HEALTH WEALTH CAREER

CHANGE OR BE CHANGED

HOW WELL ARE AUSTRALIAN SUPER FUNDS TAKING CHARGE OF THEIR FUTURE?

2020 SUPER FUND EXECUTIVE REPORT

MAKE TOMORROW, TODAY

MERCER

CONTENTS

FOREWORD

Our $2.2 trillion industry is changing

Disruptive technologies, demographic shifts, changing member expectations and financial and regulatory pressures are all converging on the superannuation industry to create a unique set of challenges that funds seem ill prepared to manage.

In this report, we share what keeps Australian super executives awake at night as they plan for the future and attempt to solve an expanding list of challenges.

The findings show an industry somewhat frozen in the face of external pressures. At a critical moment in time, this begs the question, are funds willing to change themselves or will someone else change them instead?

THE INSIDE WORD ON SUPER

We asked 41 super fund executives what they thought about the future of the industry, and how they are positioning themselves for change.

Here are just some of the challenges they face:

- An ever-evolving membership, with changing needs and challenges
- The sustainability of our business and fee models
- The scale test, and how APRA plans to implement the rules
- More competition amongst funds for the same member pool
- The increasing cost of business, and attracting new members
- An ageing membership needing more innovative retirement and pension solutions
- The challenges of a sustained, low-return environment
- Rapid change in technology and its potential to support disruptors
- A growing risk that disruptors, new entrants and corporations empowered with new technology will erode member base

Now is the time to take action. Read on for key insights and recommendations on how to develop successful strategies for your fund's future.

TACKLING OUR FUTURE

Australian super funds, and their leaders, have achieved much in recent years. Our retirement industry ranks third internationally, according to the 2016 Melbourne Mercer Global Pension Index, with total member assets set aside for the future now at $2.2 trillion, or 130% of Australia's GDP. In short, many policymakers around the world look at the Australian system with envy. However, much remains to be done, and there is room for improvement in many areas.

In 20 years' time, Australians who are entering retirement will have been saving during their entire working lives. The full benefits of compulsory contributions and compound returns will have brought Australians a higher standard of living in retirement, which will benefit not only these retirees but our whole society, and our ageing population.

Yet, despite this success, the *Mercer 2020 Super Fund Executive Report* shows that the current leaders in the super industry are worried about the future, believe they are overburdened by regulation and change, are talking but not acting on merger opportunities and, most worryingly, seem to be ignoring many of the forces of change that could disrupt or even dismantle their core business. Undoubtedly one of these changes will be the impact of technology, but there will also be broader global issues and the growing impact of active decisions by individual members, triggered as more competitors seek to lure them from existing funds. The industry will be quite different in 20 years' time.

Therefore, now is the time for fund trustees and executives to take ownership of their fund's future. For only by taking a seat at the table of change will we fully understand and exert influence over factors that pose both a challenge and an opportunity to our industry.

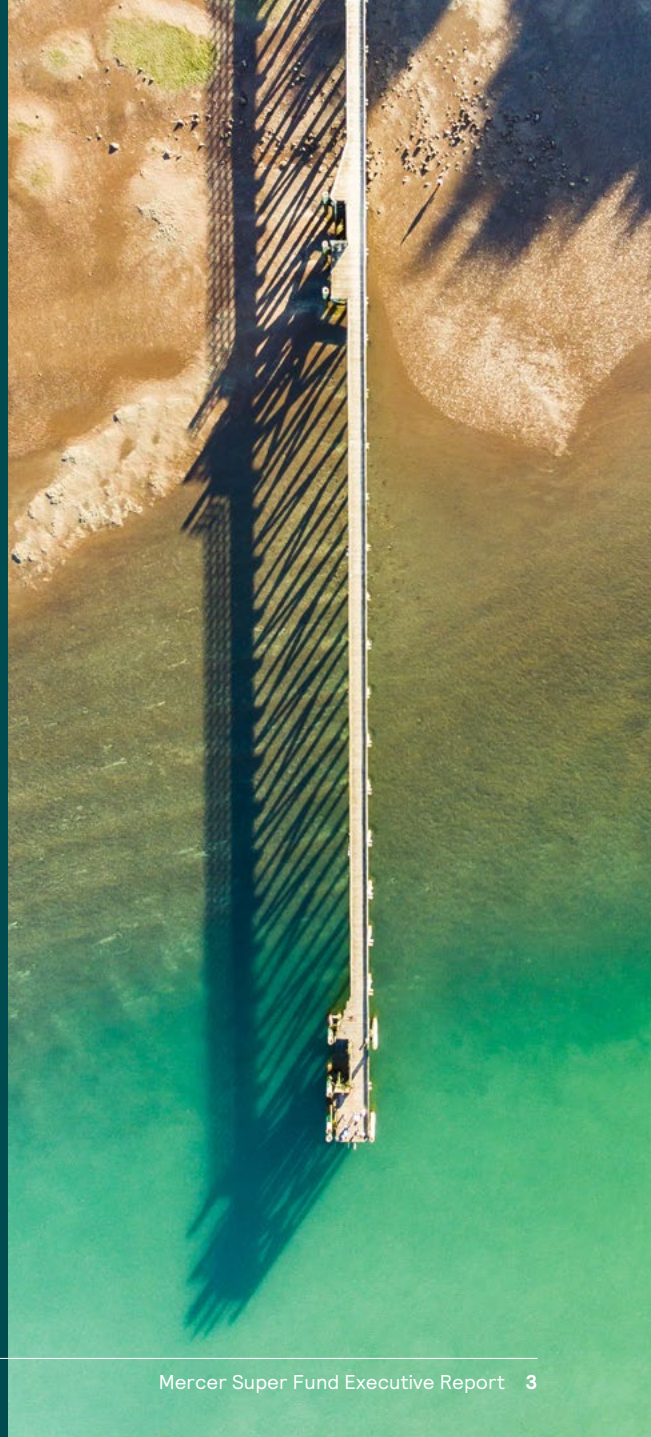
I commend this report to you, and encourage you to look at your business anew with a view to tackling the future with enthusiasm, leading our industry and striving to achieve the best outcomes for your members.

