THE TOP 10 DIGITAL TRENDS IN SUPERANNUATION— AN OUTLOOK FOR 2023

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In 2019, SS&C Technologies published an outlook on digital trends in Australia's superannuation funds ('funds'). In that report, we emphasised that 'the time for talk was over,' as the pace of change had become too great to ignore.

This update comes after three intense years of both anticipated industry shifts and completely unprecedented global factors — chiefly the accelerative impact of the pandemic on the need for digital solutions. It is safe to say that the pace of change has surpassed 'great' and is toeing into something like 'breakneck.'

Since 2019, we have seen the implementation of the Your Future, Your Super (YFYS) reform package (which places significant compliance pressure on funds) and a big uptick in mergers and acquisitions (producing mega funds that need to carefully strategise operations).

A global reset on everyone's relationship with work was not on the radar. This has helped fuel a talent war across multiple sectors.

These and other key trends for 2023 have been prepared by: Mary Payne, Director Client Relationships and Product Management; Peter Winsley, Senior Director Strategic Initiatives and Architecture; and Shaun McKenna, Senior Director Product, Client Relations and Sales, from SS&C Bluedoor Australia

TREND 1

TRUE DIGITAL TRANSFORMATION: EMBRACING DIGITAL TO THE CORE

Each of the trends in this report connects back to **a strong digital foundation**. In the years prior to 2020, we may have been able to justify a plodding pace towards digital transformation. But the ever-growing pace of technological improvement, combined with cultural shockwaves produced by the pandemic, has entered nearly every conceivable industry in a race.

For funds, **the age of monolithic tech architecture is over**. Replacing it are microservices and reusable micro user interfaces (MUI). Microservices are an API-driven approach that compartmentalises digital operations on the backend — independent yet interoperable databases and systems that are deployed in a modular fashion.

The future of digital transformation can no longer rely on incremental change to gain small efficiencies. A step change is required to achieve a reduced cost of transformation and to achieve cost-effective administration and enhanced member experience. A micro-frontend strategy is a conscious approach to designing an application UI that runs on microservices and MUI.

The net outcome of microservices, UI and frontends is a drastically improved user experience for fund members, administrators, IT personnel, advisors and other stakeholders. Needless to say, **a strong digital foundation is a prerequisite for achieving these competitive advantages**.

TREND 2

INTELLIGENT AUTOMATION ADOPTION FOR GREAT MEMBER EXPERIENCES

Automation is another technology that has redefined the playing field, especially for member experience. Savvy funds leverage Artificial Intelligence (AI) and Robotic Process Automation (RPA) to find smart ways to remove manual touchpoints, intercept opportunities and prevent crises.

Low-value member requests, such as password resets, can often be handled by entirely robotic means.

Portfolio rebalancing can be made easier through automated assistance, be that through algorithms or improved analysis.

AI-based pattern recognition in member behaviour can recommend intervention—enough clicks or views of a certain application page may prompt delivery of education content or recommendation to speak to an advisor.

With intelligent automation managing repetitive, high-volume and/or low-value interactions, more resources can be focused on the important aspects of fund management that don't scale as easily (e.g., one-on-one advising, nurturing employer relationships).

TREND 3

CYBERSECURITY: BUILDING RESILIENCE AND PROTECTION FOR THE FUTURE

Funds remain a potentially attractive target for cyber-attacks due to their large pools of money and relative member disengagement. Thousands of data breaches occur daily in Australia. In the wake of recent, serious breaches, Australian lawmakers are proposing drastic increases to the maximum penalties associated with allowing data breaches — from **A$2.22 million** to up to **A$50 million**.

In 2019, the Australian Prudential Regulation Authority (APRA) introduced the CPS234 standard for cybersecurity. However, funds should deeply consider compliance with even stronger standards, such as the certifiable and globally recognized ISO 27001 standard.

Each layer of compliance meaningfully builds resilience and future protection. **Being proactive and going above and beyond** will pay dividends as cyberattacks grow in sophistication and scale. This puts even more pressure on having a robust digital foundation to combat the balancing act of delivering great member experiences and additional security without adding onerous actions for the end user.

