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Ms Kathleen Dermody  
Secretary Senate Standing Committees on Economics  
PO Box 6100, Parliament House  
Canberra ACT 2600  
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Dear Ms Dermody,

**RE: Inquiry into Superannuation Legislation Amendment (Trustee Governance) Bill 2015 –**

I am writing regarding the document published on the Committee website entitled *Answer to question on notice asked at a public hearing on 23 October 2015, received from the Financial Services Council on 3 November 2015.*

The question asked by Senator Ketter was:

*“How can you explain APRA's finding that retail funds do not pass on the benefit of scale to their members?”*

In response the FSC says:

*“APRA has never made a finding that retail funds do not pass on the benefits of scale to consumers. Industry Super Australia (ISA) has made the assertion that industry super funds pass on the benefits of scale following mergers, and that retail superannuation funds do not, purportedly relying on their own analysis of APRA data. “*

Industry Super Australia is concerned that the FSC response is not an accurate representation of the facts.

In March 2012 APRA published a working paper entitled “The effect of fund size on the performance of Australian superannuation funds”<sup>1</sup>

The authors applied a panel regression approach to examine the effect of fund size on fund performance. They found a positive relationship for not-for-profit funds, which was not present for retail funds. The authors estimated that, based on the average risk-adjusted net returns, the largest not-for-profit funds outperform the largest retail funds by 52 bps per quarter, which translates to 210 bps per annum.

APRA’s own summary of the paper says “larger not-for-profit funds earn higher risk-adjusted gross returns than smaller not-for-profit funds. However, *there are no such economies of scale evident for retail funds.*” (Emphasis added)

The FSC response also refers to comments made by APRA:

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<sup>1</sup> <http://www.apra.gov.au/AboutAPRA/Pages/Working-Paper-Effect-of-fund-size-on-the-performance-of-Australian-superannuation-funds.aspx#executive>

*“APRA has recently advised, however, that ISA’s analysis of funds performance is incorrect and misleading as ISA compares products that are not comparable in order to reach its conclusions.”*

APRA’s comments on ISA’s use of performance data are irrelevant to the question of scale and for the FSC to refer to them in this context mischaracterises APRA’s comments.

As a side note, ISA has separately addressed our concerns about APRA’s comments in our letter to the Senate Inquiry of 29 October 2015, where we argue APRA’s comments:

- Are inconsistent with ASIC guidance regarding the use of short-term performance in relation to superannuation performance
- Selectively rely on measures and data, to produce results that differ from the traditional measures used by APRA and longer-series data
- Inappropriately look only at product-level, rather than fund-level information in the context of an evaluation of the performance of different models of trustee governance

On the topic of passing on scale economies which was the topic of the question on notice, APRA has not resiled from the findings in their working paper, nor questioned ISA’s statements regarding those findings.

We hope this corrects the public record.

Regards

**David Whiteley**  
Chief Executive