



# Increased Super Regulation – A catalyst for Data Transformation

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**October 2021**

The Super Industry is rapidly evolving in scale and pace of change.

The scope of Super funds' services has been extended beyond supporting Australians to save for their retirement. With the First home super saver (FHSS) scheme introduced by the Australian Government, Super funds have additional expectations to support younger generation save faster for their first home.

The rapidly growing retiree population is increasing the gap of outflow from Super funds, compared to the inflow contribution from the working population.

COVID-19's unprecedented impact on the economy and people's livelihood will continue to exacerbate the challenges and impact on Super funds.

These have triggered significant Government and Regulatory scrutiny on Super industry, increasing the interactions with members, and driving changes to Super funds' business strategies and operating models. Data and digital transformation have become foundational for the survival of Super funds.

In this report, we look at how the Super industry can leverage the growing regulatory imperatives as a catalyst to efficiently fast track its Data transformation.

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## Increasing Government and Regulatory changes

Super funds play a pivotal role in providing Australians with financial security in retirement. Its performance is critical for the Australian Government, to protect the wealth and wellbeing of Australians.

The First Home Super saver (FHSS) scheme, introduced by the Australian Government in 2018, to reduce the pressure on housing affordability, allows members to save money for their first home inside their super fund to save faster with the concessional tax treatment of superannuation. Hence the scope of Super funds has become broader than financial security in retirement.

Since 2010, the Australian demography has started shifting towards more aging population transitioning to retirement, generating greater outflow from Super funds compared to the working population contributing into it, and the gap is predicted to grow rapidly in the upcoming years.

The Australian workforce trend is changing - more people holding multiple jobs and/or changing jobs/industries during their career. As the original Super framework did not cater for this scenario, it has inadvertently resulted in members having multiple unintended accounts and incurring unnecessary administrative costs, eroding into member benefits.

The Australian Government has triggered the next wave of Superannuation reform underpinned by the findings from the Productivity Commission in 2018, that assessed the efficiency and competitiveness of Super industry and Royal Commission in December 2019 on misconduct in the Banking, Superannuation and Financial Services industry.

At the centre of focus of the reform is Member outcomes and enforcement in regulating the Super industry with increased transparency and accountability, as illustrated below

### Productivity Commission Inquiry Report Superannuation: Assessing Efficiency & Competitiveness

Dec 2018

### Royal Commission into Misconduct in Banking Superannuation and Financial Services Industry - Final Report

February 2019

#### Government Legislation: Your Future, Your Super

- Enforcement of employer accountability to use 'stapled funds' to avoid unintended multiple member accounts
- APRA's empowerment to annually assess performance of MySuper & other products included in the regulation
- Product performance transparency via ATO website
- Increased accountability on Trustees to focus on best financial interests of Members

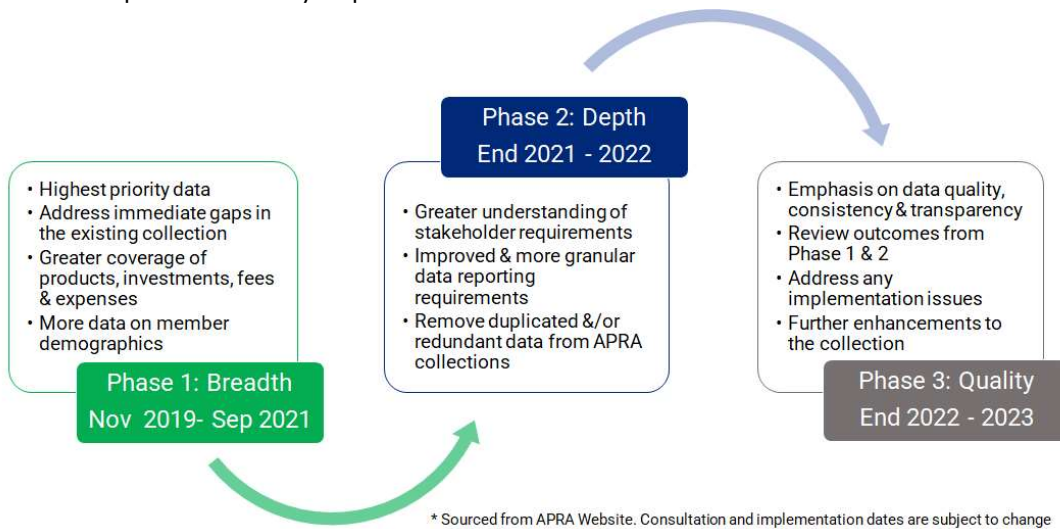
#### APRA Change:

