Conexus Institute In-brief

APRA's system risk stress test and what it means for super

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Introduction

In June 2026, the Australian Prudential Regulation Authority (APRA) released the final report[1] on findings from its inaugural system risk stress test (SRST). In this note, we reflect on this important work, outlining what the SRST involves and implications for the superannuation (super) industry[2].

The main upshot of the SRST is that no major vulnerabilities were evident for the super and banking industries, although some issues were identified to address or watch. The SRST also points towards how this somewhat comforting situation may change and actions that super funds might take in conducting their own stress tests.

The SRST at a glance

The SRST focused on exploring the links between banks, super funds and financial markets and how these elements might coalesce into systemic stress. The SRST builds on APRA's existing analysis of the super industry by including super within a framework for examining systemic risk within the overall financial system. A good summary of the SRST process is found within APRA's final report:

> *"The SRST instructed participants to model a severe stress scenario. For banks, this included liquidity pressures exceeding any experienced by large Australian banks over the past 50 years. The stress applied to superannuation funds was similarly severe, with member withdrawals and switching significantly surpassing levels observed during COVID-19 or other previous periods of financial market stress. Further, the scenario incorporated an additional disruption at a material service provider, consistent with a more complex external environment."*

The SRST entailed APRA compiling a severe but plausible stress scenario and asking selected major organisations to run the scenario from their perspective then report back. We understand that the four major banks and six super funds were involved. APRA applied a two-stage process, examining the initial results and the assumptions and reactions of each organisation, reformulating the request by imposing some standardisation and additional requirements, and collecting a second round of results. APRA then aggregated and interpreted the findings.

The super fund analysis focused on liquidity stress. APRA commented that the scenario resulted in "*aggregate monthly liquidity calls peaking at around $30 billion and cumulative demands totalling $174 billion, or just under 16% of net assets*". The report notes that member switching into cash was the main component, amounting to between about 8% and 15% of fund assets depending on member demographics. We view this as a fairly extreme liquidity scenario, although notably concentrated in switching activity rather than reflecting external liquidity demands. Lump sum withdrawals were about twice that encountered during the COVID period under the early release scheme.

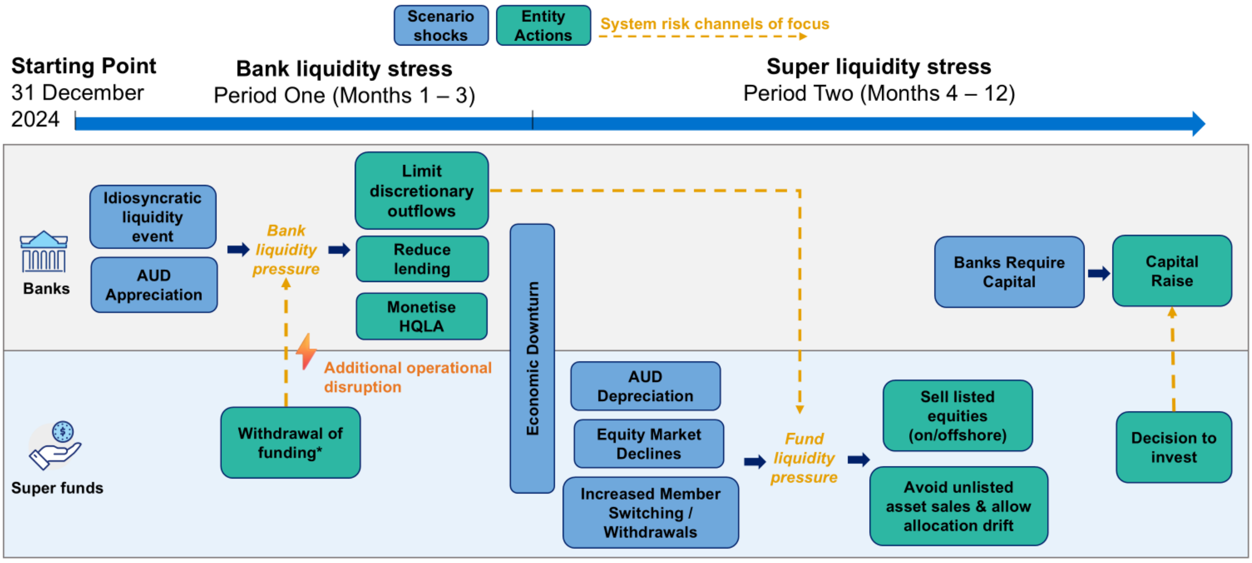
The diagram over sets out the shocks, actions and linkages that were explored. The scenario spanned two time frames, with an initial 3-month phase of bank liquidity stress followed by a second phase of super liquidity stress over months 4–12. The scenario entailed pressure on the economy, equity markets and the A$ coupled with member withdrawals.

