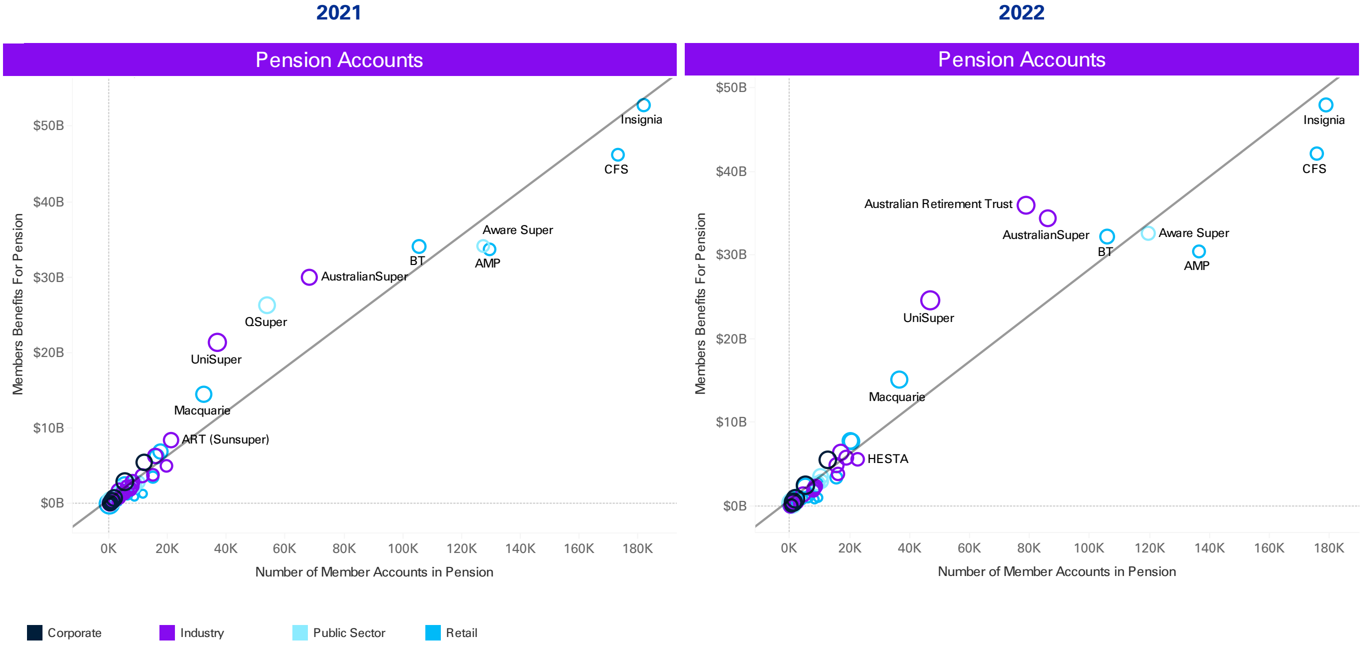
The retail players are still strong in pension phase, however, some industry funds are making ground. In fact, the market share for pension phase assets changed between 2021 and 2022 with retail losing 3 percent pension market share and industry funds gaining 2 percent.

Retirement Market Share of Assets by Fund Type



The top three players by pension accounts are still retail funds – Insignia, CFS and AMP – however, the change in the view 22 chart in the Dashboard from 2021–2022 shows that Australian Retirement Trust, AustralianSuper, Aware Super and UniSuper are all now strong and have moved strongly upwards and to the right (more members and assets) since 2021.

Pension Footprint – change from 2021 to 2022

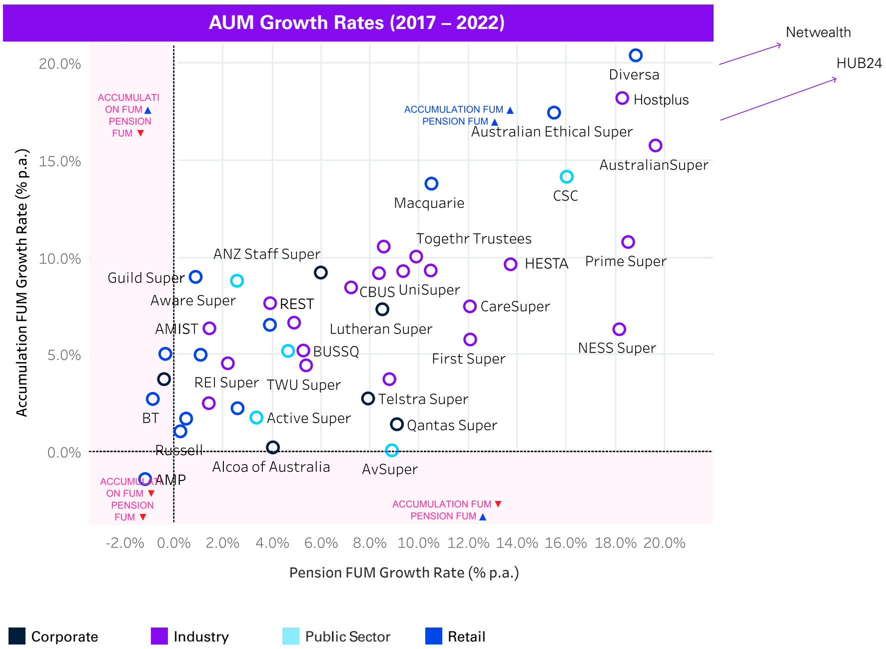


Australian Retirement Trust on its creation is in third position by pension assets and has grown 9.3 percent p.a. over the last five years. AustralianSuper has jumped into fourth place in pension assets with a compound growth rate of 19.6 percent over the last five years. Both of these funds have strong advice capability, which is a criterion for success in assisting members to move to the retirement phase.

