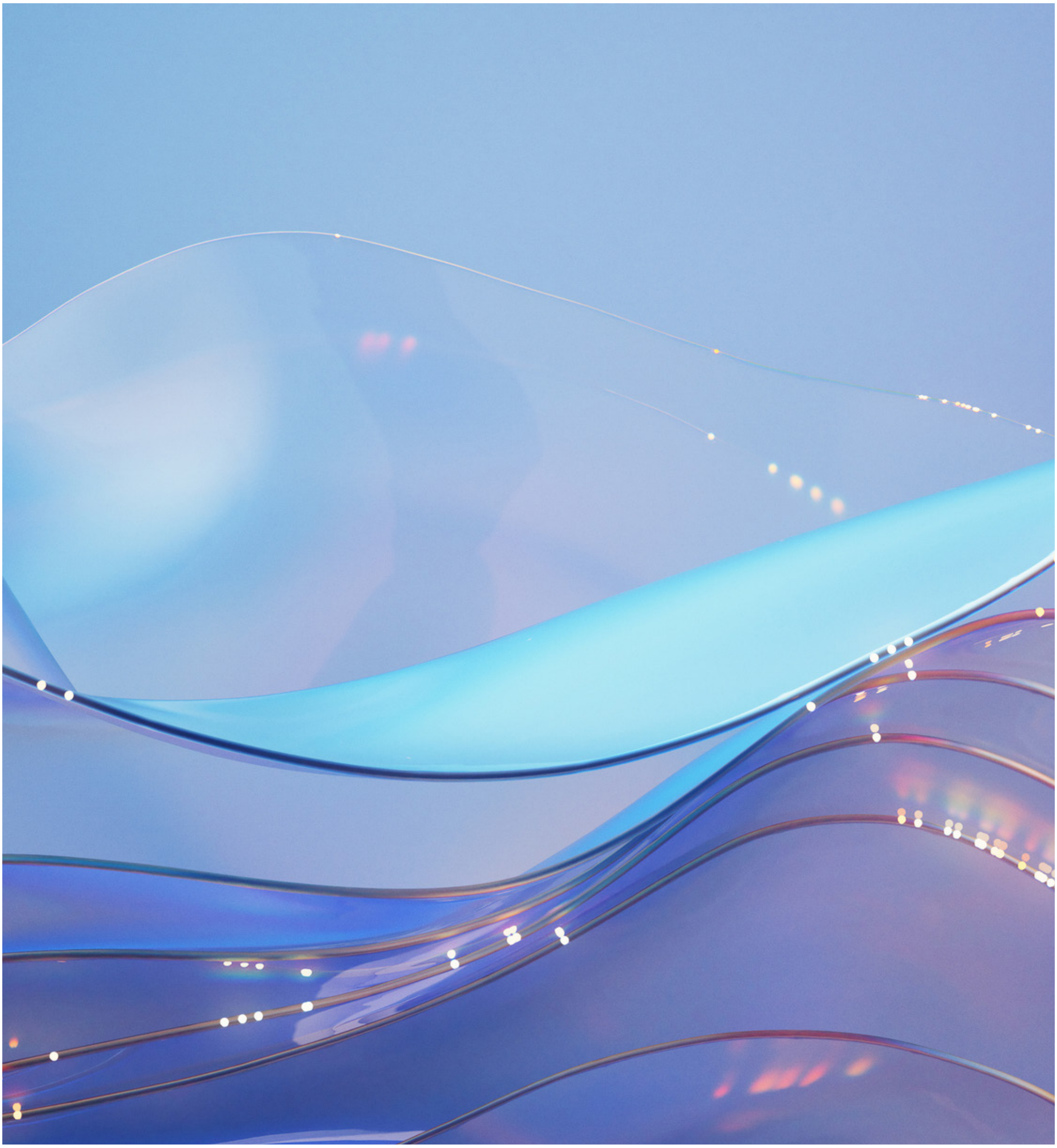
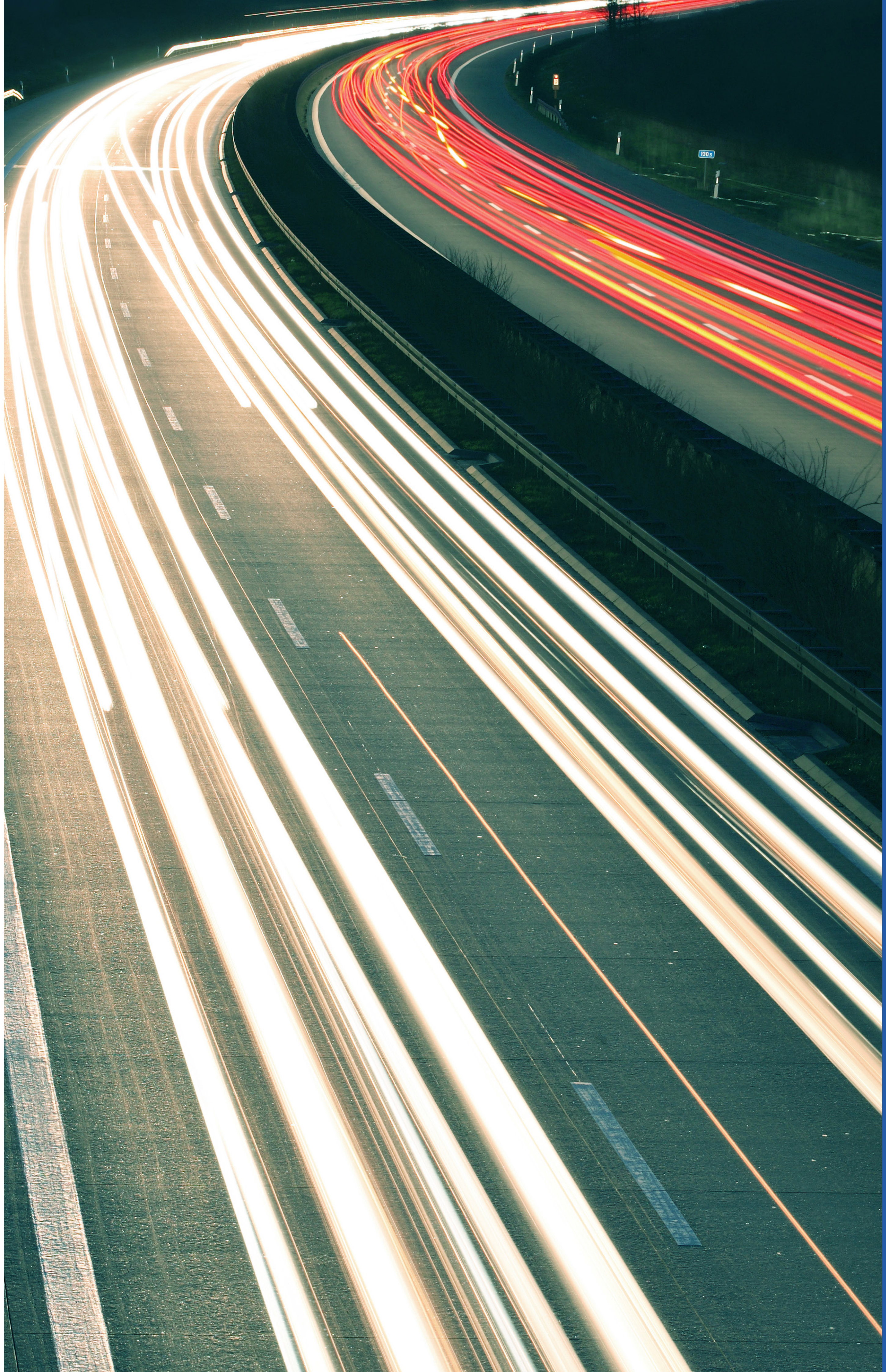
WHY NOW IS THE TIME **FOR SUPER FUNDS TO IMPLEMENT DIGITAL ADVICE**

