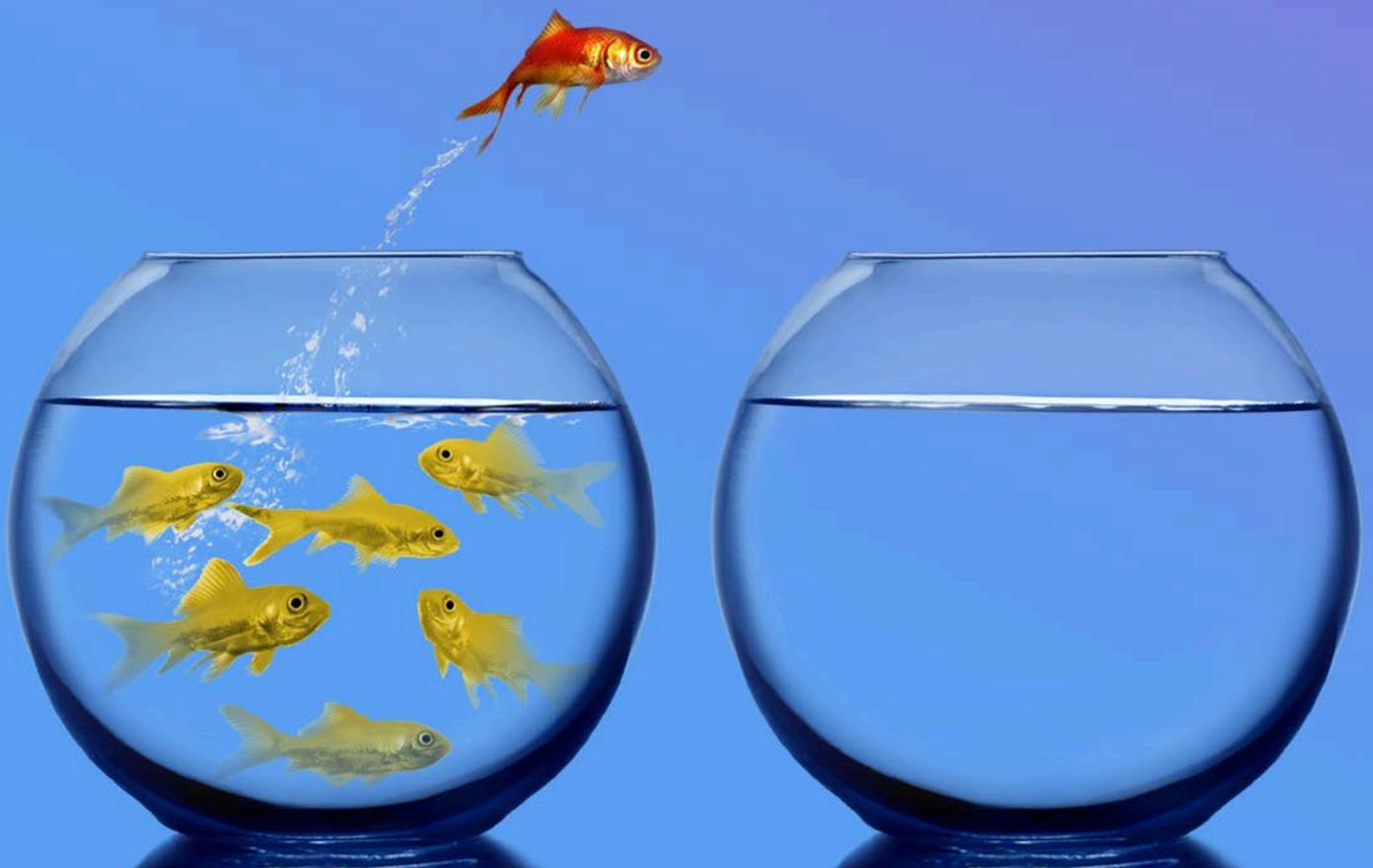


Challenge accepted

Change is relentless in the superannuation industry – and it shows no signs of abating. Are funds ready to chart their course for future success? Or will constant uncertainty and change drive funds to distraction?