Aware Super still retains fifth position by pension assets with a growth rate of 2.6 percent over the five years for retirement assets, but appears to have lost some traction in the last year.

This view shows the rates of growth in pension assets over five years. The further right the fund appears the faster it is growing its pension assets, whilst the closer to the top of the chart the faster it is growing its accumulation assets.

Accumulation & Pension Growth Rates



To view this data in the Dashboard select new view 7: Accumulation and Pension Growth Rates.

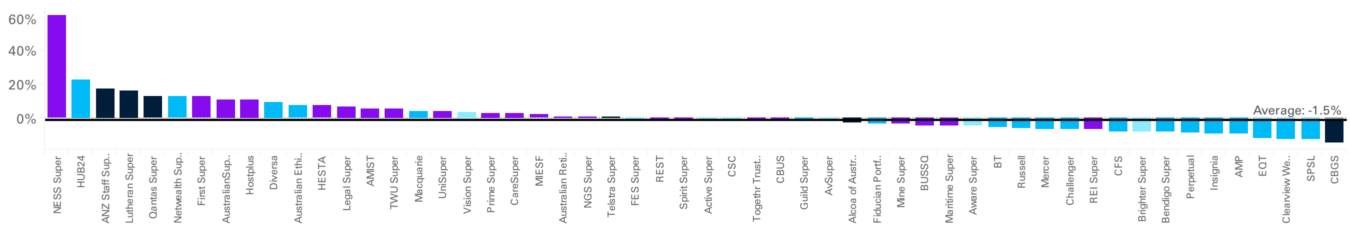
To zoom in on part of the graph: hover your mouse near the top left of each chart – a small menu appears. Click on the right arrow then the box to the right called Zoom Area and you can select the part of the chart you want to zoom in on.

The funds with the highest growth in pension phase are:

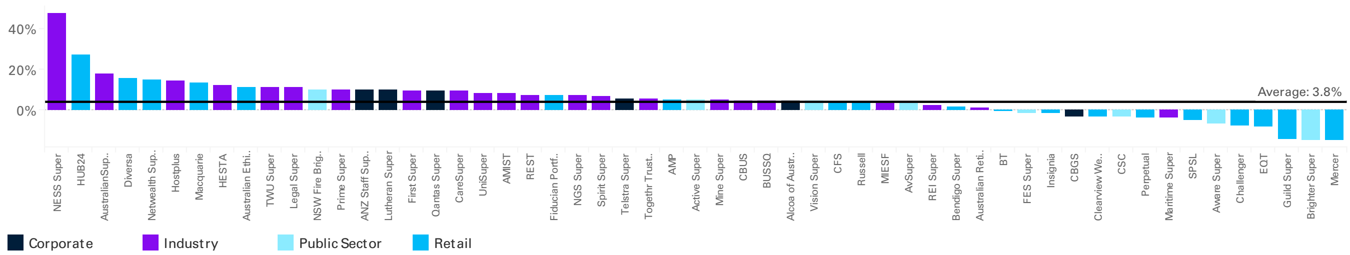
Growth of Pension Phase

To view this data in the Dashboard select view 8: Growth of Pension Phase by Fund.

Growth of AUM in Pension Phase (2021 to 2022)



Growth of Member Accounts in Pension Phase (2021 to 2022)



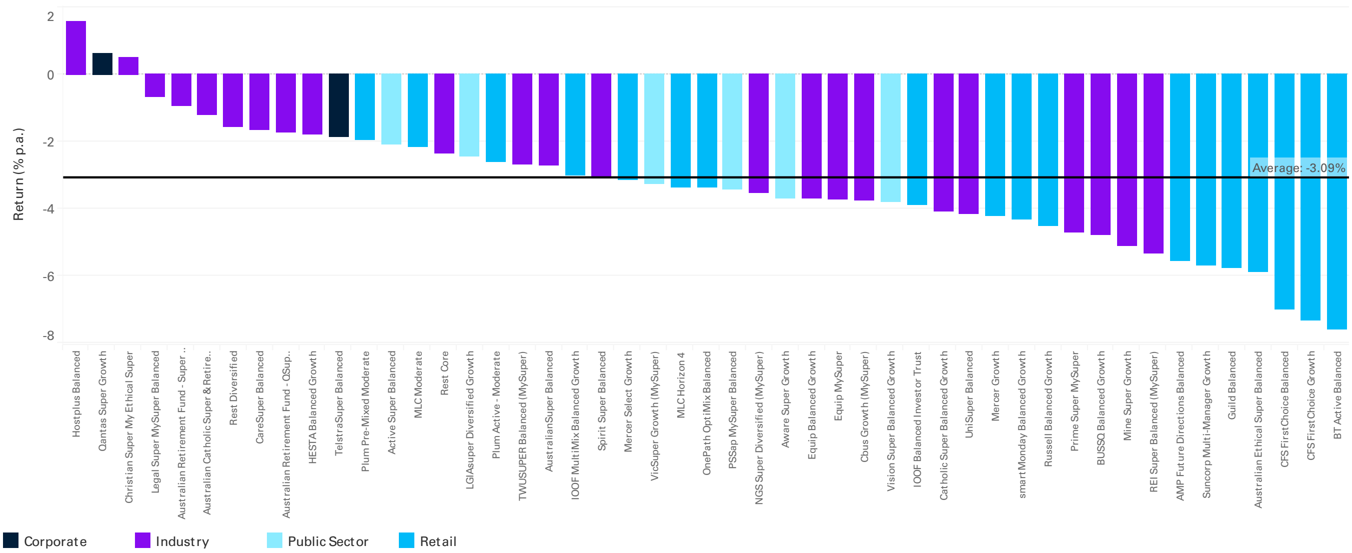
Additional insights: Superannuation industry over the year to 30 June 2022

Superannuation industry contracted and consolidated in 2022

Following market volatility, many superannuation funds posted negative investment returns in the year to 30 June 2022, with an average return of just under -3 percent on the universe of funds in Super Insights.

