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THE TOP TEN DIGITAL TRENDS IN SUPERANNUATION

The Time for Talk is Over

Shaun McKenna

For quite a few years now, the superannuation sector has been awash with talk of change. Every year, the call grows louder – underpinned by new developments that, at times, are both startling and game-changing.

It's fair to say that 2019 is no different for Australia's superannuation funds ('funds'). In fact, the need for change has never been more important, given the rapid shifts in regulatory requirements, member needs and preferences, competition and technology. Now, of course, the need to restore public trust can also be added to that list.

With such a rapid pace of change, some funds may take a wait and see approach – holding course until there is more clarity on regulatory changes. In our view, that would be a mistake. Funds that aren't focused on transformation now will find themselves a long way behind later. In this environment, these are the ten key superannuation trends for 2019.

1. Digital to the core: unlocking the door to transformation

There is a growing move toward taking a more comprehensive 'digital to the core' approach to superannuation. This is the need for funds to digitize not just the front office, but, their operations and registries as well. This is a critical step for two reasons:

- Firstly, member experience is more than the front end. The processes that underpin that experience must be optimized as well.
- Secondly, it will be impossible to fully leverage the many developments behind these trends without a digital to the core approach. Think about this as you read through the developments and trends below. How will any fund manage these issues without a true end-to-end, digital to the core approach?

For more information on implementing a digital to the core strategy, please see our recent paper 'Digital to the core'.

2. Regulatory uncertainty: the calm before the storm

At present, there are few confirmed regulatory changes in the pipeline for superannuation funds, in sharp contrast to last year. However, the recently released Royal Commission final report, the Productivity Commission report and the Australian Taxation Office's MIG3 will undoubtedly usher in significant changes over the coming year for funds, insurers and advisers. Those changes will be significant ("once-in-a-generation" according to the Sydney Morning Herald article "Massive shake-up on the cards for superannuation") and they will be policed by more aggressive (and potentially more powerful) regulators.

The quote

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3. Member outcomes: the biggest game in town

Improving member outcomes will no doubt remain the biggest game in town as funds grapple with regulatory demands (both new regulations and more forceful regulators), increasing member diversity and needs, member acquisition, retention and growth and the broader palette offered by technology.

Funds will need to manage a wide range of issues including:

- Reducing fees
- A single default fund for all members
- Offering more diverse products beyond the default (including responsible investing)
- Making better use of member data and better targeted marketing and communications to improve member support and education
- Improving operations to drive better member services
- Insurance in superannuation

4. Member engagement: more than simply looking good

Likewise, embracing digital to transform member engagement will continue to be a major priority for funds, particularly given the growing sophistication of 'plug and play' member portals. This will apply in particular to a number of key areas including:

- The ability to provide personalized member portals that enable members to manage their super
- The ability to provide direct information and advice (including robo-advice) as a growing number of advisers leave the industry
- The ability to provide a consistent experience across whichever channel a member chooses, including mobile and, now, voice
- The ability to drive this consistent, quality experience with a single customer view that is available both directly to the member and to intermediaries

At the same time, the growth of companies such as MyProsperity and Mint highlight two important trends. The first is the increasing opportunities that are made possible by Fintech and Insurtech partnerships. The second is the growing importance of aggregating data to deliver a whole of wealth picture for members and their advisers.

5. Accelerating M&A activity: 1 + 1 = 3

SS&C expects that growing pressure from both the market and the government will see M&A activity begin to accelerate beyond recent levels (levels dubbed as "snail's pace" in KPMG's Super Insights 2018 report.). The market is driving the push for M&A as a growing number of smaller funds begin experiencing net outflows and the banks seek to divest their superannuation operations. At the same time, the Government is driving consolidation through its push for scale and improved member outcomes and a range of other recommended initiatives such as 'best in show' tables. At the most extreme level, the potential for 'nationalizing' superannuation through the Future Fund is being discussed, although there is significant opposition to this idea. Another possibility would be the Australian Taxation Office, which has more information on members than any super fund.

Conversely, while there is a push for consolidation and funds with greater scale, the industry is also seeing the emergence of a number of targeted niche funds. These include funds such as Future Super (ethical investments), Verve Super (female investors) and Student Super (student investors).

This increase in M&A activity, together with the opportunities for collaboration mentioned elsewhere, mean that funds need to begin looking beyond themselves. They must increase their awareness of the industry and prioritize the ability to collaborate with, or acquire and on-board, other companies.

