WHITEPAPER

Future Super: the need to be flexible

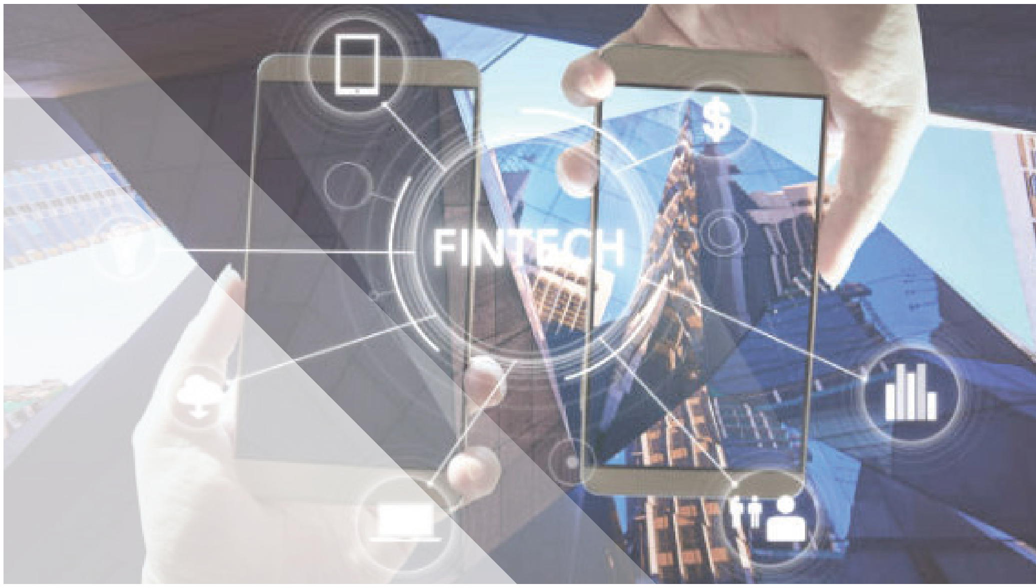
ssctech.com
solution@sscinc.com

In looking at the developments in the Australian superannuation industry, it is clear there is a growing need for flexibility, agility, and resiliency in both technology and operating models. The **flexibility** to easily update and integrate systems as well as configure products, compliance, processes and member experiences. The **agility** to operate sustainably at or ahead of the speed of members, the marketplace and competitors. And the need for **resiliency** and redundancy in operations, backed by technology that allows flexibility in operating models, are all critical for success.

This paper will not directly focus on the impact of COVID-19 on Australian superannuation funds - in terms of actual values of investment portfolios or the implications of the Government's early access scheme - but it does highlight that even during extraordinary times, super funds need to be ready to face even the greatest of challenges.

The five trends in superannuation identified all rely on, or contribute to, fund flexibility, including:

1. The desire to differentiate and create value will spark a shift to hybrid operating models.
2. The big will get bigger, but the benefits of scale will be slow to emerge.
3. Artificial Intelligence (AI), automation and data will cement themselves as critical drivers of sustainable growth.
4. Innovative technologies will increasingly transform the way funds operate.
5. Keeping up with regulatory change will remain superannuation's #1 challenge.



Trend 1: The desire to differentiate and create value will spark a shift to hybrid operating models

The next 12 months will see growth in the number of funds opting for hybrid operating models. Some funds will choose to manage their member experience while maintaining third-party back-office administration whilst others will maintain a fully outsourced model. The key to these models is that they aren't one-size-fits-all solutions. They can be designed to meet an individual fund's unique needs and require an outsourcing partner that can be flexible and work with the funds on the correct engagement model. This trend will be driven by two key factors:

Member Experience

The superannuation sector has reached an era of explosive change and remains competitive. Funds will be looking to differentiate themselves by creating a better experience for their members.

They will look to achieve this by owning the high-value engagement points through the value chain, which will enable them to transform, simplify, innovate, compete and build stronger member relationships.

Flexible Operations

Driven by advances in technology, we are beginning to see new, more flexible operating models emerge, such as hybrid BPO. These models allow funds to operate with greater flexibility, speed and efficiency than they have had in the past.