A microservices-based foundation can simplify the analysis, reporting, maintenance, data management and security requirements required to build resilience against cyberattacks.

TREND 4

ONE CORE REGISTRY SOLUTION FOLLOWING A MERGER OR ACQUISITION

In July of 2021, the Treasury Laws Amendment (Your Future, Your Super) Act 2021 (the YFYS Act) came into effect. It had many impacts on funds, including putting extreme scrutiny on underperformers. This fueled an already accelerating trend of mergers and acquisitions.

Post-merger, a fund's scale can increase dramatically (indeed, this is the primary goal of most mergers). Many have thought that a fund merger is an opportune time to evaluate their registry strategy, and consider a singular solution rather than trying to integrate two or more different systems. Mergers are intensive, and so are registry transitions. Funds are leaving their registry strategy too late and failing to achieve the better member outcomes needed when they achieve scale.

Your registry strategy needs to be at the forefront. As we continue to move into a digital world funds need to ensure they are choosing partners based on digital capabilities, not limitations.

SS&C's solutions are well versed in large-scale systems, including the often-cumbersome process of migration and transition. We have global experience in supporting high transaction volumes and large client bases.

TREND 5

FOCUS SHIFTS IN MEGA FUND MENTALITY

Fund consolidation is predicted to continue unabated. J.P. Morgan surveyed leading Australian fund executives, and half estimated there would be fewer than 75 funds by 2025.

This burst of mergers began in 2019 to address fund scale and reduce poor-performing funds from the market to ensure better member returns. **By the end of 2022**, this objective will have been at least partially satisfied through the formation of mega funds. As that fire begins to cool, we are beginning to see more diverse consideration, strategy and thought driving merger decisions.

Much of this, unsurprisingly, is around strategically leveraging technology. Being a mega fund comes with operational challenges that increase both risk and reward in terms of grappling with building good digital foundations. Smaller funds can achieve scale through innovative use of technology and good market positioning (e.g., niche funds)—so the very definition of scale (AUM? Member count? OPEX?) in relation to a consolidation decision is becoming more nuanced.

The growing need to provide exceptional member experiences is also layered in. Will a consolidation create an internal culture shock that will radiate out to impact members? How do you manage long-term stability in an age where labour relations are strained, and social media can exacerbate a PR crisis in hours?

A strong command of the fund's technology and tech-related processes helps mitigate all these risks—from communications to workforce management solutions.

TREND 6

REGULATION CHANGES: INCHING CLOSER TO THE BIGGEST CHALLENGE IN TOWN

The YFYS Act, along with incoming changes to Superannuation Prudential Standard 530 (SPS530), poses significant challenges to funds' compliance requirements. J.P. Morgan's executive survey found that **nearly two-thirds** believe that 'compliance/meeting new regulations' would be the top challenge facing funds in the next three years.

Businesses that make use of microservices are in a better position to meet these increasing regulatory requirements in a cost-effective and timely way. These API-based technologies can be updated and modularly deployed to target and tackle compliance tasks related to only the impacted services. With existing monolithic architecture, the entire system is affected by compliance-related processes.

Updating a particular service area for compliance is also dramatically easier with a microservice architecture. **The key here is having an end-to-end technology chain** between back-office systems such as registry and investment management systems, connecting your middle and front-office systems.

The changes, testing and release can happen in isolation rather than bogging down an entire system. **This not only speeds things up but allows room for deeper work on impacted systems** (if necessary).

TREND 7

INVESTING NOW FOR INCREASED EFFICIENCY

When taking a step back and looking at the meta-trends that characterise the past 10 or 15 years, one thing is abundantly clear; the pace and complexity of technology and digital execution continues to accelerate. Not just increase—accelerate.

We are in the midst of experiencing the on-ramp to an exponential curve of digitisation. **There is enough evidence and data to suggest that a conservative approach to digital investment is a mistake** (it was a mistake in 2010, a bigger mistake in 2015, and likely a disastrous one in the 2020s).