Super Funds Survey 2021 **Executive Report**



welcome to brighter

A glimpse of 2020



30 Jan 2020

World Health Organisation declared COVID-19 a Public Health Emergency of International Concern



18 March 2020

Australians advised to work from home



22 March 2020

Federal Government announced early release of super scheme



6 October 2020

Your Future, Your Super announced in Federal Budget 2020-21



20 November 2020

Treasury released the Retirement Income Review findings

What funds said in 2017:

3%

thought world events, war, crisis or contagion were a risk

32%

believed the industry in 2020 would not be much different to 2017

58%

rated regulatory change as their top risk

Introduction

2020 was a year like no other. From devastating bushfires across parts of Australia to a global pandemic, the very nature of how we live and work changed drastically.

As the ripple effects of COVID-19 spread rapidly around the world, there were immediate consequences on the super industry. Not only did the government make the unprecedented move of announcing the COVID-19 Early Release of Super scheme, super funds had to adapt, and adapt quickly, towards a working from home environment.

As we embark upon one of the most transformative years the super industry will see for a long time, find out how CEOs of super funds are thinking about the future and the lessons learned from 2020.

Are funds ready to chart their course for future success? Or will constant uncertainty and change drive funds to distraction?

Challenge Accepted builds upon Mercer's ground-breaking 2017 report on super, *Change or be Changed* — Are super funds prepared?

A trip down memory lane...

what were we worried about in 2017?

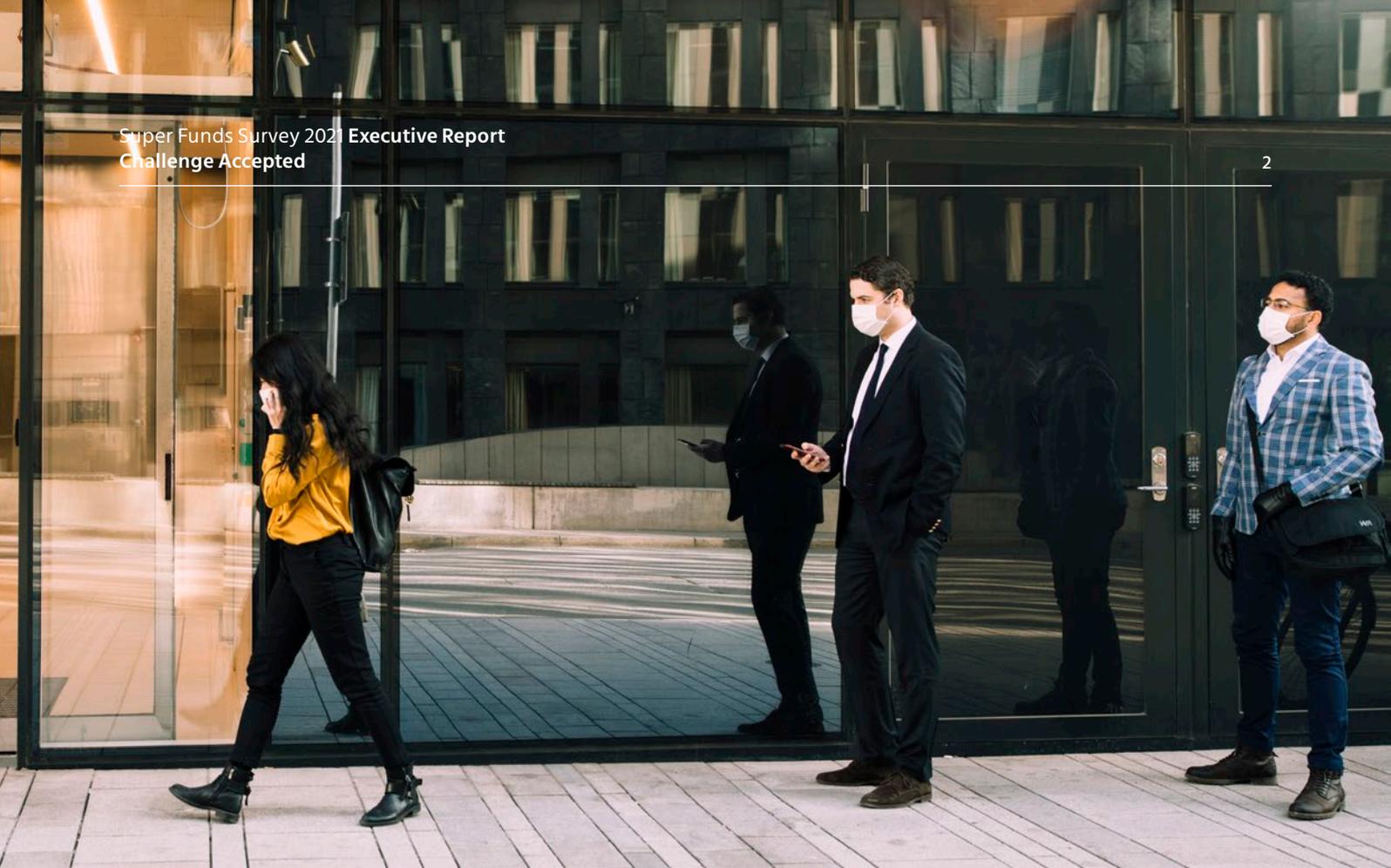
In 2017 our findings revealed an industry frozen in the face of immense pressure, with an 'it-won't-happen-to-me' mentality.