To view this data in the Dashboard select view 27: Growth Funds Investment Performance and select 1 in Growth Years box. To see 5 or 10 year performance select 5 or 10.

Growth Funds Investment Performance



This led to a 0.5 percent reduction in total superannuation assets (including SMSFs) from $2.814 trillion to $2.799 trillion, or from $2 trillion to $1.9 trillion excluding SMSFs.

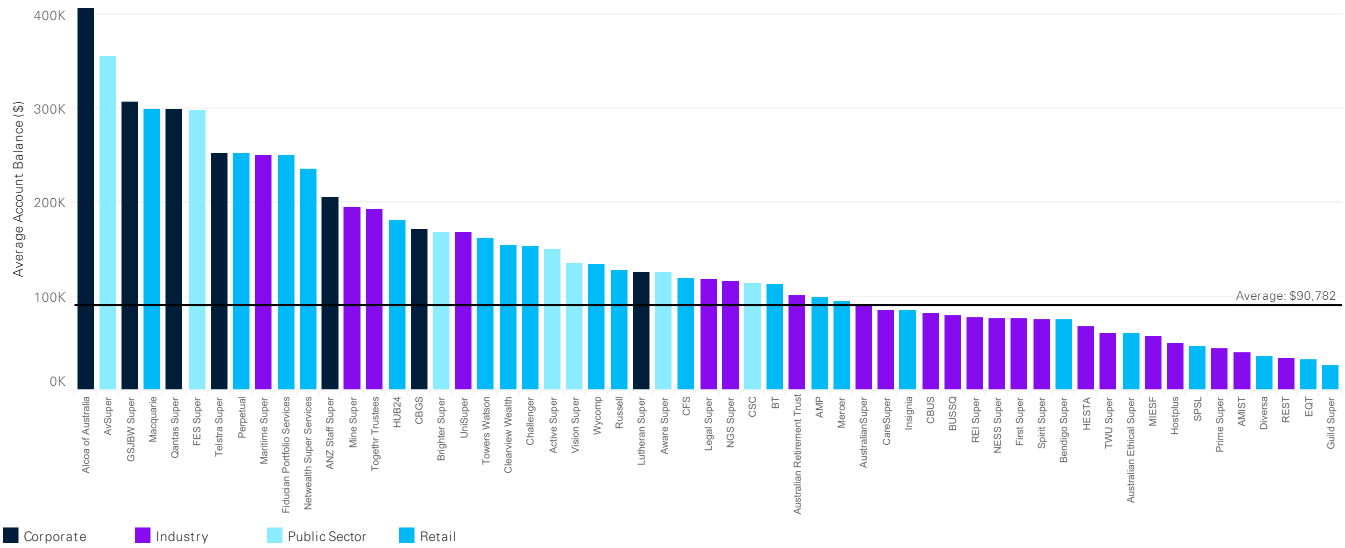
However, that contraction was not evenly distributed, with the large funds over $100 billion being the only segment to grow during the year with smaller funds all losing assets. This was largely an effect caused by some of the large mergers that took place in 2022.

Average balances declined

Following market volatility, the average account balance for members has shrunk from $93,139 in 2021 to $90,782 in 2022.

To view this data in the Dashboard select view 21: Average Account Balance by Fund.