Yours sincerely

Dr David Knox
Senior Partner

KEY RECOMMENDATIONS

- Actively change to better meet the needs of members, or be changed by others who take the initiative from you in an uncertain world.
- Plan for business-as-usual regulatory change and disruption — meet the challenge by using change as opportunity, take the lead and become disruptors of your own funds.
- Seize the opportunities presented by a market in flux and actively explore consolidation, partnership and outsourcing opportunities that can materially improve your members' journeys.
- Explore areas outside of super that can leverage your capabilities with new products, services and relationships.
- Innovate for members' changing needs, especially in the retirement income phase, with new products, more focus and better options that retain members as lasting clients of your fund.
- Embrace the technologies and approaches of disruptors to eclipse your competitors and SMSFs with a more compelling offer.
- Design for members with true customer research, guidance and testing to ensure you are meeting their needs and evolving with them.
- Match your fund to a partner who can provide scale and flexibility in their solutions — be that administration, technology, investment, governance or communications.



EXECUTIVE SUMMARY

THE FUTURE IS OUT OF MY HANDS

Super funds believe their primary risks and challenges in the next five years are largely beyond their control, suggesting many are not well positioned to respond to likely change.

94%

94% don't consider pressure from disruptors a serious risk to their fund's future

58%

58% regard government regulation and the Productivity Commission inquiry as their fund's top risks

55%

55% identify government and regulatory change as a dominant industry-shaping force

PRESSURE IS NOT CREATING DIAMONDS

Despite regulatory and industry pressure to merge, funds are taking a wait-and-see approach rather than actively seeking opportunities that could benefit their members.

68%

It won't happen to me: **68%** believe there will be consolidation of funds, but only 13% expect it to happen to theirs

71%

Everyone's a winner: Despite a recognised need for consolidation, **71%** of funds nominate organic growth tactics as the top source of new members

16%

Maybe later: Just **16%** nominate consolidation as a strategic priority for their fund

EXECUTIVE SUMMARY

INNOVATION IN THEORY

Despite longevity risk being identified as a major challenge, there is little evidence of fund executives being worried about future providers servicing these needs for their members.

55%

55% have no clear strategy on how to service the needs of retirees and pensioners

42%

42% see personal financial planning as the fall-back option for retiring members

13%

Only **13%** are worried about new entrants to their $2.2 trillion industry

THE MEMBER IS BOSS

Fund executives see the future of their fund as delivering better member engagement and outcomes, suggesting retention issues are an ongoing concern for the industry.

x2

Member service, outcomes and engagement **(35%)** are rated twice as important to success as investment returns **(16%)**

39%

39% rate member service, engagement and outcomes as a top strategic priority

35%

35% believe technology, digitisation and ease of interaction are top influencers of their fund


THE FUTURE
IS OUT OF
MY HANDS

Super funds believe their primary risks and challenges in the next five years are largely beyond their control, suggesting many are not well positioned to respond to change.

FUNDS RANKLED MOST BY REGULATORY CHANGE

Funds ranked government, regulatory changes and the Productivity Commission Inquiry as their chiefs risks — more than triple those who were concerned about the risk of low returns and competition between funds for scale.

The list of risks is a long one, but it is regulation and the changing policy environment that worry funds most — in fact, it is the dominant risk on their minds.

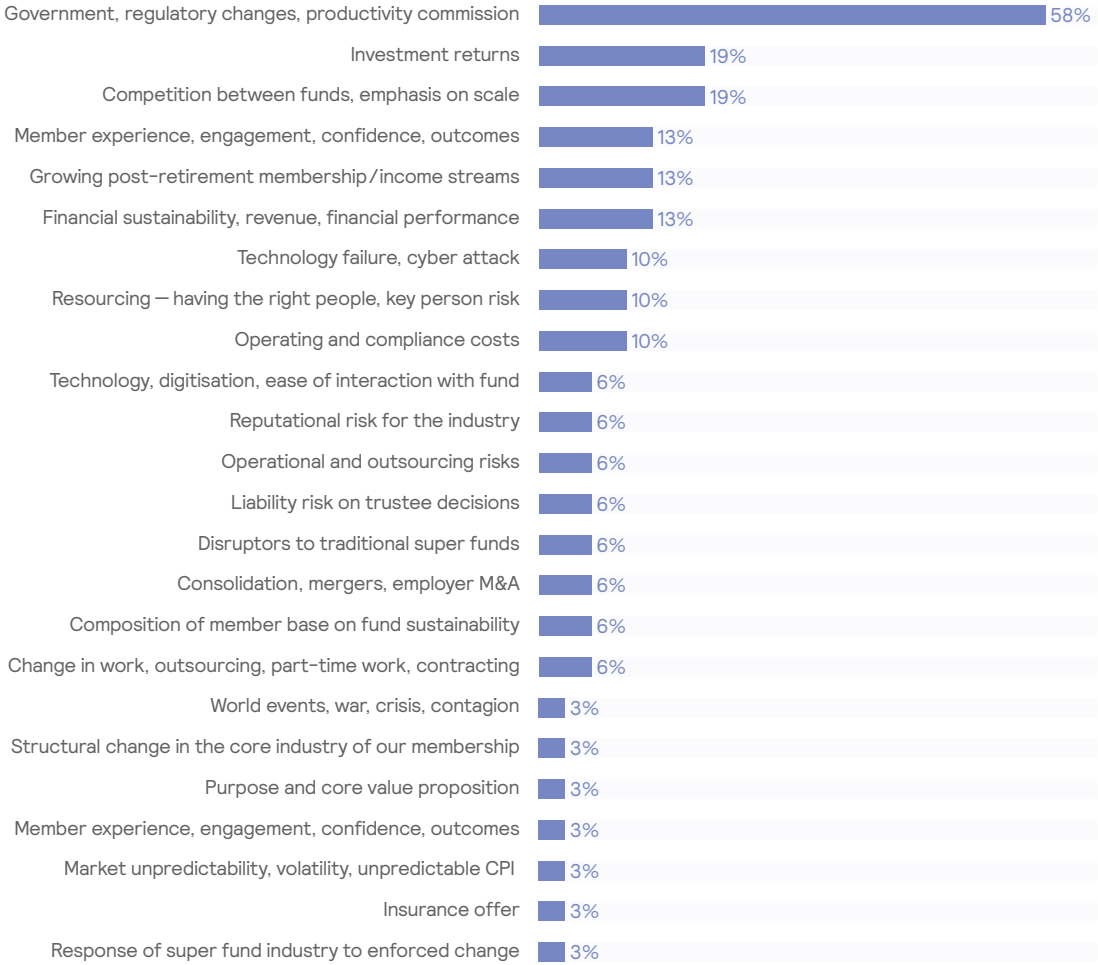
Fifty-eight percent of funds regard government regulation and the Productivity Commission inquiry as their fund's top risk, and 55% nominate it as a dominant force shaping the industry. Funds are finding regulatory change overwhelming, fast and too frequent for their liking.

