



Australian Superannuation Funds

The need to modernise, innovate and simplify business operating models.

By Naresh Subramaniam

In the past 20 years the Australian Superannuation system has enjoyed enormous growth driven largely by the government's compulsory contribution regime and strong investment market returns. As a result, superannuation funds in the system have also shared in this growth and are now complex, multi-million dollar businesses that provide critical retirement products and services.

The largest superannuation funds now rival some of the country's largest corporates in terms of size, complexity and responsibility to stakeholders. Yet, how many superannuation funds have actually paused to evaluate their business

against the fund strategy and global best practice? Anecdotal evidence suggests that funds have operated under the same business model for the past 20 years and have just kept adding people, products and bespoke processes to cope with the growth. Is this a sustainable model?

As the Australian Superannuation system is predicted to more than double over the next 10 years, coupled with the arrival of innovative and disruptive technologies, Superannuation Trustees should insist that Management is continuously reviewing their business to ensure the most appropriate operating model is in place to service members now and into the future.

As Australian Superannuation Fund Trustees face lower investment returns for their members, several forward thinking Trustees are using the low return environment as an opportunity to **innovate, modernise and simplify their business operating models** and enhance services in order to retain and attract new members and employers.

These same Trustees are also facing the real threat of disruption from global financial services firms and other fintech companies who are rapidly innovating products and services to target Australia's fast growing superannuation system.

After analysing funds across Australia, we note that some funds are undertaking initiatives to ensure they keep delivering superior retirement products and services to members in a competitive landscape:

- Developing in-house investment capability in order to drive additional investment returns from all asset classes and lower investment costs. In addition, the new APRA regulations are compelling Trustees to evolve their Investment Risk Management Framework (IRMF) in response to the GFC, spiralling investment costs of using external investment managers and substandard investment products.
- Creating in-house financial planning/advice capabilities so that members receive non - conflicted advice in relation to their retirement assets. In addition, funds are implementing strong governance processes to monitor their internal advice teams. This has become more critical following the recent financial planning advice scandals involving several big banks that has destroyed the retirement of many Australians.
- Reviewing current insurance offerings, exploring the option to internalise insurance capabilities and possibly develop and deploy new tailored insurance solutions. Again, this is in response to the recently publicised insurance scandals that have negatively impacted superannuation fund members who needed to claim on their insurance.

Enhance and integrate digital platforms so members and employers can better connect with their superannuation fund. This includes improving legacy administration processes to reduce the burden on members and employers. This is in response to the threat from overseas fund managers with superior online capabilities who are poised to disrupt local superannuation funds.

- Strengthen and implement Environmental, Social and Governance (ESG) policy frameworks and deeper engagement with investee companies to ensure that they take seriously their sustainability practices. This includes Carbon Footprint analysis and company engagement as well as adoption of the UN Sustainable Development Goals.

Albert Einstein is supposed to have said...if you always do what you always did, you will always get what you always got.

The need for a Framework to enable competitiveness: Trustees who are not innovating, modernising and simplifying are breaching their fiduciary responsibilities, failing their members and exposing their funds to disrupters and ultimate closure.

So, as a concerned Trustee, your fund should consider as minimum a *framework* to successfully deliver on strategic initiatives to drive benefits for members.

The initial step is to ensure the fund has a *framework* that helps Trustees with 1) Identifying and prioritising the initiatives that deliver an uplift capability; and 2) Being able to detect and measure the benefits from implementing the initiatives.

The *framework* should clearly articulate the future state business architecture that lines up with the fund's business strategy, an actionable program plan to deliver the architecture. This will enable Trustees to identify and where possible, quantify the benefits that will be gained through the implementation of program initiatives.

In this way, the Trustees can hold Management accountable for realising the benefits from the future state business architecture.

In addition to the strategic plan, which is a regulatory requirement for all superannuation funds, following are suggested activities that Trustees should undertake in articulating their **future state business architecture** including the program plan to realise business benefits and achieve the future state:

- **Members & Employers** – Undertake detailed consultation with members and employers to understand and capture what is important to them now and in the future from their superannuation fund. This includes segmenting members and employers in order to identify areas of focus and quantify the benefits to be realised.
- **Channels** – The purpose of a Channel Strategy is so the superannuation fund can explain how it wishes to Inform, Engage and Interact with its members, employers and other partners moving forward. The aim is to remove complex, bespoke processes for the delivery of core services and evolve the way the fund engages and interacts with members and employers through channels such as web, email, face-to-face, videoconferencing, webinars, events etc.
- **Products & Services** – Assess all current products and services (superannuation, insurance, advice, retirement, non-super etc.) and streamline them to future expected member needs, and then align these with industry best practice. It is important to avoid the trap of simply applying a technology solution to outdated products and services. Instead, take the opportunity to create the fund products and services that members want and need now and into the future.

- **Business Operating Model** – Examine the fund’s Business Operating Model and supporting structure and skills mix to align with, and leverage best practice. This is particularly critical if existing products and services are constrained by old business processes and ageing business systems with high levels of manual business processes and significantly higher corporate risk. In other words, take steps to re-model the fund so it is not constrained by its own operational model. A future state Business Operating Model must be able to scale its operational capability without increasing operational risk and be easily reconfigurable to meet emerging business needs. It must have best of breed business solutions, services and processes to support the Target Operating Model.
- **Corporate** – This involves developing a fund specific Change and Culture framework to support the delivery of the future state business architecture including the work program to implement to strategic goals. This framework will be used to underpin the internal change capabilities needed for the delivery of the change program. Critical to the framework is employee performance management and other key HR initiatives that provide support for the fund’s overall strategic change.

Finally, in order to succeed, the fund must ensure it quickly moves “road blocking” people out of the way and transitions to the future state business architecture as rapidly as possible without materially compromising its business and members.

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Naresh is a high performing, client-focused professional with over 20 years experience and deep knowledge of investment operations and analytics, technology and project management.

He is an eloquent communicator with experience in leading teams and delivering large complex projects to superannuation funds, fund managers, insurers and custodians.

Naresh is tertiary qualified with further training in adaptive leadership, motivating and inspiring people, project management and superannuation.

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