Forward-looking funds understand the digital imperative and are investing not only to increase efficiency due to new standards of scale, but to ensure survival in the coming years and decades. SS&C's BPOs and global solutions are tailored to meet the demands of today, while fully anticipating the enormous digital requirements of the all-too-near future.

TREND 8

MEMBER DEMANDS FOR ESG AMID RISING CLIMATE CONCERNS

Executives in top funds are fully aware of the pressure from members, and initiatives such as **committing to net zero emissions by 2050** have maintained momentum in the super industry.

Since the GFC 2007, the ESG approaches that are being adopted have deepened—ESG strategies are now much more about the identification of longer-term exogenous risks, adjusting strategies and driving competitive advantage and opportunity. Additionally, key findings from the Responsible Investment Association of Australia's (RIAA) Super Study 2021 include:

- Funds that implement responsible investment practices outperform peers
- Market share has started to shift towards funds considered to be leaders in ESG
- 2020 saw the first time that the majority of funds' strategic asset allocation was being influenced by responsible investment practices

Shifting to or sustaining a successful ESG strategy is complex. **Implementing a manual human process would leave a business far behind their competition**. Through digital transformation and the use of AI and RPA, ESG modelling can be simplified, speeding up the process tenfold and driving greater member experiences and expectations with funds.

Today, the impacts of climate change are more visceral. From extreme weather events to being centre stage in the public and political arenas, **this issue will remain top of mind for members for years to come.**

TREND 9

PEOPLE AND THE WAR FOR TALENT

COVID-19 forever changed the way we look at work. Remote and hybrid work models are here to stay. With these new and abundant options, the workforce at large has begun to re-evaluate its relationship with traditional office jobs and the notion of working itself.

In parallel, the increasing importance of digital technology will only bolster the demand for talent in this area. No longer will traditional employee benefits and perks be enough. A modern technology stack is attracting talent through its usability, MUI and experience.

The new, flexible nature of work combined with more demand for digital and STEM talent across the board means that funds must adapt and evolve any outdated acquisition and retention strategies. It will be harder to find and keep people in critical digital roles.

Ever the double-edged sword, technology itself can help in this regard. **Workforce Engagement Management** (WEM) platforms can be deployed to assist in improving employee experience (chiefly a retention tactic). **WEM uses advanced AI and machine learning systems** to automate scheduling, develop incentive programs, detect issues, and help leaders manage culture within organisations.

TREND 10

WORKFORCE COMPOSITION: STRATEGIC OUTSOURCING AS A COMPETITIVE ADVANTAGE

Pressure for funds to explore alternative operating models continues. External conditions have added new variables or accelerated old ones (see previous pages). Continued mergers drive the need to find competitive efficiency (for the unacquired) or leverage scale (for the newly amalgamated).

This might include fully outsourcing operations to a BPO provider or acquiring technology under a Software as a Service rather than a purchase agreement. Or, funds might opt for a hybrid model where, for example, back-office functions are outsourced, while member engagement is insourced.

There are three main paths a fund can take:

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1. The option with the highest upfront investment is to do everything in-house.
2. Merging or partnering with another provider that has already modernised also has high integration and implementation costs but will benefit from scale as the years go on (a potential merger strategy).
3. Outsourcing offers the lowest upfront investment and fastest timeline

A fund might consider some key questions to help choose the path forward:

- What are our competencies and the value we provide?
- Are our technology capabilities keeping pace with end clients' expectations?
- Are we spending money wisely?
- What's our risk?
- Can we attract and retain the right talent to run a modern, competitive operational platform in-house?
- Can we maintain or grow margins in our current environment?

Nearly 300 firms globally have partnered SS&C's for BPO and retirement. With industry-leading technology, a zero back office digital operating model and personalised member experiences, our flexible business model enables selective outsourcing that allows you to choose which services to maintain in-house.

SS&C is a strategic partner and co-administrator for many of the largest private markets firms and has a record of helping these companies achieve scale, remove operational hurdles and accelerate their growth.

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