In fact, the three dominant risks that worry funds most relate to areas they feel they have little capacity to change. After regulation, the second biggest concern to funds is investment returns, a serious industry challenge exacerbated by the low-rate policy settings of central banks and a general consensus that low returns will be a feature of the investment landscape for the foreseeable future. The third is competition and the scale test, and a deep concern among funds about how APRA will seek to interpret and apply this test. This uncertainty compounds concerns among smaller funds about their very survival as standalone entities.

This has seen many funds opt for a passive, wait-and-see approach to mergers, rather than an active engagement strategy that simply asks; what will be in the best interests of my members? The industry seems to be saying that these major risks are out of its hands.

Beyond these three big worries is a long list of concerns, many of which are not making it onto the "for consideration" list, let alone the "to do" list. This presents the industry with a conundrum: how can funds take charge of the future if they feel they can neither control the risks that dominate their time and concerns nor pay attention to the long list of other risks and worries they face?

What Are the Top Risks Your Fund Is Facing?



Source: Mercer 2020 Super Fund Executive Report, *2016*

of surveyed funds regard government regulation and the Productivity Commission inquiry as their fund's top risk

GOVERNMENT AND POLICY CHANGE IS A DOMINANT FORCE

Funds believe that government policy is a major force for change as we head to 2020. The most significant driver of change was consolidation, as nominated by 68% of funds, largely driven by government policy around the scale test. The second highest was general government and regulatory policy change as nominated by 55% of funds. Consolidation and policy together act as a singular burden on funds, overshadowing so many other strategic issues. (For more on consolidation, see the following section of the report.)

While funds remain unsure how policy will play out, proactive growth strategies and fund development take a back seat to simple survival in an environment of constant change.

What Are the Top Drivers of How Super Will Look in 2020 (Top Five)?

Source: Mercer 2020 Super Fund Executive Report, *2016*

The third top driver of how super will look in 2020 was, in fact, no change at all. This runs contrary to the majority of fund views, but, still a third of those surveyed believe the industry in 2020 would not be much different to how it is today.

This is revealing, as almost a third of funds surveyed actually experienced benefit payments (benefit outflows) that exceeded contributions (inflows excluding investment returns) received for the year (according to APRA data as at June 2016). For comparison, at the industry level, some 45% of funds had benefit payouts that exceeded contributions for the year.

Perhaps for the largest funds in the survey, scale may mean their futures won't significantly change by 2020. For those experiencing net benefit outflow, the likelihood of near-term change is high.

Of course, these findings reflect an industry largely looking at itself and the current competitive landscape. If the scope is broadened to include both existing and potential new players, then the probability of change simply increases again. You would expect such potential change to loom large in the views, strategies and plans of Australian super funds, yet this is not what the survey revealed.

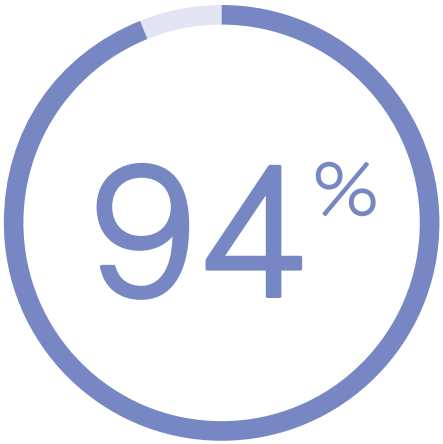
DISRUPTORS AND NEW ENTRANTS BARELY RATE A MENTION

The potential for disruptors and new entrants to change the super industry is significant given the obvious attraction of the $2.2 trillion of assets managed. The opportunity for disruptors includes the potential for long-term margins from fees, the benefits technology brings to operations and costs and the immense value potential in lifelong relationship with fund members.

The problem is that the majority of funds don't see disruptors as an issue — only 6% nominated disruption as a risk to their fund. To understand just how low this is, in this survey of 31 funds that is just two funds that consider disruptors as a real threat to their future (We look at disruption and where it may come from in more detail in the "Innovation In Theory" section.)

Disruptors will come from both inside and outside the industry. They will bring new opportunities for members. As industry outsiders, new players are likely to have major operational and technological advantages — such as fintech, blockchain, cloud technology, digital access and straight-through processing — without the more cumbersome operational and systems legacies that weigh down may existing super funds. Industry insiders, or existing players, also have the potential to significantly disrupt with new or borrowed technologies and fresh customer value propositions that change how members purchase and interact with super.

If funds think the future is out of their hands now, what will they think when disruptors have stolen the march in attracting members into more efficient models? We know from this survey that super funds are giving almost no weight at all to the risks of new entrants disrupting and possibly changing super forever.



of surveyed funds don't consider pressure from disruptors a serious risk to their fund's future

IF YOU THINK THE FUTURE IS OUT OF YOUR HANDS, TAKE IT BACK

Funds might be overwhelmed with regulatory burden but the risks that others might change the industry for them means funds must focus on the needs of members and grasp the opportunity in change with strategies that:

- Place the needs of their members back at the centre of their strategic plans so funds remain more relevant to members than any alternative does.
- Explore outsourcing opportunities that can help funds remain focused on core objectives.
- Harness the potential in regulatory change to improve member experience and outcomes.
- Make a list of things they are not worrying about, and plan for those that matter, such as potential disruptors.