Back then we had uncertainty, but the funds weren't worried; it was a little bit head in the sand and a lack of imperative to do anything.'

– Dr David Knox, Senior Partner at Mercer





We thought we had it tough then.

There have been seismic shifts since 2017. The superannuation industry has grown from \$2.2 trillion to \$2.9 trillion in retirement funds. A Royal Commission, which shone a spotlight on poor industry practices, a global pandemic that is changing the very fabric of our society, the government's early release of super scheme, the far-reaching regulatory changes, and the APRA heatmaps, has meant that super funds continue to swim against the tide.

Then came 2020 and 2017's external pressures paled in comparison.

How funds move beyond the current crisis and determine their destiny with confidence and clarity is what will set them on the best course for their members. So what exactly are fund executives thinking about and doing, as they navigate into the future?

We once again reached out to CEOs of super funds to find out their thoughts about the future.

Change overload

Are funds being driven to distraction?

In the words of one well-known CEO of a mid-size super fund, 'Has Business As Usual (BAU) become Business as Unusual?'

As expected, a higher proportion (63%) of respondents in the 2020/21 survey reported a greater level of regulatory pressure compared to 58% saying the same in 2017. While one CEO said, 'it's hard to argue with trying to bring efficiency into the system,' there is a clear sense of frustration with constant regulatory change. Another CEO said, 'the government's immediate priority should be reminding everyone what the purpose of super is. Get back to basics, stop touching it and let us get on with running funds.'

But are funds distracted by all the noise? Are they missing the greater challenges they must face in order to survive? Are there opportunities to step over the current chaos and chart a course for future success?

What we heard

No surprises: the urge to merge

In 2017, 68% of leaders believed that there would be consolidation of funds — but only 13% expected it to happen to their own. Since then the number of APRA regulated super funds has rapidly declined, dropping from 222 in June of 2017 to 189¹ in June of 2020.

Superannuation leaders weren't proactively acting on merger opportunities, nor were they willing to talk about them.

In a complete turnaround, funds are openly discussing mergers, but our findings reveal that they are still facing roadblocks (45%), both internally and externally.

Decline of APRA regulated funds from June 2017 to June 2020



APRA regulated funds

APRA regulated funds	2017	2020
Corporate funds	25	17
Industry	40	35
Public sector	37	36
Retail	120	101



Opportunities exist and can be taken if funds are willing to compromise.

- Anonymous CEO



It's not all about mergers.

We heard that funds are thinking more about other creative strategies. For example, hybrid business models, including partnerships and a mix of insourced and outsourced solutions, are becoming more common. There isn't just one solution; funds are trying multiple approaches to solve for the pressure to consolidate.

It's clear that it's not just mergers on the minds of fund executives. There are funds that want to be masters of their own destiny and see the value in having a diverse sector to better serve the diverse retirement needs of Australians.



50% expect organic growth tactics to be the largest source of member and funds-under-management (FUM) growth.