- Increased capability and empowerment to ensure growth and protection of member benefits
- Greater data collection from Super industry to assess product performance and compliance
- More public reporting and benchmarking

As part of the Australian Government's Super Reform - Your Future, Your Super, that has come into effect from July 2021, there is a stringent annual performance test on MySuper products (and other products that comes within the regulatory scope). Where the product has failed the performance test in two consecutive years, the trustee is prohibited from accepting new beneficiaries into that product.

## Increasing Government and Regulatory changes

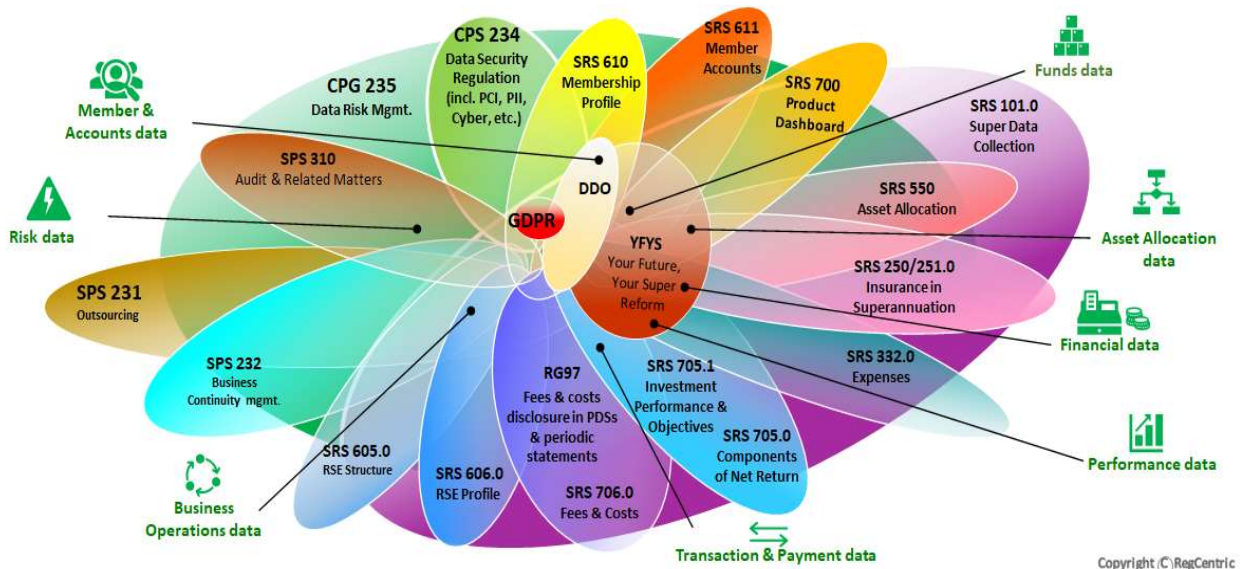
APRA is progressively increasing its Super Reform, taking a phased approach. Below illustration articulates APRA's phased delivery expectations and timelines



APRA's Super Data transformation will force the Super industry to collect much **wider breadth of data at greater level of granularity with increased data quality, consistency and transparency.** There is additional expectation on provision of ad-hoc data reports.

These changes are driving the need to shift the Super funds' Governance & Control accountabilities, from 'regulatory form' level to granular data level, enforcing the need to uplift the enterprise Data governance model and maturity.

The below illustration shows some of the key regulations Super industry must comply with and the overlap in the core datasets (domains) required across regulations.

