CEO Report

Stronger Super Preparedness
Preliminary findings of study II

Preparing for Stronger Super

Will the industry be ready for this fundamental shift?

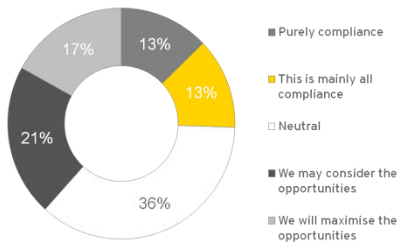
The Stronger Super reforms, FoFA and APRA's proposed prudential powers, mean the Australian superannuation system is facing a period of transformation. In preparation, many leading industry executives are strategically reviewing and taking steps to future-proof their businesses.

ASFA and Ernst & Young, for the second time in 12 months, have worked together to survey the Australian superannuation sector to assess industry progress in preparing to implement the reformed changes. The survey was completed by 34 industry executives from across Australia and included representation from industry, retail and corporate funds as well as SMSF administrators, public sector, service providers and fund administrators.

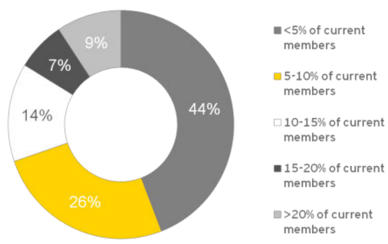
This report summarises the survey findings and provides an indication of progress. It also highlights some areas where the industry is potentially underprepared. In some cases, businesses appear to be underestimating both the cost and time required and the true implications of implementing the reforms.

Stronger Super preparedness is vital for future-proofing the financial services industry. Failure to prepare and deliver could damage industry image and member confidence.

Key findings



38 percent of industry executives surveyed plan to take advantage of the Stronger Super reform compared to 26% taking a pure compliance position to the reform.



Over two-thirds of executives expect to lose less than 10% of their members due to account consolidation. Given the large number of excess accounts, it is likely that some funds will see a higher than 10% loss of members. It appears that the downside implications of consolidation may be underestimated.

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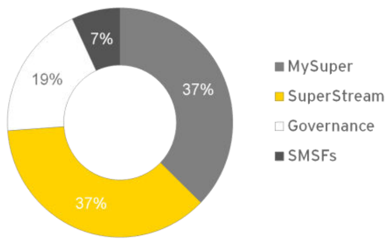
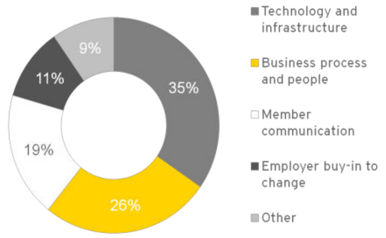


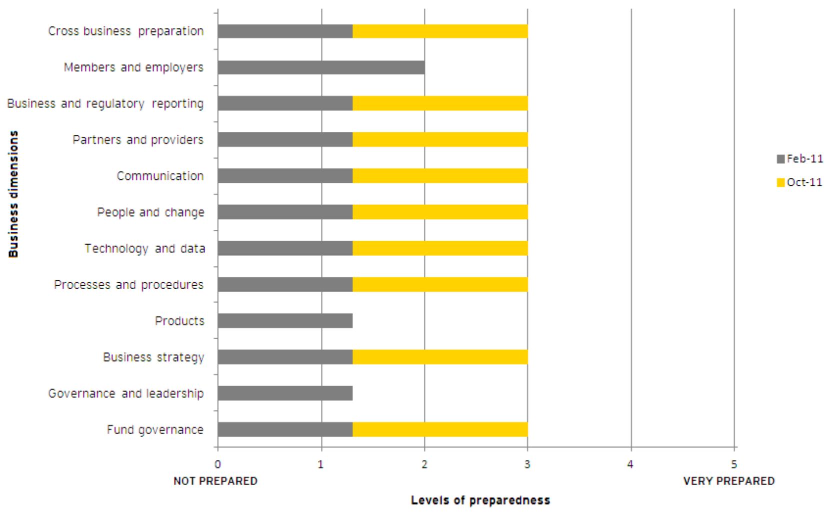
While the previous survey saw SuperStream accounting for most of the cost incurred; this survey saw it level with MySuper, with each attracting just under 40% of respondent's estimated cost. This is a fundamental shift in thinking from earlier this year, when the industry saw MySuper as "just another product".



Executives estimate technology and infrastructure to make up 35% of all cost incurred, followed by 26% for business processes and people changes.

Overall, the industry appears more confident in the level of preparation, although the response in terms of members and employers remains a concern.

Comparison of industry levels of business preparedness



Positive progress

In eight out of the 12 business dimensions above industry preparedness (on a self-assessed basis) has increased considerably over the last six months. It is likely that the industry will:

- Fine tune their views on the long-term sustainability of the fund in light of MySuper scale requirements
- Gain a clearer understanding of distribution dynamics, following the abolition of commissions and conflicted payments in corporate super and group life risk
- Design a sustainable low cost operating model to deliver MySuper

Respondents also appear to be focussed on technology and data, fuelled by the work on draft industry standards. The industry looks to have a positive focus on the dependencies of Stronger Super to other reforms, including FoFA and APRA prudential standards. This may lead to an efficient regulatory and internal preparation alignment.

Areas for concern

We are surprised at the comparatively low level of preparedness in the area of members and employers, as found in our study. Anecdotal evidence suggests many large employers are already being inundated with information from fund and adviser contacts.

In addition, the result shows little progress has been made in terms of preparing for processes and procedures. Until the missing regulatory detail is provided, the industry will struggle with this element of preparation.

Despite some progress, many organisations still need to analyse the strategic and operational implications of the coming reforms and prepare their response.

What should industry executives do now?

The Stronger Super reform offers important opportunities for the industry to renew itself and emerge sleeker and stronger than before. However, those players employing a wait and see approach, may be making a terminal mistake. Without a robust understanding of key implications now, industry stakeholders will not have sufficient time to prepare.

Detailed regulation does not yet exist. However, many leading superannuation funds, administrators and distributors are already examining strategies to protect their existing business and explore new growth opportunities. Using the time now to analyse strategic and operational reform implications is enabling these organisations to prepare a systematic response – with the potential to create substantial competitive advantage.

Despite the inevitable short-term pain, those who embrace the changing landscape of superannuation, and are astute in managing its complexities, will reap the rewards. Delaying action is a false economy, which will damage relationships with stakeholders and members.

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