¹ APRA Annual Superannuation Bulletin for the year ended 30 June 2020

Big or small, our industry needs it all

‘Why can’t a fund be niche?’ questioned one survey respondent. Another told us, ‘we can’t work with a monopoly’. There is still a view that there is a place for niche funds in the industry and too much consolidation won’t serve the diverse needs of members.



Boutique funds can focus on retention and servicing existing clients with a Rolls Royce service.

- Anonymous CEO



There’s always an imperative to compete and grow, but niche funds still have their role to play, so long as they can remain competitive and efficient. A key challenge will be maintaining their presence in an already flooded market - member engagement, brand, and a trustee-focused view on members’ best interests must all be on the strategic agenda.

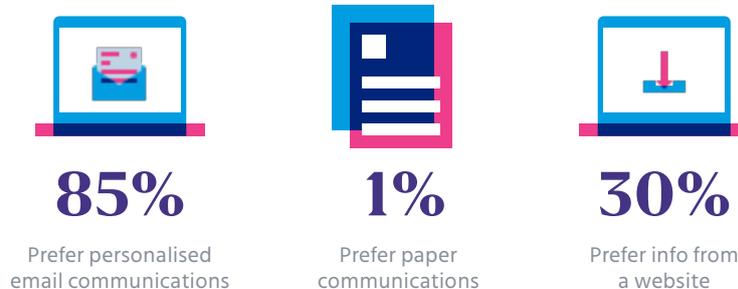
However, there is potential for the industry to polarise into the “Big 10” and then possibly a raft of mid-size “niche” funds that serve a particular membership base or value proposition may emerge.

Brave in uncharted waters

In one of 2020’s greatest sink-or-swim challenges, COVID-19 demanded a digital-first approach to members — uncharted waters for some funds and accelerated change for others. Overall, funds rose to the challenge. For some funds that were traditionally ‘old school’, they are now embracing new technologies. One CEO put it best when they said, ‘while it was scary, we were braver.’

There is a sense of bravery, and dare we say, acceptance of a job well done, with the majority of transactions and communications being driven through digital channels. However, there is little room for complacency. According to a Mercer survey conducted amongst Mercer Super Trust members in December 2020, 85% of respondents said they preferred personalised email communications with only 1% indicating a preference towards paper communications, clearly highlighting the accelerating member expectation around digital delivery. There is also a push for greater website presence and accessibility with 30% of respondents noting they preferred to access information via a fund’s website.

Digital vs ‘old school’



The challenge for funds now is to separate themselves from the crowd. They must continue to evolve to meet the expectations of a technology and a data-driven world, and be able to engage, grow and retain members better than those around them.

‘2020 has shown us we can work remotely and engage digitally [however] all the websites look the same — so that’s now front and centre.’

- Anonymous CEO

Your people are your power

Many funds are preoccupied with the volume of change in super – and rightly so. Funds are also focused on their members; again, rightly so.

However, what has now emerged as a result of a vastly different working environment is the need to understand the engine room better than ever, and continually nurture and empower from within. Moving from office to home tested many trustee offices with security, infrastructure and OH&S considerations. Moving back into the office under a new “hybrid model” will demand a greater focus on employees. How will funds manage the transition back into the office? How engaged are employees and what tools can be introduced to maintain the gains of working from home? Is everyone equipped with the capabilities and structures to deliver the best outcomes for the fund?

Given these challenges, it’s no surprise that according to *Mercer’s Global Talent Trends study*, the top transformation priorities in 2021 for Australia’s HR leaders are reinventing flexibility (59%), followed by upskilling/reskilling critical talent pools (54%).



While 2021 will see funds transition from a “business as unusual” phase to the “great reinvention” phase, seeing that journey as a long-term endeavour will require relinquishing the crisis mindset. To put it simply, as an industry, we need to better understand our environment and be constantly changing to better serve our members.

But naturally, with change comes challenge.

In 2021 we see the change, and say **‘challenge accepted’**.
Are you ready to accept the challenge?

To receive your copy of Mercer’s full report, “Challenge Accepted”,
visit [mercer.com.au/ChallengeAccepted](https://www.mercer.com.au/ChallengeAccepted)



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