[1] [System Risk Stress Test: Final report on findings from the inaugural exercise](), APRA, 30 June 2026

[2] While we largely draw on the final report, APRA was also given an opportunity to comment.

Design of the System Risk Stress Test

Source: APRA



*Super funds were instructed to exit their major banking relationship but retained discretion over how this was executed.

The main findings

We first list and paraphrase the main findings as identified by APRA itself, and then provide a few of our own take-outs:

APRA identified the following five themes:

1. All participating entities, and by implication the system, were resilient to the modelled shocks.
2. System vulnerabilities that were highlighted by APRA included concentration, mismatched assumptions and common dependencies; all of which hold potential to amplify stress events. APRA noted the reliance of banks on funding from super funds and differing perspectives about the reliability of this funding, as well as the presence of some shared service providers.
3. Regarding super funds' role in system stability, APRA tended towards the view that super was more likely to act as a stabilising force including providing a useful source of funding for banks. However, APRA's comments were somewhat guarded indicating they appreciate that it may not play out this way depending on the nature of the stress scenario and how super funds behave.
4. A number of trends in super were highlighted as having potential to reduce super's stabilising influence going forward, including:
   - Increasing size and concentration within the super industry
   - Potential for rising withdrawals as more members move into retirement
   - Increasing overseas assets acting to boost foreign currency exposure thus heightening the influence that super may have on the functioning of currency markets.
5. APRA noted the need for improved entity preparedness for stress events including the need to uplift stress testing capabilities, calling out super funds specifically. APRA called for:
   - Testing of a range of shocks beyond economic and market events including "entity specific events"
   - Adoption of a system-level view including accounting for uncertainty around how other market participants might respond
   - Entities not to overly rely on government intervention.

Other aspects that piqued our interest included:

1. A notable area of consistency in how super funds responded to the stress scenario was the use of overseas equities as a primary funding source, coupled with a reluctance to liquidate unlisted assets into stressed markets. The scenario resulted in a decrease in equity weights of 16%, an increase in cash weights of around 14%, and unlisted asset weights in MySuper options rising from about 29% to around 37% across the six funds.
2. APRA comments that not all assets designated by super funds as 'cash' are completely reliable as a source of immediate liquidity. They report that only 53% of cash assets can be accessed

within 3 days (76% within one month), while nearly 30% of cash is held as negotiable certificates of deposits where banks typically retain the right to refuse buy-back requests.

3. The SRST's operational risk scenario involved a short-lived disruption in the ability to settle debt transactions due to the outage of a material service provider. Super funds were only "modestly affected", although APRA commented that funds lack visibility over operational events due to reliance on custodians and use of external managers.

Comparison with our systemic research

Many of the issues raised and findings of the SRST have parallels with our body of research on superannuation systemic risk, including our [*Systemic impacts of 'big super'*]() report of January 2025 and [*Why severe liquidity stress in superannuation is hard to foresee*]() report of June 2025. We are comforted by the lack of conflicting findings between our work and that of APRA.

Our research concludes that super is an unlikely *source* of major system stress, and takes the stance that whether super acts as a stabilising force or magnifier of systemic pressures depends on how matters unfold. In our '*systemic impacts'* work we go much broader than a liquidity stress event, discussing matters such as: the benefits of super; the influence of common investment exposures and service suppliers; scope for super to withdraw funding from specific sectors of the economy; potential for entity-level events such as internal operational issues, scams, fraud or cyber-crime; and the possibility of a 'run' on a major fund. We also consider the pivotal role for confidence and trust, on which we say more below.

We have argued that it is difficult to see how the super system could suffer a major liquidity event that could not be absorbed by the ability to sell liquid assets as a first port of call for meeting unanticipated liquidity demands, assuming funds manage their exposure to illiquid assets and currency hedging to remain within manageable limits. The SRST findings do not change our stance.

SRST does not cover all bases

The SRST report is an important addition to what is a modest research library exploring liquidity stress risk in super. Nevertheless, like all research, its scope is limited in some areas, which is understandable given the need to make the task manageable and constraints on what a regulator can address. Some of these areas stand as matters that APRA might consider in future SRSTs, while others require a broader research effort. Indeed, we would like to see collaboration and knowledge sharing, noting that systemic risk is not an area where funds need to compete. We highlight the following areas:

- **Impacts from 'out-of-shape' portfolios** – APRA recognises that the consequence of selling liquid assets is an 'out of shape' portfolio. However, how far out of shape a portfolio can become and related implications are not addressed in depth. This matter is worthy of attention by both APRA and the industry at large.