Average Balances



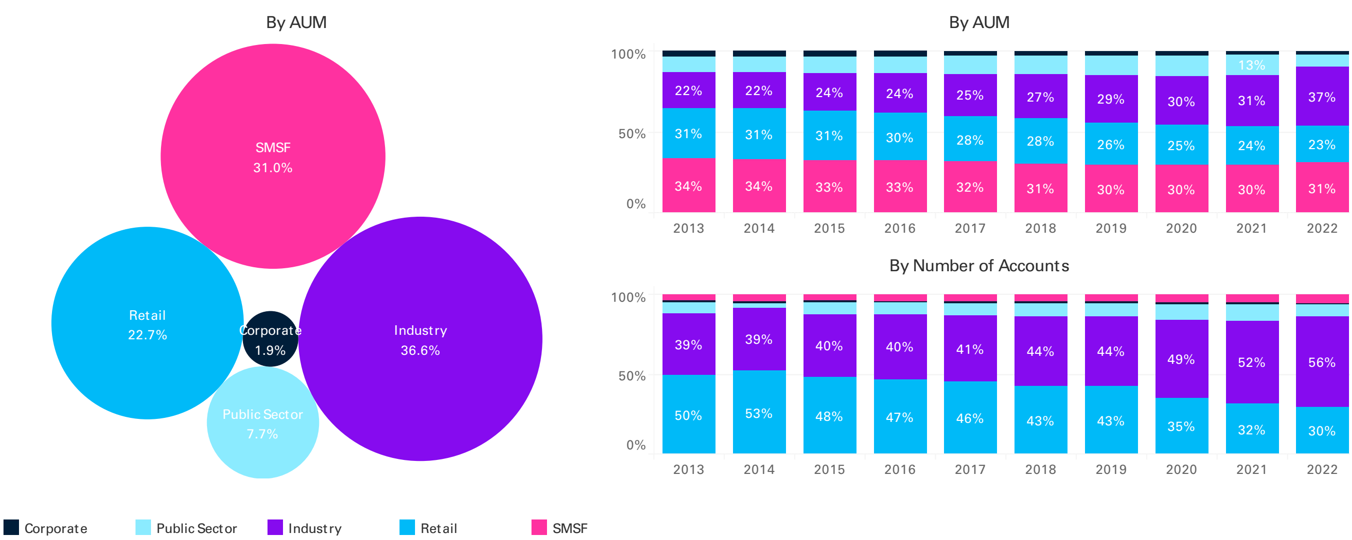
Continued rise of the industry funds

In the year to 30 June 2021 we saw industry funds overtake the SMSF sector in total net assets, and become the largest sector for the first time.

In the year to 30 June 2022 their lead increased with a massive 6 percent jump in market share from 31 percent to 37 percent, largely at the expense of public sector funds. We expect that this change is mainly as a result of mergers, including the reclassification of QSuper from public sector to industry as part of its merger into Australian Retirement Trust.

To view this data in the Dashboard select view 2: Market Share.

Market Share Snapshot Year 2022 | 10 Year Market Share History

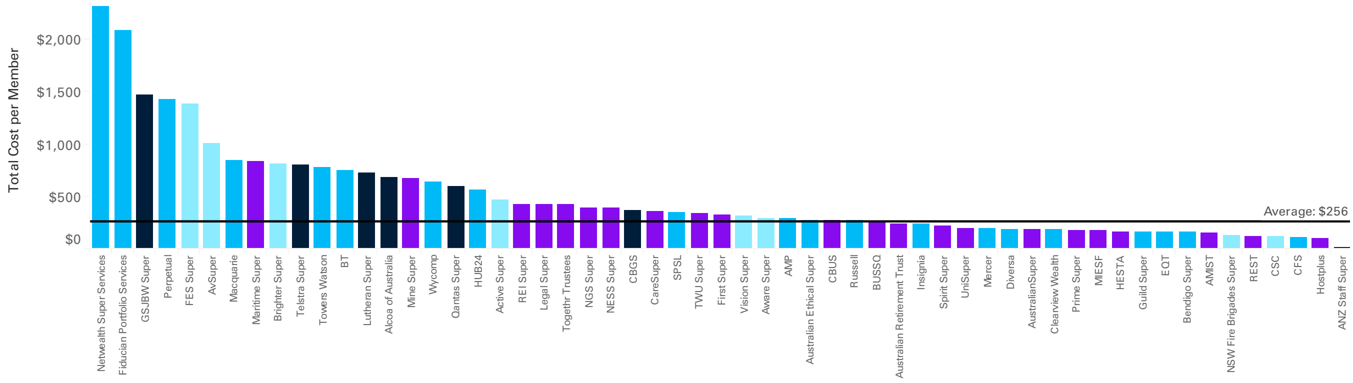


Costs rising, fees falling

Between 2020/21 and 2021/22 the average operating cost per member increased from $239 to $256 for all funds (excluding SMSFs).

To view this data in the Dashboard select view 17: Operating Costs per Member by Fund.

Operating Costs per Member by Fund



Highest Cost per Member

Netwealth Super Services	$2,320
Fiducian Portfolio Services	$2,087
GSJBW Super	$1,476
Perpetual	$1,427
FES Super	$1,384

Lowest Cost per Member

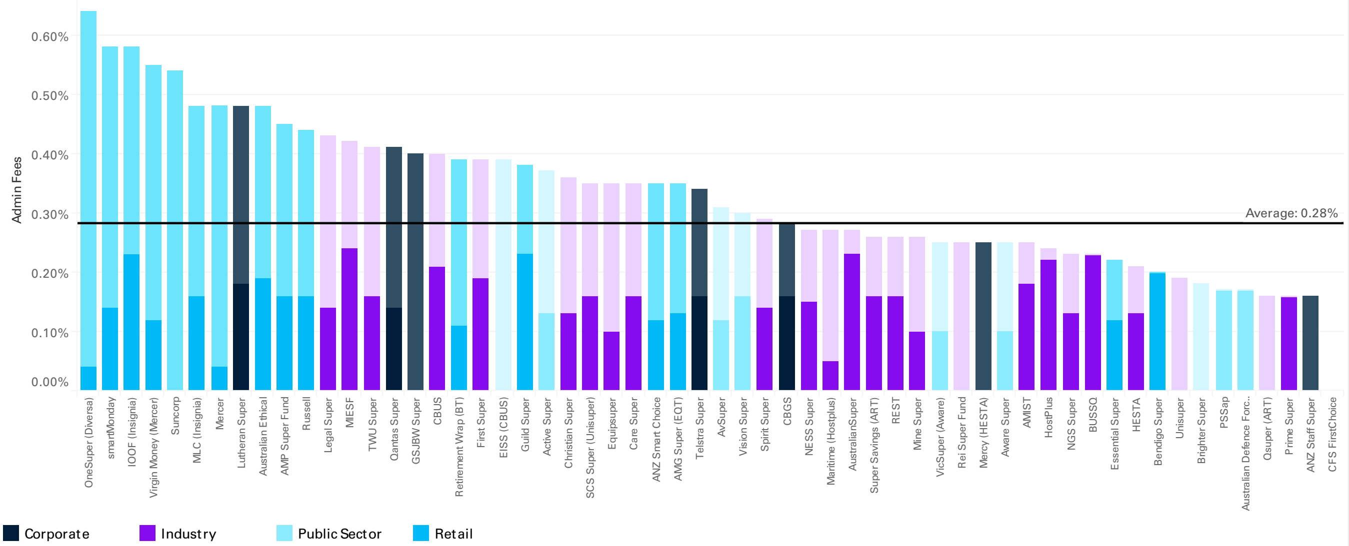
ANZ Staff Super	$11
Hostplus	$93
CFS	$111
CSC	$116
REST	$119