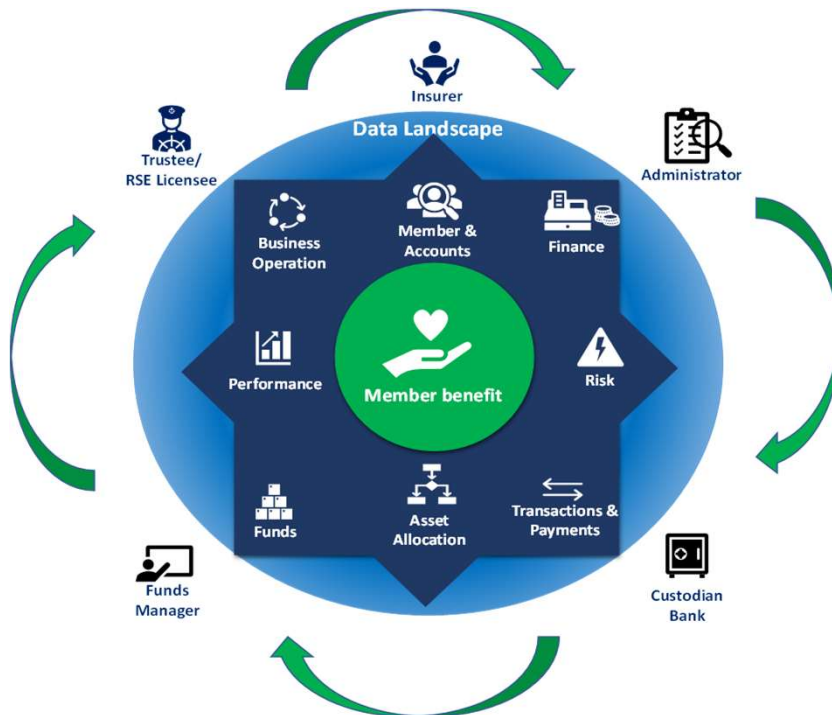


<p><b>Overall Board and Senior Executive responsibilities</b></p>	<p><b>Financial Accountability Regime (FAR)</b> Improved risk culture &amp; governance for prudential &amp; conduct purposes</p>	<p><b>Risk management – SPS 220</b> Risk management Framework to monitor, manage &amp; mitigate impact to beneficiaries</p>	<p><b>Strategic Planning &amp; Member Outcomes – SPS 515</b> Regular assessment &amp; uplift on Member benefits, supported by strategic &amp; business planning</p>	<p><b>ASIC Corporation Act 2001</b> Section 180, 182, 183, 184 Failure to exercise due care and diligence</p>
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Considering APRA's growing demand for volumes of granular data, with quality at increased frequency (including ad-hoc), plus there is large amount of common overlapping data required across the different regulations, any data inconsistency will result in many validation failures at the point of submission and follow up questions/request for explanations from APRA. This can impact business efficiencies and cost.

## Increasing Government and Regulatory changes

The Your Future, Your Super regulation's enforcement on product performance transparency, consolidation of member accounts with default stapled account, and growing need for member centricity, poor quality data can have a detrimental impact on Super funds.



Super funds face the challenge of **'boundaryless data landscape'**.

As shown in the illustration, there are multiple 3<sup>rd</sup> parties involved in the end-to-end business value chain. All are generating and consuming data, across multiple systems within and outside the Trustee organization.

Unless there is appropriate data governance and controls for the core datasets, across the end-to-end data landscape, managing data accuracy and consistency can be highly challenging.

The Financial Accountability Regime (FAR), expected in the near time horizon, will enforce the **ultimate executive accountability on the RSE Licensee/Trustee** to "take reasonable steps in conducting their responsibilities as an accountable person to ensure that the entity complies with its licensing obligations" – regardless of who actually owns/processed the data.

## COVID-19 Pandemic impact on Super Industry and Government

The unprecedented COVID pandemic has opened whole new risks to the growth and sustainability of the Super benefits and financial security in retirement for Australians.

- In 2020, almost 3 million Australians have withdrawn their superannuation early under the Government's COVID response. While this was closed on the 31<sup>st</sup> of December 2020, the continuing COVID lockdowns are pushing small business to breaking point, which can drive more exceptional scenarios for early super withdrawals from those livelihoods are impacted.
- The economic impact across the world, is likely to have domino effect on some of the investment assets and their return, which can erode into member benefits. Risk averse members are changing to more conservative Super investment options, which will intern reduce the pace of the growth of overall benefit pool
- The Australian Government debt has significantly increased. Economic uncertainty is looming without clarity on when the tide will turn. The Government will have heavier reliance on Super industry to support the rapidly growing retiree population's financial security as well as those who face extreme financial challenges

COVID-19's impact on the economy will continue to exacerbate APRA's and Government's scrutiny on Super industry's performance and the sustainable growth of member benefits.

