FINANCIAL REVIEW

HIP and Prime Super move to consolidate

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HIP Super and Prime Super, two industry superannuation funds, are in advanced merger talks to create a fund with more than $2 billion in assets and 164,000 members.

The deal underscores the prevailing trend of consolidation in the superannuation industry as organisations strive to rationalise costs and expand their funds under management.

HIP Super, which specialises in the health sector, and Prime Super, focused on savers in rural and regional - Australia, are set to sign a heads of agreement as early as next week.

Talks on the merger started late last year and the enlarged entity will be called Prime Super.

JANA, an asset consultant and adviser to HIP Super, which oversees $720 million of funds under management, was informed of the decision last week, sources said.

The deal offers more evidence the long-predicted wave of consolidation within the industry is beginning to accelerate with Australian Super last year scooping up a handful of funds as it attempted to combat the wealth arms of the major banks.

Ken Atchison, managing director of Atchison consultants, a firm that provides advice and research to superannuation funds, said reducing the management expense ratio was the key imperative behind the merger.

The ratio captures the three main expenses for the superannuation funds: marketing, investment management and administration costs. He said most medium-sized superannuation funds have looked at prospective mergers as greater scale lets funds offer a wider number of investment choices in a more cost-efficient way.

His views are echoed by Jeff Bresnahan, chairman of research firm Superratings. “It is inevitable that a large number of small funds will seek mergers,” Mr Bresnahan said.

“Purely from a scale point of view, small funds are finding it increasingly difficult to compete in the marketplace.

“Unless they have got significant levels of growth which many of them don’t have, it can only get harder and harder going forward.

“Having said that, it’s not true that all small funds need to merge. There are some very well run funds that are competing extremely well on their own.

“Both HIP and Prime have struggled to achieve growth and a merger along those lines will provide a more solid platform for growth in the future.

“From that perspective, this looks like a good idea.”

Prime Super, with more than $1.2 billion in funds under management, is the only industry super fund dedicated to servicing regional and rural Australians.

Originally the Australian Primary Superannuation Fund, the fund was established in 1996 through the - amalgamation of a number of smaller super funds, including Hort Super and the Australian Hardware and Timber Industries Superannuation Plan (AHTIS) in 2004.

HIP is a national industry superannuation fund for health and associated industries.

Figures out last week showed that a surge in global share prices and a sharp fall in the value of the dollar helped superannuation funds record their second-best performance last year since the introduction of compulsory contributions in 1992.

The average balanced scheme posted a 17.5 per cent gain, with the top-performing fund, the REST Core vehicle, returning nearly 20 per cent, according to a survey from research firm Chant West,

“Both HIP Super and Prime Super are focused on service to members and both are looking to become bigger to get a better deal for members,” a source close to the situation said.

In June last year, merger talks between VicSuper and Vision Super, which would have created a $16 billion retirement savings powerhouse with 350,000 members, broke down after the two boards failed to reach an agreement on the investment strategy for the enlarged scheme.

It was the second time Vision Super had failed to clinch a merger in 12 months.

Spokespeople from HIP Super and Prime Super did not return phone calls or emails.

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