Corporate Industry Public Sector Retail

Whilst the average operating cost per member increased across the Super Insights population (excluding SMSFs), the average MySuper member fee – charged to a MySuper member with a $50,000 balance – significantly decreased, from 0.32 percent to 0.28 percent of the account balance. Rising operating costs and fee reductions could lead to challenges to fund sustainability.

To view this data in the Dashboard select view 20: MySuper Admin Fees ($50K Balance). Hover over each bar to see the breakdown of dollar-based and asset-based fees. The other views below are filtered for retail and industry funds.

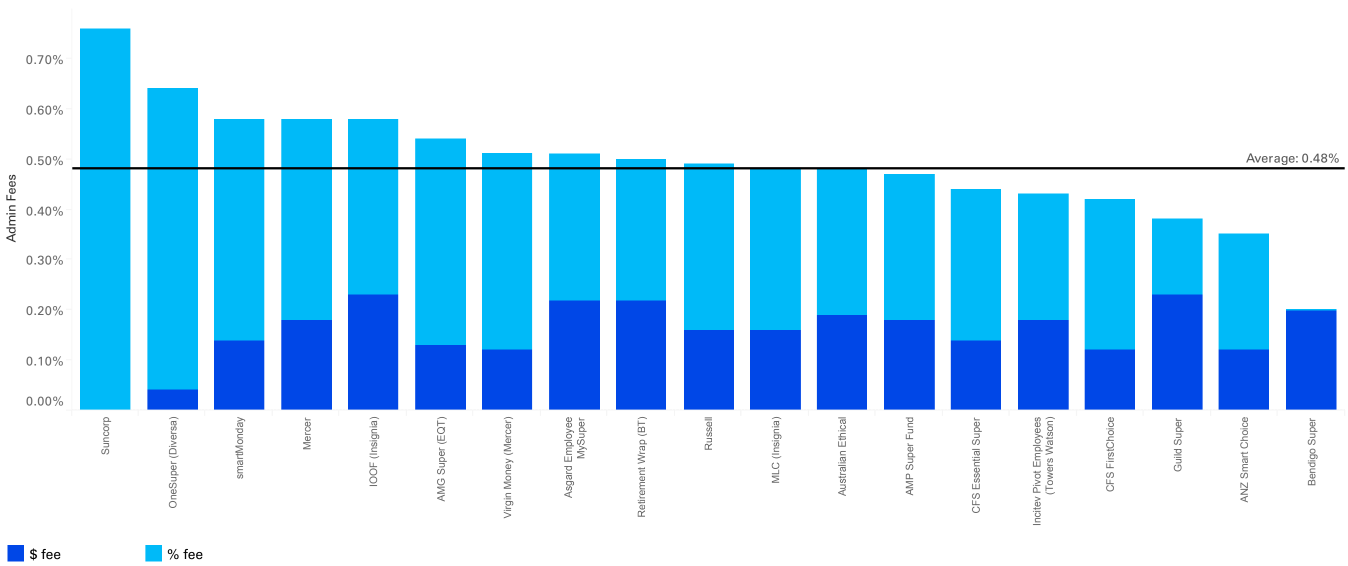
MySuper Admin Fees ($50k Balance)



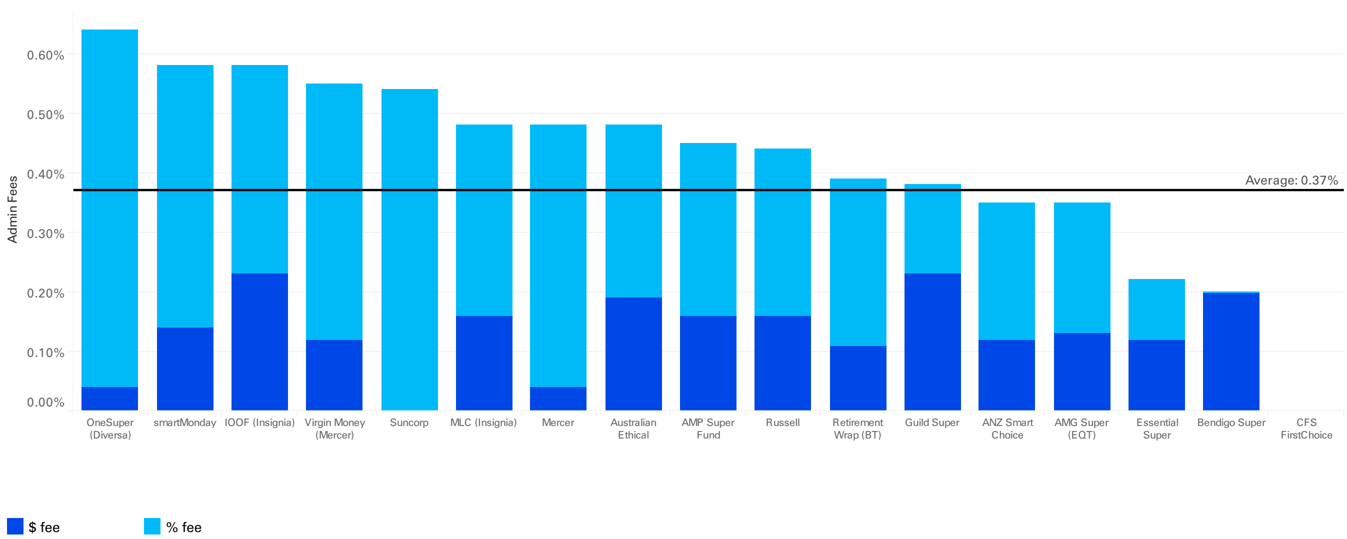
Based on the MySuper administration fees reported to APRA as at 30 June 2022, the average MySuper administration fee charged on a $50,000 balance within the retail fund sector was 0.37 percent p.a., a reduction of 0.09 percent p.a., while the industry fund sector average decreased from 0.27 percent p.a. to 0.25 percent p.a.