bravura solutions





INTRODUCTION

Superfunds have played a central role preparing Australians to fund their retirement lifestyle.

But as super balances have grown and the retirement system has become more complex, a large super balance is no longer enough – people need confidence to know how best to invest and spend their super and personalised advice at scale can help.

Super funds are in prime position to meet that demand as people increasingly turn to the brands they trust the most to help guide them on their retirement journey.

But providing advice presents a different challenge for funds. Building assets under management is naturally scalable; by way of contrast, the reach of traditional face-to-face financial advice is limited and unlikely to meet the needs of all Australian's nearing or entering retirement.

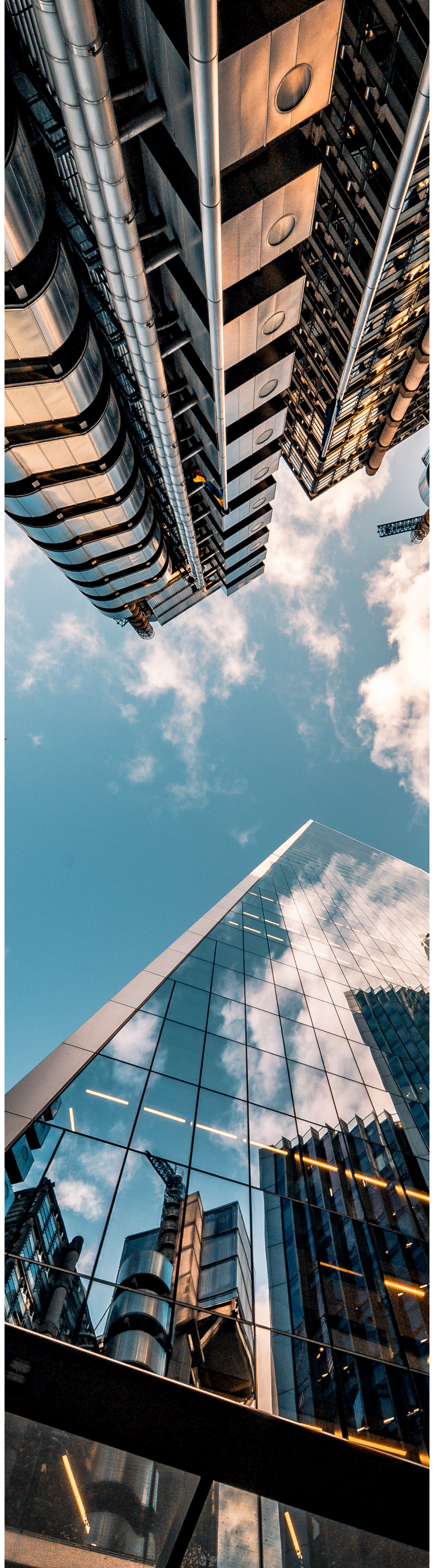
Funds are expanding the ways they help members, creating omni-channel advice experiences – whether digital or in-person – that answer a wider array of questions and reach more members.

The introduction of advice offerings is not just in response to rising demand but a natural extension to education and information and at the same time a response to regulation that is pulling funds towards the same end point.

A suite of changes implemented through the Your Future, Your Super reforms have also increased competition, creating a greater need to build relationships between funds and members and the Retirement Income Covenant provides a legislative responsibility to help guide members through retirement.

These regulations have created dual pressures: funds are at risk of losing members just before retirement (depending on the quality of external financial advice they receive) and they are at risk of attracting fewer new members to replace them (as fund stapling ends automatic account opening).

Digital advice is a key part of the solution, but the nature of digital advice has changed. It is now more intuitive to use and being deeply integrated into fund operations. It is a key to their future success.



GROWING DEMAND **FOR ADVICE**

Australians own the fifth largest pension market in the world[1] with $3.3 trillion in retirement assets.

But navigating this complex retirement system is no small feat. The quality of retirement lifestyles largely rests on three pillars: superannuation, home ownership (the largest form of private savings), and the Age Pension.

Given low levels of financial confidence, most retirees underspend, lowering their standard of living[2]. It is an understandable response given no-one can know with certainty how long they'll live, how much money they'll need (including to fund future health or aged care), and the level of investment returns.

"The role of the super fund is changing," says Jason Tong, Head of Product & Propositions at Bravura Solutions. "A much larger proportion of the membership base will be in retirement and drawing down, which means the need for advice grows. The needs of retirees are far more sophisticated from an advice perspective than younger people early in in the accumulation phase."

Australians recognise the complexities of retirement and know they need financial advice.

An ASIC survey in 2019 found that 66 per cent of Australians intended to get financial advice in the future compared to just 27 per cent who had received financial advice previously[3]. An FSC report[4] in early-2021 found 42 per cent of Australians said they were interested in financial advice.

Yet most never follow through.

TRADITIONAL ADVICE BARRIERS REMAIN IN PLACE

Through the public eye, the financial advice industry has a potted history; however it is now reaching a more mature state as it evolves to a profession. That legacy has left obstacles in place which have made quality advice inaccessible to most members.

"Barriers against seeking advice include cost, small finances and lack of trust," according to the government's Retirement Income Review[5]. The paradox is that for many Australians they don't believe advice is for them as their net wealth does not justify advice today.

The high cost of advice remains a significant issue for many. Copious regulations and consumer disclosure documents aimed at raising standards have largely made financial advice the preserve of wealthy investors.

Three years ago, more than one-third (35 per cent) of Australians said the cost of financial advice was too expensive, according to ASIC[6]. Since then, the cost of a typical financial plan has increased significantly, with the median advice fee up 41 per cent since 2018 to $3529, according to research by AdviserRatings[7].