PRESSURE IS NOT CREATING DIAMONDS

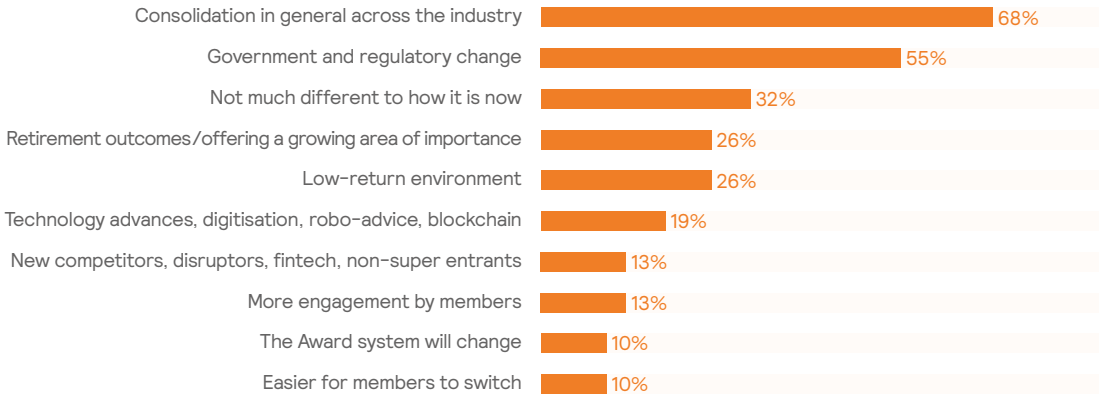
Despite regulatory and industry pressure to merge, funds are taking a wait-and-see approach rather than actively seeking opportunities that could benefit their members.

IT WON'T HAPPEN TO ME

It is interesting when an overwhelming majority predicts significant change, yet also predicts that this change will not happen to them — a classic case of denial. Among super funds, this is exactly their assessment of the industry — 68% believe there will be consolidation between funds, but just 13% expect it to be their fund.

This report suggests an industry at a fork in the road, and most funds are unsure which path to take. Some funds are waiting for others to choose, some are waiting to be told and others are just disengaged. This can be attributed to anticipated changes that are yet to occur and the pressing burden from increasing regulatory and compliance demands.

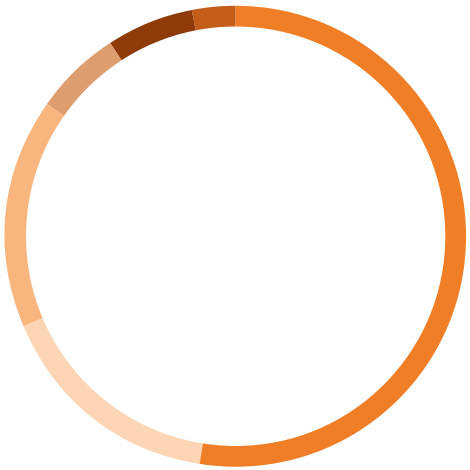
What Are the Top Drivers of How Super Will Look in 2020?



Source: Mercer 2020 Super Fund Executive Report, *2016*

Exhaustive discussion and confusion abounds within the industry regarding consolidation and how APRA will interpret the scale test going forward (the scale test was introduced in 2012), leading to significant uncertainty and some paralysis.

Do You Think APRA Will Enforce M&As?



Source: Mercer 2020 Super Fund Executive Report, *2016*

The central issue is that a pool of some 80 APRA-regulated funds face potential forced closure in the coming years, unless they merge or are acquired, in order to protect member investments. As a guide, these 80 smaller funds manage asset bases of around $1 billion on average per fund, with 60 of these managing less than $500 million in assets. Application of the APRA scale test represents an opportunity for acquisitive funds to target smaller funds either through acquisition, merger or with shared or outsourced service arrangements.

This emerging scale issue actually presents an opportunity for small funds to actively seek partners that can enhance member engagement, experience and outcomes. This might be through mergers, outsourcing arrangements or banding together in some

form of mutually-beneficial management arrangements under which members benefit from the best each partner has to offer (be it product, service, operations, investments or technology, etc). The survey revealed little evidence of this type of thinking from executives.

Worryingly, in contrast to dominant concerns about consolidation and regulation, major issues such as generating retirement outcomes, sustained low returns and technological change were not considered major influencers for funds leading up to 2020. Moreover, issues with significant potential to alter the very path of the super industry barely rated a mention, such as disruption from new entrants and fintech players, increasing member engagement and the increasing ability of members to switch funds with ease.

What Do You See as the Top Influencers of Your Fund?

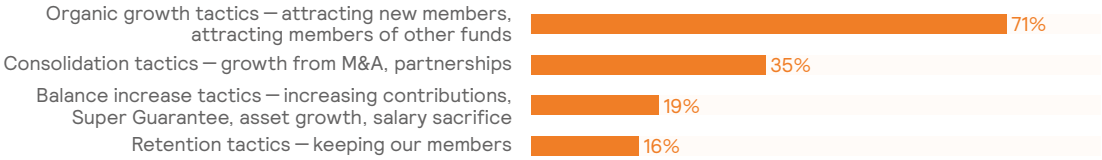
Source: Mercer 2020 Super Fund Executive Report, *2016*

When asked about their own funds, most survey respondents nominated government and regulatory change as the top influencer of their fund, just ahead of member experience and engagement, technology and investment returns.

EVERYONE'S A WINNER

In a market that says it expects consolidation to be the top driver of how funds will look in 2020, there is significant irony in the fact that most (71%) still expect organic growth tactics to be the largest source of member and funds-under-management (FUM) growth. In such a scenario, the assumption is that everyone can be a winner. This is a hard case to make when one fund's organic growth from building its member base is likely to come, in large part, from falls in the member base of another, assuming it seeks to grow beyond the net returns it is able to generate on assets.

How Will Your Fund Source Growth in Members and FUM to 2020?



Source: Mercer 2020 Super Fund Executive Report, *2016*

In a world where 68% of funds believe consolidation will dominate, 71% expect growth to come through organic growth tactics, with just 16% nominating retention tactics as a strategic goal. This is one of the surprise findings of our survey. If you look at it this way, one fund's organic growth must largely be a function of another fund's retention problems. Which fund will you be?

Most industries claim that it is cheaper to retain good customers than it is to acquire new ones. In super, the true value of existing member relationships is not just linked to their current balance, but also to their future contributions and their compounding investment earnings — a deep, long-term relationship. However, many funds don't seem to see the opportunity and potential cost-benefit in a focus on retention, in addition to growth.