The 'MySuper Admin Fee' view now shows the split of administration fees charged between those charged as a fixed dollar fee and those charged as a percentage of assets. The retail products tend to have a higher portion of fees calculated as a percentage of assets than for the industry funds' MySuper products, although the bulk of the industry funds' MySuper products now charge a percentage of assets fee.

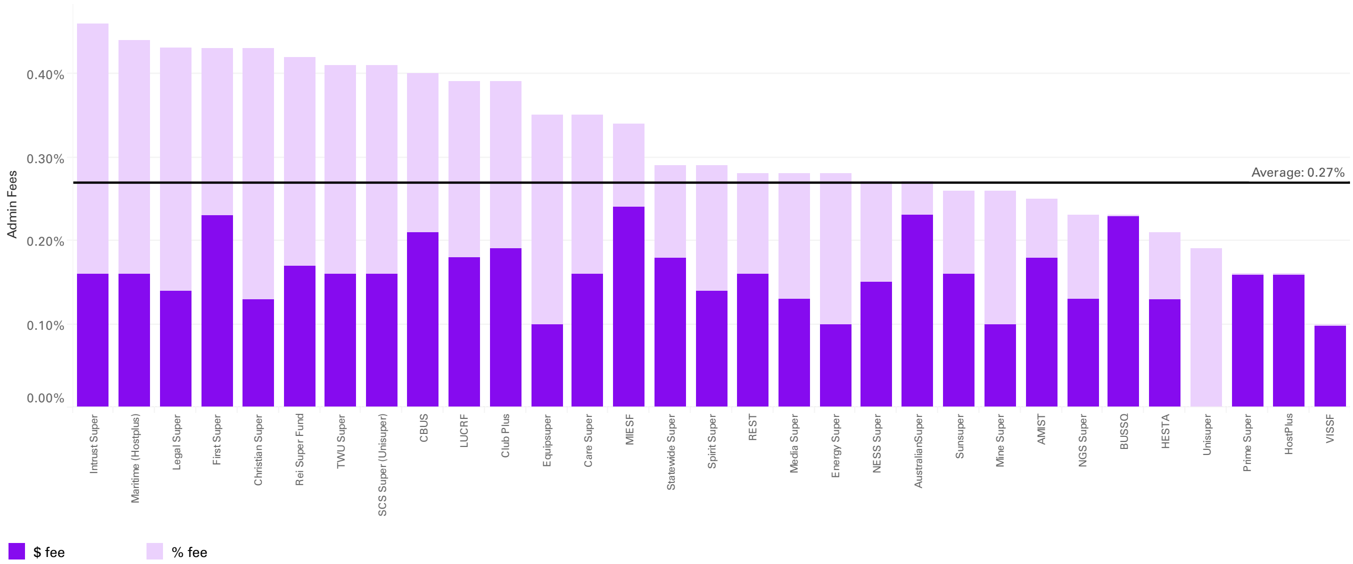
MySuper Administration Fee ($50,000 balance) – retail funds 30 June 2021



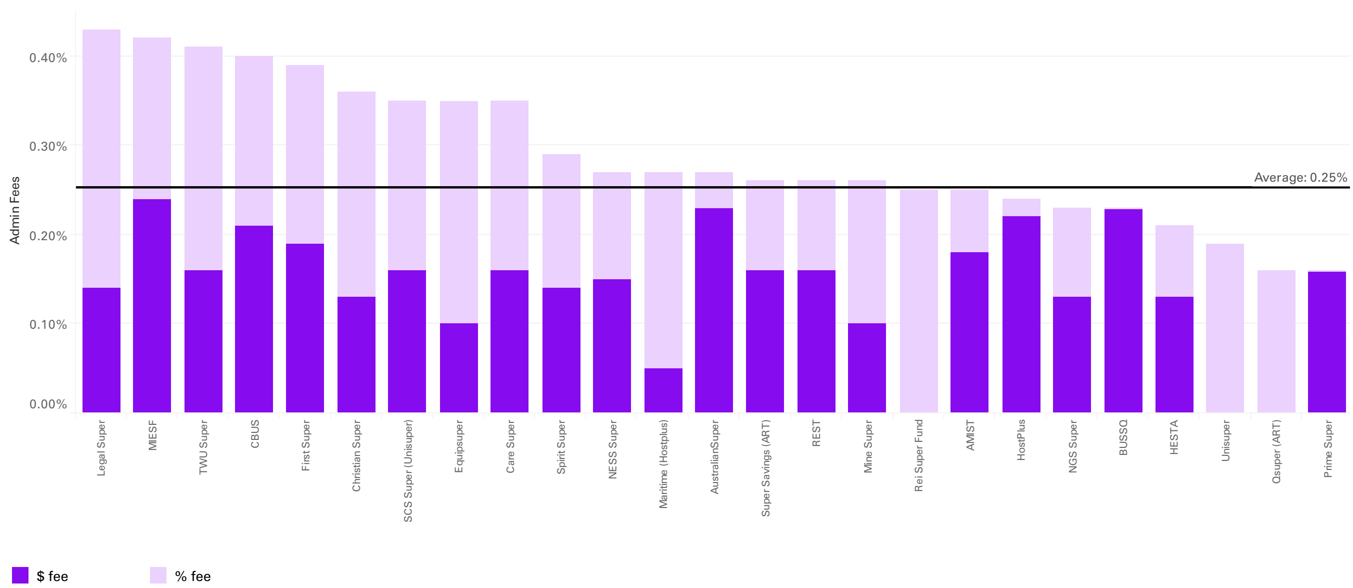
MySuper Administration Fee ($50,000 balance) – retail funds 30 June 2022



