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APRA's alarm on super concentration it drove shows a regulator out of touch

APRA's warning today that fewer, bigger super funds are creating concentration risk as though it had no hand in creating that situation, is galling.

The regulator today released its first system-wide stress test, warning that the growing dominance of a handful of large superannuation funds is magnifying risk in Australia's financial system. It is the very concentration APRA has spent the better part of a decade pushing for.

APRA's report says that "decisions by a small number of large funds could have very consequential effects across the system." Absent from its analysis is any acknowledgement of its own hand in delivering exactly that outcome.

For years the regulator pushed smaller funds to merge or exit, once branding funds with less than \$30 billion in assets "uncompetitive". Around 70 APRA-regulated funds finalised mergers over eight years. APRA also discouraged "bus-stop" mergers between smaller funds, steering them instead toward the largest funds.

The regulator even waved away the risk it now raises. Asked in 2022 when consolidation became harmful to consumers, APRA Member Margaret Cole said the sector was "some considerable way off needing to worry that there will be too much concentration."

Having driven the consolidation, APRA now labels the result a systemic vulnerability and puts the onus on funds to fix it.

Quotes attributable to ACTU Assistant Secretary, Joseph Mitchell:

"For a decade APRA told funds that bigger was always better and branded smaller funds uncompetitive. Now it warns that the concentration it pushed for is a risk to the financial system. The regulator cannot have it both ways.

"Once again, APRA looks everywhere but in the mirror. Its own stress test describes a risk of its own making, yet the only party asked to lift its game is the funds.

"Working people's retirement savings deserve a regulator that learns from its own decisions, not one that drives a policy for years and disowns the consequences the moment they appear.

"APRA's failure to properly understand the system it regulates is exactly why working people need a dedicated Retirement Incomes Commission."

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