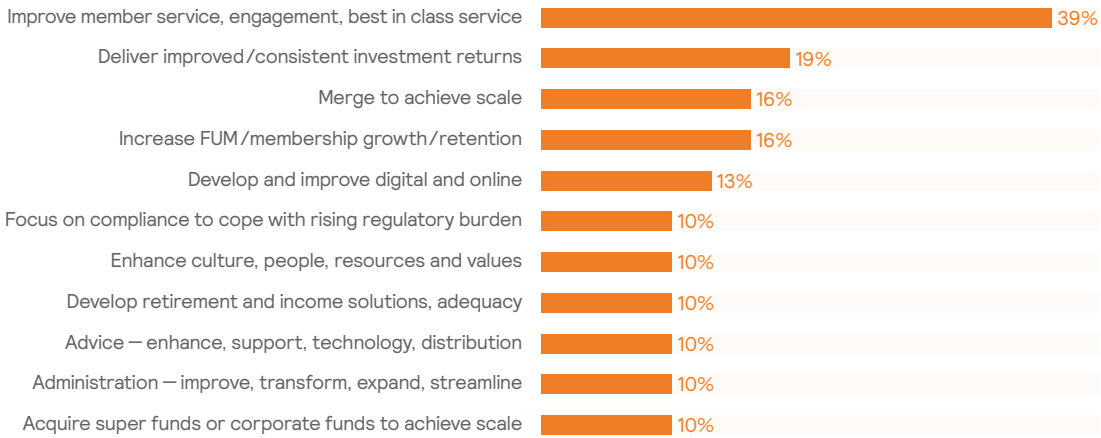
The irony is that the dominant worries like regulation and low returns are much harder to manage and change than the experience of members funds already have. We see more evidence of this problem later in this report when we look at retention strategies for large-balance members.

To compound the issues with organic growth, only a minority of funds expect growth in FUM to come from rising asset values. The pressure is therefore one to find growth, but it has to come from somewhere. Most likely it will come at the expense of other funds, and in this battle for members, not everyone can be a winner.

MAYBE LATER

When asked about their most important business and strategic goals, 39% of funds rated improving member engagement and service as their top priority. But although 68% of funds expect consolidation to be the top industry influencer, only 16% said that planning for this consolidation was an important goal for their fund. It seems funds think consolidation will drive the industry in the near term, but they are planning as if it will all happen later.

What Are Your Fund's Most Important Business Goals and Strategic Activities?



Source: Mercer 2020 Super Fund Executive Report, *2016*

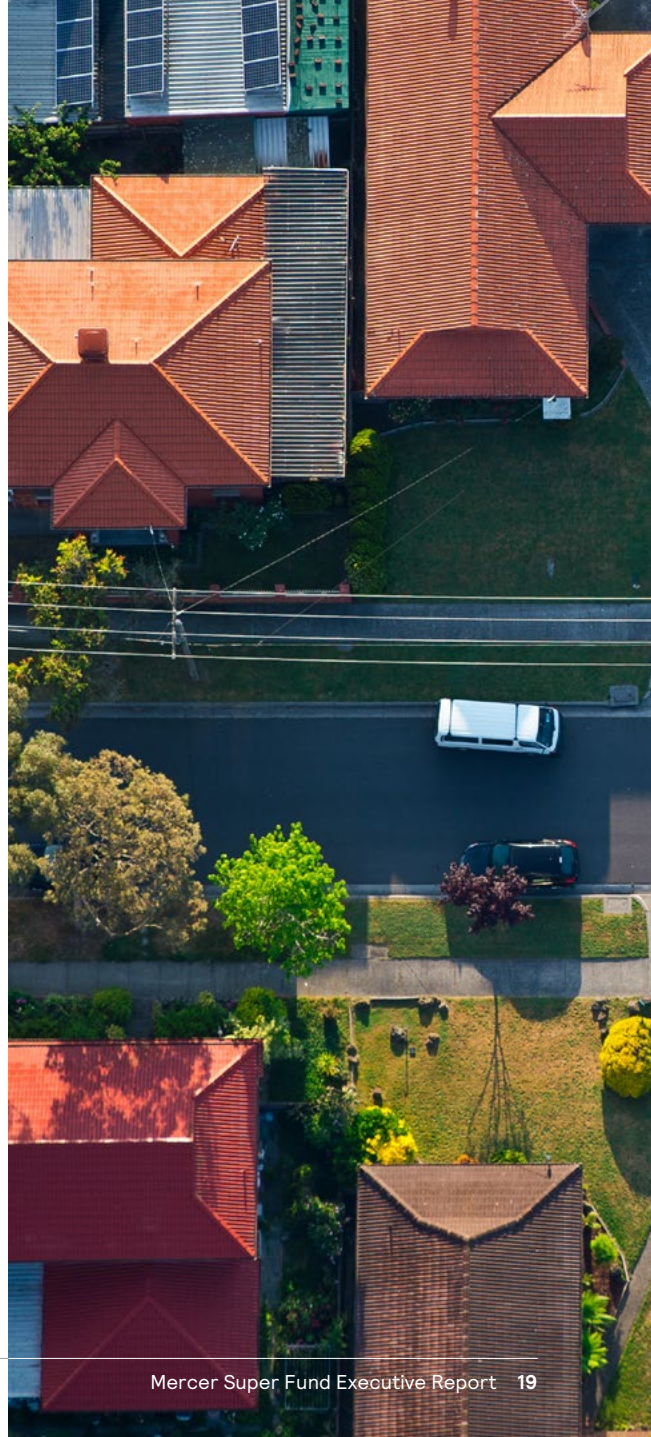
Just 16% of surveyed funds nominate consolidation as a strategic priority for their fund

Something has to give. The pressure from consolidation and regulatory burden is matched by an equally powerful reticence among funds to proactively start implementing realistic strategies to turn this pressure into successful consolidations that benefit their members.

LET'S TURN PRESSURE INTO DIAMONDS

The industry, and funds themselves, needs to take the pressures of change and develop winning strategies that:

- Open an honest, strategic dialogue within your fund about what type of development members really need — consolidation, independence, mergers, partnerships, outsourcing or a blend. Let the needs of your members guide your planning for the future of your fund.
- Build membership and FUM through an optimal balance of proactive M&A strategies, organic growth and retention. That might mean actively seeking to merge your fund, outsource some of your investment and services or a blend of these, all to improve your offering to members.
- Think beyond super to broaden fund activities in ways that leverage your unique capabilities and deepen your relationship with members through developing non-super relationships.
- Harness regulatory pressures to open up new opportunities and services for members and design for the opportunities regulatory change and consolidation brings. As in other industries, government regulation and policy change remains a constant, so the super industry needs to harness the pressure for the benefit of its members.



INNOVATION IN THEORY

Despite identifying longevity risk as a major challenge, fund executives do not seem worried about future providers servicing these needs for their members.