MySuper Administration Fee ($50,000 balance) – industry funds 30 June 2021



MySuper Administration Fee ($50,000 balance) – industry funds 30 June 2022



Investment performance – Growth Funds

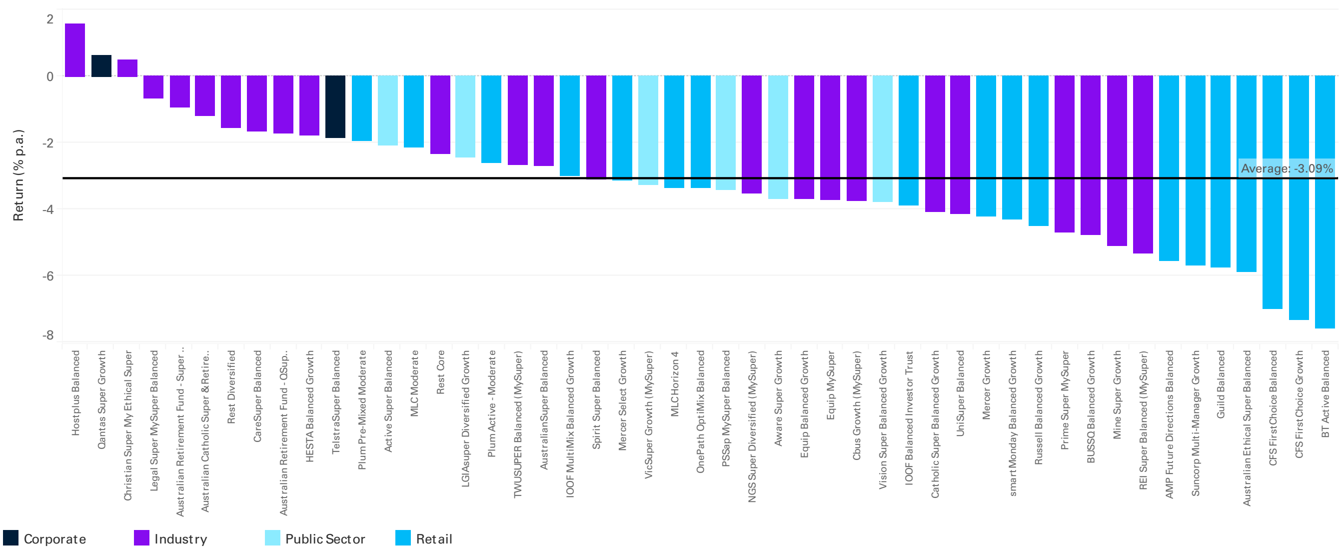
Finally, to round out the information provided by the Dashboard, we have incorporated 1, 5 and 10 year net of investment fees and tax information for 'Growth Funds'. These are investment options offered by funds/providers that have a 61 percent to 80 percent strategic allocation to growth assets.

This view uses data collected and provided by Chant West.

Based on this information, whilst investment options offered by the industry fund sector show stronger performance over the 10 years to 30 June 2022, there is a more even spread across the sectors in the top performing options over the one year to 30 June 2022.

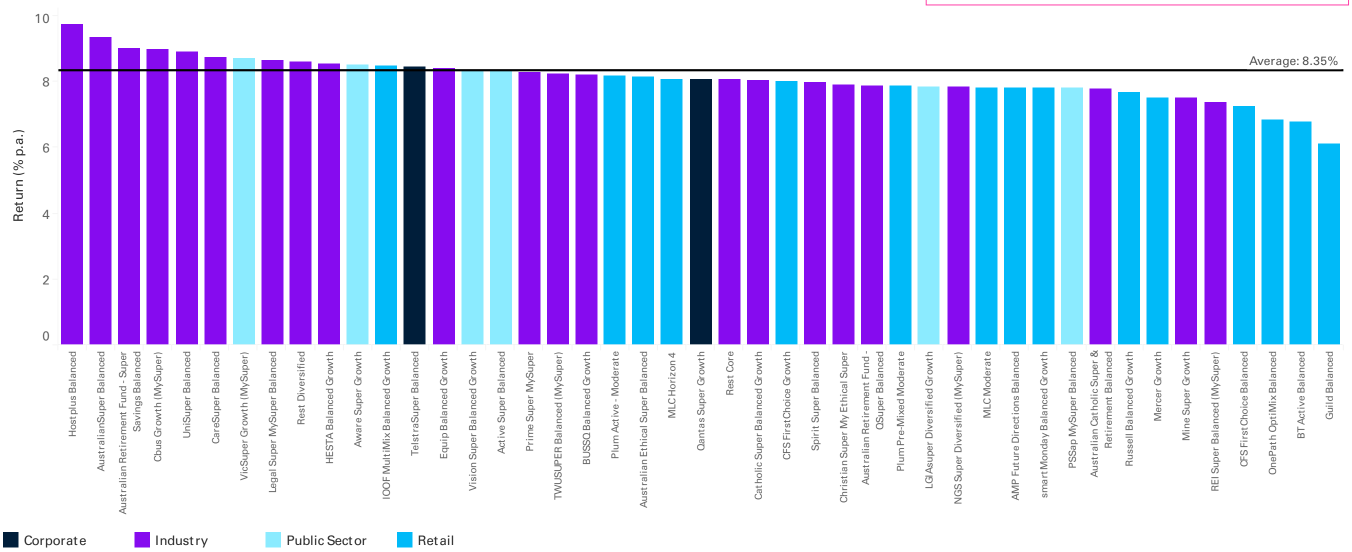
To see this on the Dashboard, select view 27: Growth Funds Investment Performance. Filter by Growth Years = 1. Hover over a fund to see its performance.