It is not just retirees who are desperately in need of advice – younger generations are increasingly turning to finfluencers[8]. In 2021, an ASIC survey found that 33 per cent of 18-21 year-olds follow at least one financial influencer on social media. A further 64 per cent of young people changed at least one of their financial behaviours as a result.

While the government's Quality of Advice is likely to extend the reach of advice by supporting increased digitisation of advice and participation from superannuation funds, there are other ways forward. Funds are using technology to find smarter ways of reaching a mass market with quality advice.

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Bravura sees the Quality of Advice Review Proposal a welcome step towards improving adviser and consumer experience[9].

As outlined in our submission to the Quality of Advice Review Proposals Paper consultation, we believe the proposed shift to regulate the outcome of advice rather than the process – with a focus on providing 'good advice' – is a more effective way to serve consumer needs. This will facilitate innovation around how advice is provided, with technology pivotal to enabling this innovation and achieving the objectives of this review.

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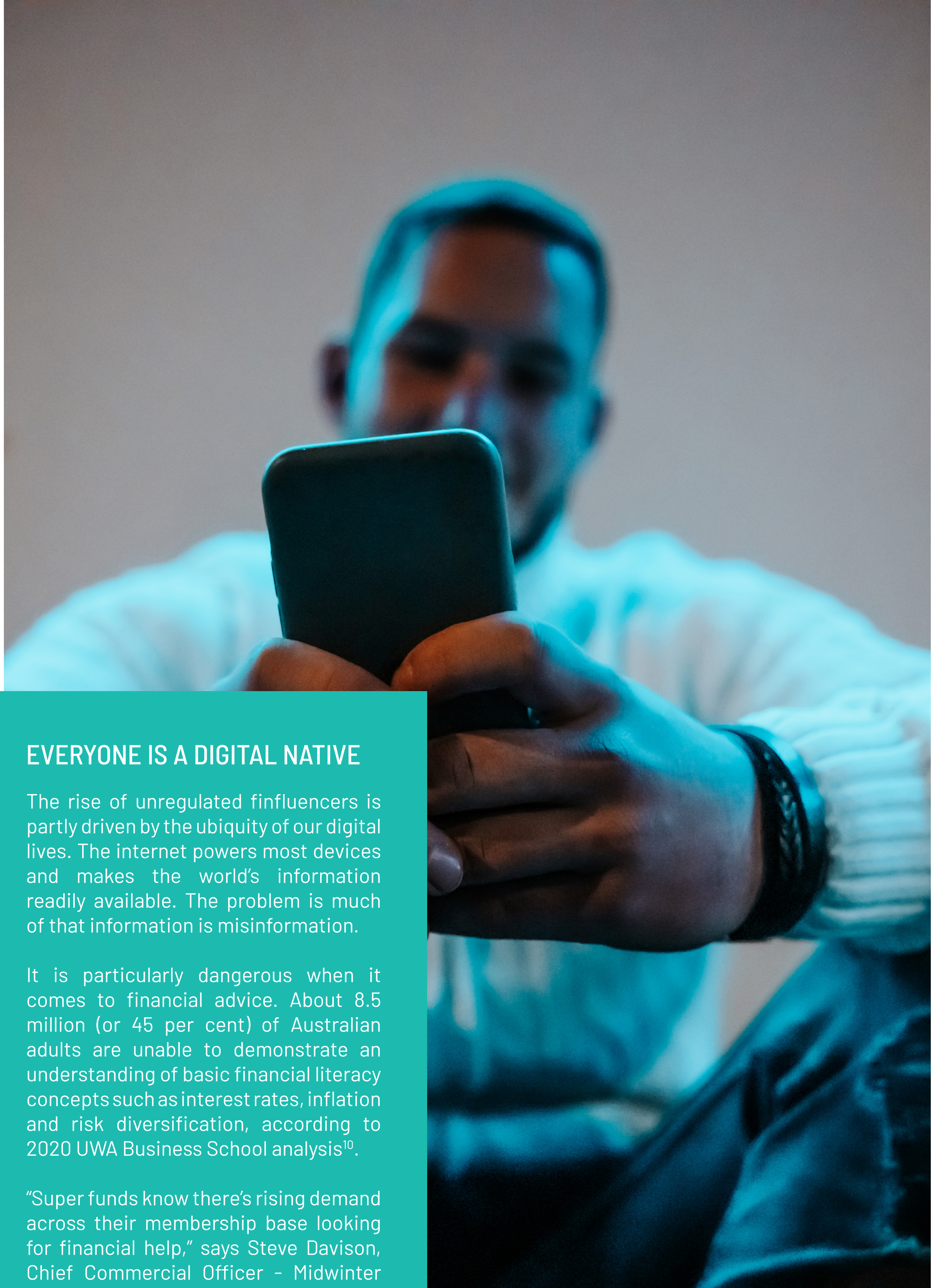


EVERYONE IS A DIGITAL NATIVE

The rise of unregulated finfluencers is partly driven by the ubiquity of our digital lives. The internet powers most devices and makes the world's information readily available. The problem is much of that information is misinformation.