MEMBERS ARE RETIRING AND WE DON'T KNOW WHAT TO DO WITH THEM

A glaring omission in the strategies of super funds is how they plan to service their retiring member base, with 55% of funds reporting that they had no clear strategy for managing post-retirement members. (It should be noted that for some funds there may be no immediate need, especially with small-balance members who often draw their retirement savings in lump sums.)

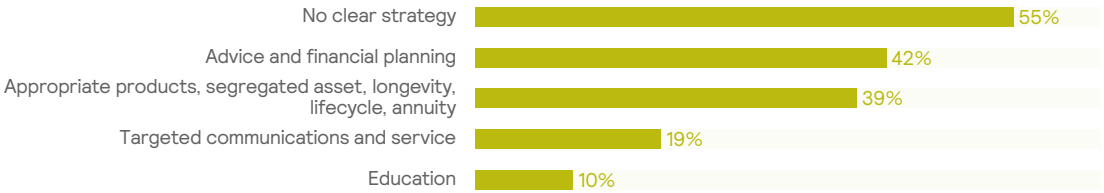
Post-retirement member needs are perhaps the most complicated in the super business, and they have become more complicated as investment returns have fallen globally. At a time in their lives when members want to take full advantage of the super wealth they have built over many years, the industry is faced with less viable options. Account-based pensions still service more than 90% of the retirement market, and like alternatives such as bank and term deposits, bonds and fixed income, annuities and other structured income products, they are struggling to deliver income at previous levels.

The growing risks that retiring members now face include: crowding into high-yielding equities, which in concentration introduces relatively unacceptable volatility and risk at this stage of life; yield-hunting, which can draw members towards risky, structured financial products similar to those locked up in the Global Financial Crisis; and a growing issue with leakage from the super system itself, particularly to real estate assets, about which members feel safer with respect to sustainability of income and stability of asset values — whether or not such views are well founded.

For an industry in which outflows are among the most complicated challenges facing funds, having a strong and executable strategy for servicing and retaining retiring members seems crucial. Unfortunately, meeting the needs of the post-retirement market looks to have been put into the "too hard basket". The super industry as a whole needs to heed the 2014 Financial System Inquiry and develop longevity and comprehensive income products for retirement (CIPRs) that actually match the longer lives members are living, and are flexible and provide appropriate levels of income.

As a channel for $2.2 trillion in funds, the industry needs to lean on product providers and fund managers to help design and deliver these solutions, otherwise the opportunity lies in funds themselves developing such solutions.

How Focused Is Your Fund on Post-retirement FUM?



Source: Mercer 2020 Super Fund Executive Report, *2016*

of surveyed funds have no clear strategy on how to service the needs of retirees and pensioners

FALLBACK OPTION FOR RETIRING MEMBERS A MAJOR LEAKAGE RISK FOR SUPER

One area that poses the significant risk of balance leakage with post-retirement members is financial planning and advice, yet 42% of surveyed funds nominated advice as their top focus for these members.

Of course, financial advice becomes especially important for post-retirement members for a range of reasons, including investing, income generation, asset and estate planning, succession and trusts.

Financial advisers need relevant products to meet the needs of members. With a dearth of products that can genuinely solve the needs of this segment, advisers necessarily look to alternatives such as direct assets and SMSF structures in the case of larger-balance members. In fact, it is their duty to find options that best suit each member. Funds need to be the ones with these options in order to retain their relationships with retiring members.

What Strategies Do You Have to Combat Leakage of Large-balance Member Accounts?

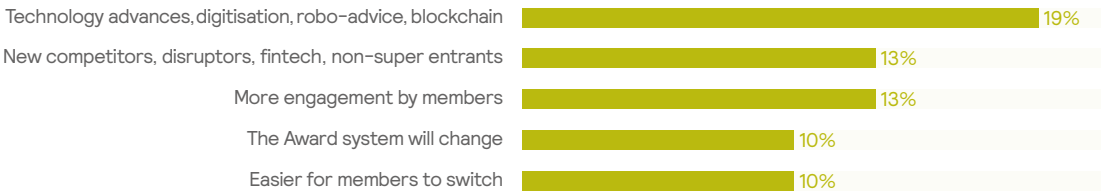
Source: Mercer 2020 Super Fund Executive Report, *2016*

Most disturbingly, when asked about large-balance account leakage, a fifth of surveyed funds admitted that they had no clear strategy. As with post-retirement, advice ranks as an important large-balance retention strategy for 29% of funds, with 35% looking to communication and service. Large-balance members need innovative offerings from super funds, otherwise the leakage to SMSFs and other product offerings beyond our funds will continue to grow.

FUNDS ARE NOT WORRIED ABOUT, OR PLANNING FOR, DISRUPTION

While the super industry worries about regulation and consolidation, funds are not looking at the potential for disruptors to change the business, with or without them. Only 13% of surveyed funds believe new entrants, disruptors and fintech players will drive how super looks in 2020. Even fewer (6%) see disruption as a concern in their list of fund risks.

What Are the Least-nominated Drivers of How Super Will Look in 2020 (Top Five)?



Source: Mercer 2020 Super Fund Executive Report, *2016*

Disruption can come from many directions. Fintech start-ups with small member bases are likely to be discounted by funds because of the significant barriers to entry in super — licencing, scale, cost, compliance, technology, service, etc. Yet such entrants could still attract significant numbers of members, and their assets, from established funds.

However, the power of fintech in the hands of much larger players is possibly the greatest disruptive risk for super — especially as such a large player could very well be an existing super fund that reaches a level of enablement using fintech that changes how the industry works, and potentially renders the business models of other funds as unsustainable.

Such an entrant could also be a non-super fund competitor; for example, an exchange-traded fund (ETF) provider that has a large balance sheet to back a technology-driven super offering. It could even be an existing super fund that disrupts itself because it sees the future as significantly different to the landscape of today, and seeks to exploit this opportunity.

Changing demographics are also challenging super funds. The ageing workforce rolling into retirement is stressing the system with fund outflow and demand for products that deliver income in a low-rate environment.

For youth, students and those starting out in the workforce, investment and super remains largely irrelevant, particularly when the primary concern for young people in Australia is how they will eventually purchase a home. The super industry needs to educate young people about the full power of lifelong compounding — and the supercharging benefits of additional contributions — to significantly enhance their financial futures. Disruptors will try and take the education initiative from existing funds in this gestational market space, to build a membership at their expense.