**Data transformation, for quality, consistency, timeliness and security of critical data, along with data governance and accountabilities is foundational to meet the Government and regulatory obligations.**

## Shifting landscape of business strategies and operating models

The changes such as Australian demography, regulatory scrutiny, COVID and economic volatilities are driving the need for fundamental shift in the business strategies along with business and operating models. Below are some key examples.



**Member centric services and business model:** Increasing retiree population and First Home Super Saver scheme will progressively shift the Super funds' interaction from employers to members. The Design and Distribution Obligation (DDO) will further drive the need for deeper understanding of members, their financial objectives, circumstances and expectations



**Changing member expectations:** COVID has driven digitisation to a much higher scale (such as online work, eCommerce and online learning). With First Home Super Saver scheme, more younger generation members are starting to interact with Super Industry. These have changed the member expectation on interactions. The Super industry needs to modernise their member interactions through digitised omni channel and chatbots, as member experience will become a key differentiator to sustain member and grow the member base



**Funds Mergers:** Increasing transparency and expectations on product performance and consolidation of member accounts are driving mergers in Super industry. Organisational mergers need to factor in migration and integration of systems, data and processes across the companies, along with people, operations, finance and risks, and any related changes in regulators and ATO expectations



**Global investments:** To manage the gap projection of outflow of funds vs inflow and COVID's impact of some of the assets' growth, Super industry is looking into overseas investment options to sustain benefit growth. This comes with additional financial and tax implications and need for different management approach

The challenge for executives is having to manage the increasing regulatory demands while facing into the changing business landscape and balance the organisations finance and cost pressures.

Delaying the data and digital transformation agenda 'until organisational mergers and other business strategic initiatives are sorted out' will drive the need for many tactical stand-alone interim solutions to meet regulatory needs. This will only add more challenges of data quality, data risks and change agility to already complex data landscape of Super funds and result in wasted throw-away investments.

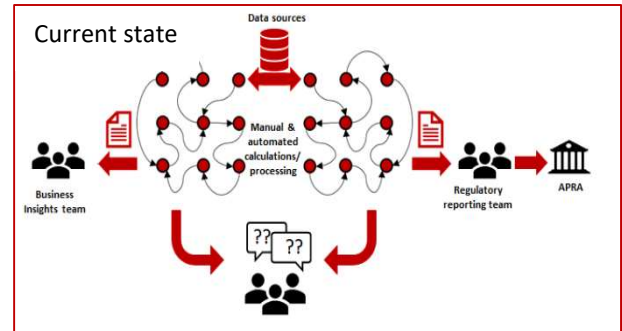
It is important to recognise, there is synergies across the core datasets and capabilities between the regulatory expectations and what is required by the Super funds to effectively manage their Business Transformation, growth, and operational excellence.

***Taking a holistic enterprise focus will in fact position the regulatory demands to be a catalyst to fast track Data transformation for successful business outcomes.***

## Delivering effective Data Transformation

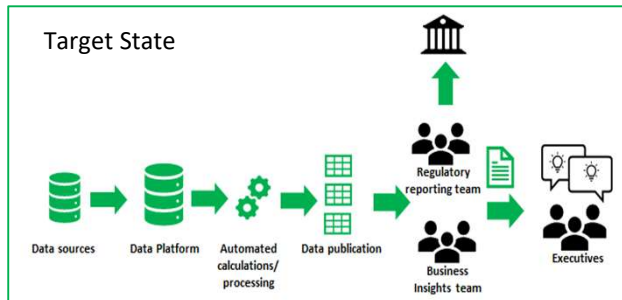
Like many industries Super funds face the complexity and challenges of organically grown current state data landscape – such as disparate data sources, complex manual intense data processing with key people dependency, unscalable legacy data platforms, limited enterprise-wide data governance controls and siloed department specific 'data islands' resulting in inconsistent insights – more time is spent on reconciling/adjusting data than acting on insights

Super funds face added complexity of **boundary less data landscape** due to the involvement of many 3<sup>rd</sup> party service providers with their own systems and data in the end-to-end supply chain.