Funds need to decide on the right partner to underpin their operations and enable an exceptional member experience. This partner should be able to provide both the technology and administration services to ensure a seamless interaction via multiple channels between the member and the fund.

Trend 2: The big will get bigger, but the benefits of scale will be slow to emerge

Regulations are driving industry consolidation that will eventually result in Australia's first 'mega-fund,' with more than A$200bn in funds under management (FUM)[1]. Despite this, there seems to be upward, not downward, pressure on member fees. Recently, Australia's largest fund announced a new fee directly attributed to an increase in regulatory costs[2].

While it's too early to tell, the reality may be that scale alone won't improve member costs, especially when it is regulatory-driven. Instead, this could lead to an increase in compliance costs and the reduction of competition that results from a smaller field of funds.

We believe scale must be accompanied by digital transformation and innovation (see trend 4) to drive down underlying costs and simultaneously improve the member experience.

Trend 3: AI, automation and data will cement themselves as critical drivers of sustainable growth

AI and machine learning will make the transition from a nascent technology to the mainstream in the coming year. These technologies will combine with existing API and RPA to create an unstoppable push for automation. They will also drive the need for quality data and insights.

Transaction pattern recognition, for example, will drive marked improvements in fraud prevention. We also expect to see BPOs use AI to increase the adoption of exceptions-based, straight-through processing. This will improve speed, accuracy and efficiency while driving down errors and duplications.

For those that operationalise these technologies, the opportunities to improve efficiency, operational excellence, member experience and competitive advantage will be enormous. Those that don't (or can't) will fall behind.

Trend 4: Innovative tech will increasingly transform the way funds operate

2020 will see a dramatic upswing in the level of innovation across the sector. As a result, progressive funds will have many opportunities to improve their operations and outcomes. On top of the move to AI, discussed above, we will see:

- Accelerating collaboration with the Fintech community and positive outcomes from the start-up venture capital initiatives currently in place.
- More organisations are integrating their systems and partnerships to create member-centric ecosystems. This will be driven by a growing desire for collaboration and integration through technologies, such as APIs. Open Banking will also be a driver and will result in dramatically improved decision-making for funds and their members.
- A revolution in payments and transaction clearing will drive improved efficiencies, speed and security. This will be driven by initiatives such as the New Payments Platform and the ASX blockchain-based replacement for CHESS[3], which has a target go-live of 2021.
- The rapid adoption of best practice cybersecurity, including the adoption of DLT solutions, to improve the security of digital signatures.

1 John Collett, the Sydney Morning Herald, 'Sunsuper and QSuper in merger talks to create $182b giant' 5 November 2019, https://www.smh.com.au/money/super-and-retirement/sunsuper-and-qsuper-in-merger-talks-to-create-182b-giant-20191105-p537gd.html

2 Elizabeth McArthur and Jamie Williamson, The Financial Standard, 'Industry split over super fee hike' February 2020, https://www.financialstandard.com.au/news/industry-split-over-super-fee-hike-153466198

3 CHESS Replacement, ASX is replacing CHESS with distributed ledger technology (DLT) developed by Digital Asset', https://www.asx.com.au/services/chess-replacement.htm

Trend 5: Keeping up with regulatory change will remain superannuation's #1 challenge

The compliance challenges in the wake of last year's Hayne Royal Commission (among other reviews and rulings) will continue in the coming year. Funds have begun 2020 working through the impact of APRA's heat maps and CPS234 information security guidelines while meeting the requirements of the Retirement Income Framework and dealing with the new reality that is the post-Hayne world.

This regulatory change and attention will continue to stretch funds and compromise trust in the sector. It also has the potential to act as a dampener on innovation that is desperately needed this year. Funds that have transformed into faster, more configurable systems and operating models will be better able to weather this regulatory storm.

Conclusion

As super funds navigate through a constantly evolving environment, and even as they face a once in a lifetime event with COVID-19, these five trends are rapidly becoming business-critical issues. Funds that are forward-thinking, flexible and agile will succeed, while risk-averse funds, with insular thinking, are likely to fail.

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