In addition, younger Australians are more willing to become customers of purely online or app-based businesses. Though the industry already possesses much of this digital capability, in the new fintech space, products are typically engineered with the customer experience at the core of everything. It is entirely possible for start-ups to meet the simplistic needs of young workers with small balances, using low-cost investments like ETFs, and mature alongside them to meet their needs over time — all free of the legacies the super industry often complains about.

The survey makes clear that funds are placing little time and effort in studying the risks of disruptors, let alone planning for these risks and designing their super funds to disrupt in their own way through innovation. Moreover, funds are missing out on engaging entire segments of the youth market — the very future of the industry.

MEET THE MARKET OPPORTUNITY BEFORE SOMEONE ELSE DOES

In business, if you don't meet your client's needs, there is usually someone else who will. Funds need to innovate to meet member needs, including:

- Design solutions that are member-research-driven, for young and old, and that last through wealth-building into retirement.
- Identify the risk of disruptors and embrace the ideas and technologies that make disruptors so compelling to members.
- Plan for disruption from inside and outside the industry — barriers to entry are no longer a protection for funds.
- Use the power of the industry's $2.2 trillion asset base to enlist product manufacturers and fund managers in creating innovative retirement income products that meet the life-long needs of members.
- Make retention an important tool for growth, by listening to what members have to say, to stem rollovers and reduce leakage.
- Innovate so that SMSFs and other competitors become irrelevant by offering more comprehensive and flexible options with the efficiency and security of professionally managed super funds.
- Connect with and educate young people in the market and create simple super products that meet their needs and can grow with them over time.

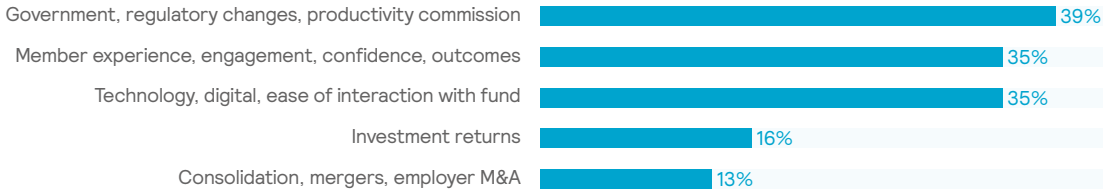
THE MEMBER IS BOSS

Funds see their future in delivering better member engagement and outcomes, suggesting retention issues are an ongoing concern for the industry.

FUNDS RATE MEMBER ENGAGEMENT TWICE AS IMPORTANT AS RETURNS

After government regulation, 35% of surveyed funds nominated member experience, engagement, confidence and outcomes as one of the top five influences of their fund's success. This is more than twice those who nominated investment returns as a top influencer.

What Are the Top Influencers of Your Fund?



Source: Mercer 2020 Super Fund Executive Report, *2016*

Surveyed funds rank member service,outcomes and engagement **(35%)** as twice as important as investment returns **(16%)**

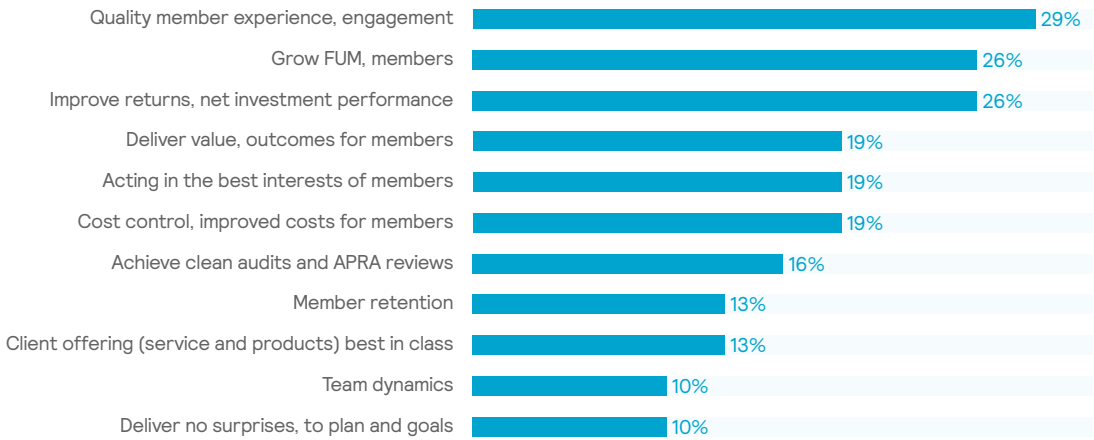
As an industry, financial services has lagged in terms of placing client research at the heart of design. This is largely to do with the traditional nature of financial services, particularly the fact that the industry is heavily mandated and influenced by legislation and regulation.

Super funds that look to meet the needs of members as influencers need to consider placing members at the centre of their research and strategic development. Switching funds is getting easier and disruptors are likely to look at mobilising member switching in order to create churn that develops their business opportunities. Members might be "sticky" with their current funds for now, but how long this remains the case is anyone's guess. What is certain is that as disruptors enter the industry, their primary focus will be on securing positive relationships with members so they can prise them from existing funds — truly understanding members and meeting their needs has never been so important for existing funds.

MEMBER ENGAGEMENT AND OUTCOMES NOMINATED AS TOP PRIORITY

A third of surveyed funds measure their success on quality member experience and engagement. In addition, a fifth of surveyed funds nominated delivering better value and outcomes for members, a fifth nominated acting in their best interests and a fifth noted the need to improve costs for members. It seems funds are well aware of the importance of meeting member needs and believe they will be measured on their success in doing so.

How Will You Measure Your Own Success as a Fund CEO/Executive for 2020?



Source: Mercer 2020 Super Fund Executive Report, *2016*

TECHNOLOGY AND ACCESS ARE AS IMPORTANT AS ENGAGEMENT

Technology, digitisation and ease of interaction with funds placed equal second as a top fund influencer. Funds are showing a commitment to members that they will improve, develop and enhance their experiences with technology.

The key risk here is in the very words used by the industry to ensure members remain at the heart of what we do — words like engagement, outcomes and experience. The industry is well resourced in researching service experiences.

Engagement, on the other hand, is a complicated idea that can be about interaction with the fund and also about how a member perceives what the fund is doing for them, now and into the future.

Outcomes, like engagement, can be readily used, but also readily defined in a multitude of ways; for example, as returns, total returns, experience, dollar-value achievements, inflation adjusted returns, the ability to fund your retirement or the "whole kit and caboodle" of financial outcome, experience and service, etc.