Considering APRA's growing expectation on the breadth, granularity, quality, transparency, accountability and frequency of data delivery, continuing with current state is no longer sustainable. It can have detrimental impact on operational, regulatory and reputation risks and cost.

Execution of effective Data transformation delivers the following:



- simplified data landscape via streamlined data feeds, processing and insights
- uplift in data security & quality controls
- Modernized technology and tools for real-time processing, scalable platform, self-service reporting, and advanced analytics/AI
- uplift in overall data ownership, accountability, governance and controls (people and processes)
- Increased change agility, delivery efficiency and consistent actionable insights

The effort, cost, and time to deliver Data transformation will depend on current state complexity and challenges. The delivery of Data transformation can be set up as a phased, iterative delivery based on targeted use-cases, for tangible business success with every investment.

Considering the amount of regulatory demand Super funds are expected to deliver between 2021-2023, and the synergies in their data and capability needs with that of business strategic initiatives, the Super funds should leverage the regulatory investments to drive broader Data transformation for progressive and greater return on every investment spent.

To achieve sustainable success in Data Transformation and overall delivery efficiency, Super funds should establish four foundational components:



**Endorsed Target State Data Architecture:** A target state Data architecture should be defined for data sourcing through to insight delivery, based on organisational needs, aligning to Data & Analytics industry trends, and becomes the '**blueprint**' for data/insights solutions



**Enterprise-wide project prioritisation, planning and delivery discipline:** Project delivery process uplifted to include regular assessment of enterprise-wide data & insights requirements to identify synergies. Delivery should be prioritized and sequenced factoring in convergence opportunities and availability/timelines of strategic data/capabilities



**Pragmatic solution approach weighing trade-offs:** While using the target state as the blueprint for data & insights solutions, interim options and trade-offs may need to be considered taking pragmatic approach, based on availability of target state capabilities vs urgency of business/regulatory demand. Governance control needs to be in place to enforce progressive remediation of interim solutions.



**Active Data Governance:** Enterprise level Data ownership and accountability established, including roles and responsibilities of the 3<sup>rd</sup> party service providers. Data stewards should actively govern data across projects and business operations, ensuring data quality and security are not compromised (CPG235 Data Risk mgmt. and CPG 234 Information security). Data controls such as Data catalog, lineage, quality validation, access control and data traceability, should be set up to assist and enable Data stewards to effectively govern data.

## Conclusion

The current era, Data and analytics are key differentiators in achieving success in business strategy, operational excellence, and in reshaping industry competition.

The new wave of Super reform will continue to put the Super industry under Government and regulatory scrutiny in the foreseeable future. With increasing transparency and accountability expectations, maintaining the confidence of the public and regulators is pivotal for Trustees to remain in business.

Data availability, quality, consistency, and security are non-negotiable to achieve the regulatory compliance, brand reputation and community trust.

Considering the Regulatory investments required across FY22-23, **Time for action is NOW.**

Align business strategy and regulatory demands to drive Data Transformation and progressively build out the target state with optimized delivery cost, and position Super funds to meet present and future data and analytics needs.

**Every initiative should contribute to uplifting data and insight capabilities in the target state, generating greater business value from every investment spent**



## How RegCentric can assist

### About Us

RegCentric delivers innovative services and solutions that leverage the latest advances in technology to increase efficiency, provide insights, reduce risks, and ensure regulatory compliance. We provide strategic advice and design, build, and implement technology solutions that deliver the best outcome in a technology-agnostic way. Our team consists of data, risk & regulatory technology experts with decades of experience supporting transformative initiatives for regulators as well as the regulated industry.



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**RegCentric can assist organisations gain control over their data from defining Data Strategy through to implementing DataTech solutions that leverage latest advances in technology, as well as providing subject matter expertise on setting up effective Data Governance and proven methodologies for managing exponential growth of data.**

Please get in touch with us if you would like to know more about our services:

**Advisory Services:** Data Strategy, Data Architecture and Data Management transformation roadmap definition, Data Governance & Controls, Technology recommendation for managing data.

**Implementation Services:** Take advantage of next gen technology to quickly and cost effectively implement Cloud, Data and Analytics capabilities delivering high performance, flexibility & agility.