- **Flow-on effects for members** – The SRST estimates the direct impact on member balances from investment losses (25% decline in average balances over the 12-month period), and APRA refers to the potential implications for members of portfolios becoming overweight in illiquid assets and the need for robust valuation policies to protect member equity. However, the SRST does not go beyond the direct member impacts to consider possible flow-on effects. For instance, a stress situation might impact on confidence in the super system and super funds, which could have further adverse effects (as we discuss in [*Market exposure as a major source of systemic risk for super: Part B*](), April 2026). There is scope for broader research by APRA and others.

- **Changes in FX hedging practices** – The SRST commentary recognises that industry growth may lead to overseas asset exposure increasing and counterparties insisting on collateralisation of FX hedging contracts (which would mitigate some of the benefits of currency hedging ladders). This issue needs to be further explored, noting the importance of FX hedging as a potential source of liquidity needs. We note that if funds continue to manage portfolios within reasonable liquidity constraints, considerations around FX hedging may be more relevant for how funds construct portfolios than for risk of system stress *per se*.

- **Asset collateralisation strategies** – There has been a recent trend towards larger funds pursuing 'collateralisation' strategies, also referred to as 'balance sheet optimisation'. These activities aim to utilise a large pool of stable capital to generate additional returns from liquidity provision, risk transfer and use of derivatives. These activities have the potential to alter the role that super funds play within the financial system, which could hold implications for system stability. We will be giving some attention to this topic going forward, and would like to see it captured in future SRSTs.

- **Potential for policy change under a stress scenario** – The SRST is conducted on the assumption that current policy settings continue to apply. While entirely understandable for a regulator, it does limit the potency of the exercise. The most pertinent potential policy change for super under a stress scenario would be revisiting of early release of super. Our report *Market exposure as a major source of systemic risk for super: Part B* of April 2026 raises the possibility that calls for early release will emerge under a scenario whereby market weakness coincides with many individuals coming under financial stress due to job loss and/or mortgage repayments difficulties. Early release of super may be politically attractive in such a situation, especially under a change in government. This could significantly heighten liquidity pressures placed on the super system, depending on the access provided and extent it is used. Potential impacts from hypothetical policy changes are a matter for all to consider rather than just APRA.

While the SRST stands as a very solid piece of work, limiting the scope of inquiry was necessary. One consequence is that the possibility remains that matters could turn out worse than what resulted under the SRST. Nevertheless, the scenario itself is reasonably aggressive, and thus arguably provides a degree of cover for some of these limitations. Another implication is that there is a role to be played by others in the industry to help enhance the understanding of systemic risk.

Reflections for super funds

The SRST contains messages for super funds around how they might conduct or improve their own stress tests:

- **Capability** – We broadly agree that funds need to enhance their capacity to run stress scenarios. Nevertheless, we are wary of a broad statement as we observe significant variation in capabilities and are aware some funds may draw on consultants to assist to good effect. The question for trustees to ask is: '*are our stress testing capabilities adequate?*' We consider it critical that funds tailor their stress test scenarios to the characteristics of their fund.
- **Need for a broad lens** – Accounting for the broader system environment and linkages is important. Rather than conducting a stress test around the enterprise in isolation, scenarios might be formed to allow for aspects such as:
  - What the scenario itself implies for members and their behaviours
  - Common exposures across funds
  - Potential reactions of other market participants
  - Possible response from the authorities.
- **Tailor to the fund's situation** – It is important to tailor the stress test to fund specific factors such as member demographics, business models and the operating model, e.g. segregated versus the 'banker option' model for investment options; scope of any collateralisation strategies.
- **Consider what could change** – Stress testing might consider potential developments in the surrounding environment. Two possibilities mentioned above include a shift in access to super due to revisiting of early release or a change in government and a recasting of FX collateralisation arrangements.

Closing thoughts and a plug

A large and growing super system requires increasing consideration of systemic risks. APRA through the SRST has added sizably to the limited research base in this area. There is also a role for industry to not only ensure they are conducting effective stress tests, but also contribute to the broader understanding of systemic risk.

To this point, the Conexus Institute offers a *liquidity stress workshop* to funds on a pro bono basis. The workshop is built around our *Why severe liquidity stress in superannuation is hard to foresee* report. The workshop involves an interactive discussion that connects the large variety of potential sources of liquidity demands to the ability to raise liquidity from portfolios while considering what the resulting portfolio may look like. Please reach out if you think our workshop may benefit your organisation.