Fundamentally, members and their needs must be the core to funds' product and process. This is one area where disruptors could quickly catch funds out: in really understanding members and designing to their needs. Making this real, rather than just lip-service, will be the difference between success and failure.

LET MEMBERS GUIDE PLANNING AND SOLUTIONS

Members are the purpose of every fund, so put them at the centre of everything you do:

- Design for members with true member research, guidance and testing to ensure funds are meeting their needs.
- Put member outcomes, wealth-building and, ultimately, retirement income at the centre of fund strategy.

SURVEY METHODOLOGY

THE SURVEY

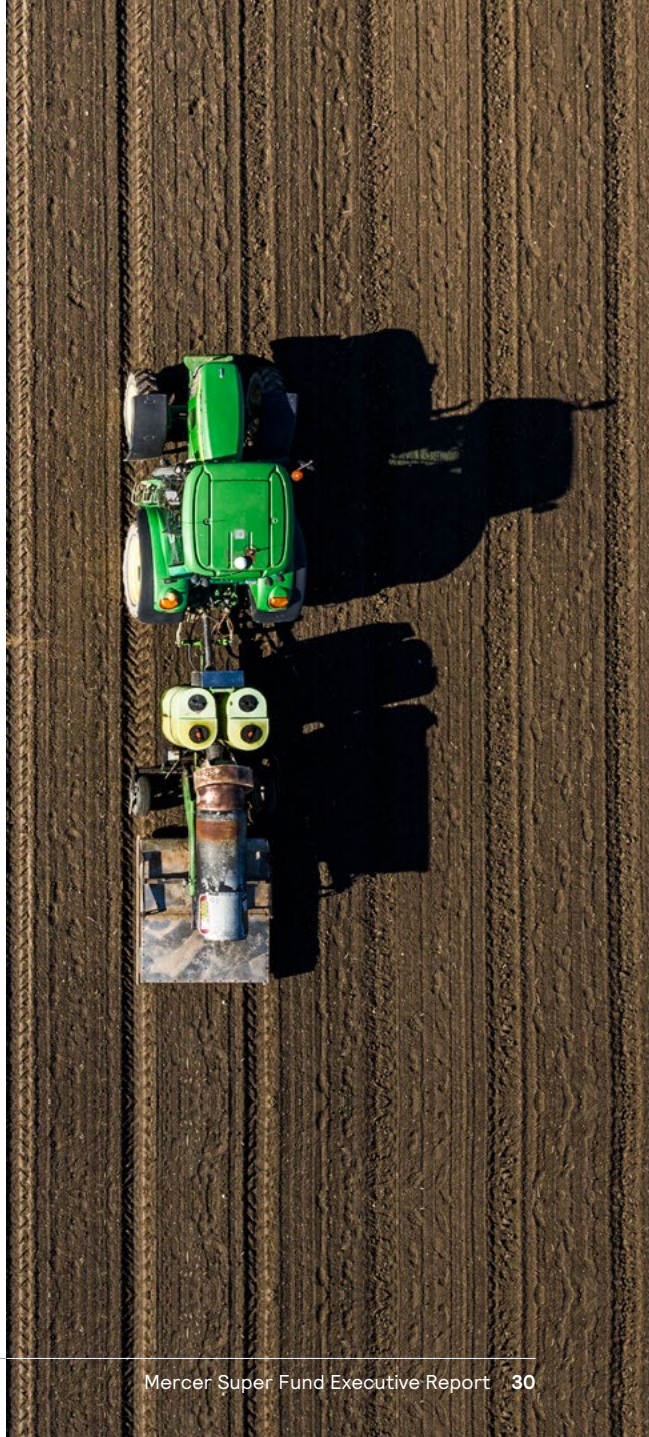
This survey was undertaken in Q4 of 2016 and is based on personal interviews with 41 fund executives from 31 funds, and included CEOs, COOs, CIOs and board members. These fund leaders manage large, medium and small super funds, and corporate and industry funds, and together account for over $112 billion in assets under administration, invested on behalf of more than 1.7 million individual members.

THE APPROACH

The time pressures faced by today's super fund executives are compounding as a function of the significant and growing demands of regulation, management, fund complexity, market challenges, deepening trustee responsibilities and an ever-evolving world of rapid-change technology and disruption. For this reason, and to be able to access as many super fund leaders as possible, one-on-one interviews formed the basis of our survey method, with a simple structured approach and a standard question list that was presented at each interview.

Interviews were captured and coded by Mercer and form the basis of this piece of original, qualitative research.

Qualitative, non-experimental surveys are excellent for sampling (random or by targeted selection) groups to gain a deeper understanding of variations in opinion, experience and views. They offer external validity and should be able to be generalised across the marketplace within reason. This survey approach is particularly relevant in terms of seeking to understand what is driving funds in their thinking about, and strategies for, members and super funds as we head towards 2020, and beyond.



ABOUT MERCER

In a competitive landscape that is subject to ongoing reform, superannuation funds need scale to survive. They need to continually evolve to meet the expectations of a technology- and data-driven world, and be able to engage, grow and retain their membership better than those around them.

We take a partnership approach to doing business, designing solutions that are tailored to a fund's specific needs, including:

- Products to help small and midsize super funds reduce costs, increase efficiency and deliver member outcomes, growth and fund sustainability
- A total administration and investment outsourcing solution that helps funds take charge of their member services without having to manage the infrastructure
- Fund-branded total outsourcing solutions that allow funds to maintain their identity and actively communicate with their members
- Advice and solutions to manage for the APRA scale test
- Simplification strategies that can improve cashflow, increase retention and improve business performance

At Mercer, we specialise in creating highly personalised retirement journeys that maximise financial outcomes for individual members. For funds, this means outsourcing as much or as little as they need to create cost efficiencies, more product and advice options, more investment options, less cost, less hassle and less compliance headache, and experienced support from Australia's longest-serving superannuation specialist.

We are proud to provide people-focused administration, investment and customer experiences for many of Australia's largest super funds and stand ready to work with the industry to provide the right solutions for tomorrow.

IS YOUR FUND PREPARED FOR THE FUTURE?

Mercer's unique outsourcing approach helps funds overcome scale constraints so they can focus on their core competencies. Visit **mercer.com.au/2020** and book your appointment with a specialist Mercer consultant. We'll work closely with you to define your objectives and identify the right commercial pathway for your fund.

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