Performance of Growth Funds – 1 year to 30 June 2022



To see this on the Dashboard, select view 27: Growth Funds Investment Performance. Filter by Growth Years = 10. Hover over a fund to see its performance.

Performance of Growth Funds – 10 years to 30 June 2022



Appendices

Methodology

Our analysis, as presented in this report and the accompanying KPMG Super Insights Dashboard, is a combination of leading analytics applied to 18 years of the Australian Prudential Regulation Authority (APRA) and Australian Tax Office (ATO) published statistics, supported by insights gained from our team of asset and wealth management specialists.

At a macro level, we have defined the market along APRA guidelines of retail, corporate, public sector and industry funds – and included SMSFs to complete the landscape.

KPMG has expanded the sizing segmentation to group funds as fund sizes have increased significantly. We now divide funds into those with Assets Under Management (AUM) greater than $100 billion, between $100 billion and $50 billion, between $50 billion and $25 billion, between $25 billion and $10 billion and those funds with less than $10 billion.

KPMG has relied on published statistics as the foundation of this report and, as such, acknowledges that the data contained within is wholly reliant on the accuracy of the underlying sources. KPMG has included all data contained within the APRA[5] and ATO[6] published statistics inclusive of null values. Where APRA and ATO have published updated data for prior years the data reflected in the Dashboard reflects the revised data and certain views may therefore have changed from the views published in prior versions of the Dashboard.

The Super Insights Dashboard includes the latest edition of APRA's MySuper and Choice Heatmaps (noting the Choice Heatmap is still dated December 2021).

For MySuper we include the 'Concise' view of the Heatmap and three of the key metrics which form part of the Heatmap:

- administration fees (on a $50,000 MySuper
- representative balance)
- net cash flow ratio
- the adjusted total accounts growth rate.

We continue to note that there remain challenges associated with reporting across the superannuation industry and the data presented within APRA's published statistics. APRA's Superannuation Data Transformation project has commenced, including the collection of more granular and consistent data, as well as data from products beyond MySuper.

To protect the privacy of individual members, APRA has masked certain items in the data. Some items were not reported, indicating that either nothing was reported for the relevant period, or that the data cannot be calculated. In circumstances where either of these events happened, KPMG has removed the fund from the analysis.

APRA data explanatory notes

'This report contains data for APRA-regulated funds with more than four members. Pooled superannuation trusts (PSTs) have been excluded as their assets are captured in other superannuation funds. Exempt public sector superannuation schemes (EPSSS) have also been excluded.

Superannuation funds that wound up during their year of income in a given reference period are not included in that year or subsequent years. Superannuation funds that wound up after the reporting period but before the release of the publication, are included for that reporting period, and their wind-up date is noted in the report.

Superannuation funds that did not submit an annual return for a given reporting period are not included in that year.'

[5] APRA Annual fund level superannuation statistics back series: June 2004 to June 2022 (issued 14 December 2022) https://www.apra.gov.au/annual-fund-level-superannuation-statistics

APRA Annual superannuation bulletin – June 2022 (issued 31 January 2023) https://www.apra.gov.au/annual-superannuation-bulletin

APRA Quarterly MySuper statistics – September 2020 – December 2022 (issued 28 February 2023) and backseries September 2013 – June 2020 https://www.apra.gov.au/annual-fund-level-superannuation-statistics

[6] ATO SMSF quarterly statistical report June 2022 https://data.gov.au/data/dataset/self-managed-superannuation-funds

Authors

Linda Elkins
National Sector Lead, Asset & Wealth Management
+61 2 8865 6113
lindaelkins@kpmg.com.au

Melinda Howes
Partner, Superannuation Advisory Partner, Actuarial & Financial Risk
+61 2 9273 5424
mshowes@kpmg.com.au

Lisa Butler Beatty
Practice Lead, Superannuation Advisory, Partner, KPMG Law
+61 477 753 941
lisabbeatty@kpmg.com.au

Cecilia Storniolo
Partner, Superannuation Advisory
+61 2 9335 8274
cstorniolo@kpmg.com.au

Platon Chris
Partner, Superannuation Advisory
+61 2 9346 6333
pchris1@kpmg.com.au

Contact us

Daniel Knoll
National Industry Leader, Financial Services
+61 2 9455 9148
danielknoll@kpmg.com.au

Linda Elkins
National Sector Leader, Asset & Wealth Management
+61 2 8865 6113
lindaelkins@kpmg.com.au

KPMG.com.au

May 2023. 1073165219FS