6. Cybersecurity: playing it safe

According to a Deloitte report from November 2018 on the opportunities that superannuation presents to cyber criminals, large pools of money and relative member disengagement (among other factors) make superannuation funds a potentially attractive target for cyber-attacks. The growing frequency and sophistication of cyber-attacks, the need to regain consumer confidence and the Australian Prudential Regulation Authority's recent CPS234 standard, will all significantly increase the emphasis on cybersecurity in the next 12 months. This, in turn, will become another reason for funds to explore new technology operating models (see below).

7. Operating model: leaving it to the experts

We will continue to see more funds exploring alternative operating models. This might include fully outsourcing their operations to a BPO provider or acquiring technology under a software-as-a-service rather than purchase agreement. Or funds might opt for a hybrid model where, for example, back-office functions are outsourced, while member engagement is insourced. This growing interest in alternative operating models is being driven by two key factors. The first is the growing cost, disruption and risk associated with fully insourced operations given the rapidly changing needs, technologies and security issues (see above). The second is that outsourcing operations and/or technology can give the fund's leaders and trustees more time to focus on their members and core investment management business.

8. Collaboration: from suppliers to partners to an ecosystem

There is a growing push for funds to improve the effectiveness of third-party partnerships to drive member outcomes. This push exists on two levels. The first is the integration of systems and processes to ensure that the delivery of third-party products (like group insurance) is seamless, agile and efficient. The second is the creation of collaborative ecosystems that extend superannuation into whole-of-life services and relationships (such as healthcare, health insurance, other financial products and, of course, retirement). This has the potential to dramatically increase the value funds can deliver to (and generate from) members over their entire lives. It also extends fund relevance to both retirees and younger members.

In particular, the development of new retirement products and annuities will be a growing priority for funds, driven by the government's Retirement Income Framework. As part of this Framework, means test rules for new products will come into effect on 1 July 2019, with funds required to have a retirement income strategy by mid-2020 and Comprehensive Income Products for Retirement by 2022.

This will impact funds in several different ways, including:

- Partnerships with aged care and assisted living providers, annuities and other CIPR product providers (who are already entering the market)
- Product configuration capabilities
- The extension of member relationships and engagement into retirement

9. Governance and accountability: trusting trustees

There is currently a widespread call for both a revamp of fund boards and greater trustee accountability. This is being driven by a potential new accountability regime, the trust damage the sector has recently experienced, Productivity Commission recommendations to improve the expertise and diversity of boards, and calls from various groups for greater trustee accountability (such as the recent Institute of Public Accountants call for greater accountability in relation to retirement in the article "Super fund trustees must be accountable"). The need for trustees to be fully informed about their fund's members, operations and compliance as well as the broader sector are now more important than ever. This will place greater pressure on the fund's analytic capabilities, performance management and reporting.

10. Automation, new technologies and platforms: the super slipstream

The rapidly emerging fourth industrial revolution is having a profound impact on the way funds operate. It will lead to dramatic improvements in everything from data and knowledge management (cognitive analytics and quantum computing), processes (machine learning and robotic process automation) and member engagement (robo-advice and voice engagement). Smarter funds will take two key steps. Firstly, they will see automation as a way to drive efficiency and member outcomes. Secondly, they will pay careful attention to aligning their people and technology into intelligent operations. Meanwhile, less progressive funds will see automation as a path to cost savings and nothing more.

The next 12 months will also see the implementation of the New Payments Platform, the first phase of Open Banking and the growing adoption of Blockchain. These, together with the increasing use of faster, less disruptive APIs will dramatically change the way both members and funds manage their super and other financial services. They will enable greater efficiencies, convenience and speed as well as higher levels of accuracy and trust.

There will also be challenges, of course. The initial rollout of open banking will require funds to be able to deliver data to other providers seamlessly. In the long term, however, when open banking extends beyond banks to superannuation, it could open up exciting new opportunities for funds to leverage their life-long relationships.

The ten trends above demonstrate just how fast and significant change has become in the superannuation sector. Some might say withering. Some might throw their hands up and call it too hard. Some might wait for a more ordered time to transform.

But the funds that are genuinely looking to build sustainability based on delighted members, partners, investors, collaborators and regulators will be busy transforming right now. **FS**