It is particularly dangerous when it comes to financial advice. About 8.5 million (or 45 per cent) of Australian adults are unable to demonstrate an understanding of basic financial literacy concepts such as interest rates, inflation and risk diversification, according to 2020 UWA Business School analysis[10].

"Super funds know there's rising demand across their membership base looking for financial help," says Steve Davison, Chief Commercial Officer - Midwinter at Bravura Solutions. "A member may not differentiate general or personal advice - they just want help. Funds need to consider how to do provide frictionless help."

Most funds are now on a digital transformation journey, given digital solutions are being adopted up to 25 times faster than before the COVID-19 pandemic, according to McKinsey[11]. More than 80 per cent of customer interactions could move to digital in the future.

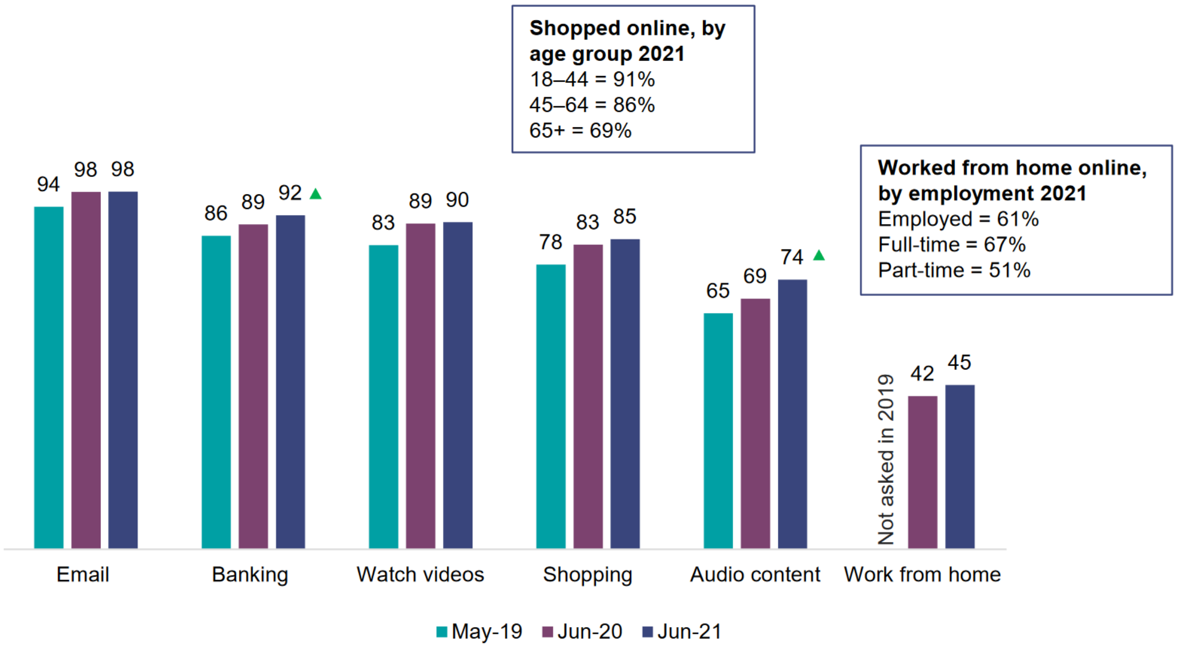
A 2019 ASIC report on what consumers think about financial advice found that only 1 per cent of survey recipients had received digital advice yet 19 per cent were open to it[12] – a figure likely to have risen substantially in the wake of the pandemic.

"The goal is to provide a digital experience for members that looks like the rest of their digital world," Tong says. "Everything else in the digital world is real time – including banking – so super should be as well."

Many young Australians have never been into a bank branch. Around 92 per cent of young Australians now go online to do their banking and other common activities, according to research by ACMA[13]. While older Australians still lag those figures, it's not by much.

Almost all (98 per cent) of older Australians aged 55 and used the internet for a range of activities in the first half of 2021 – well up from 76 per cent before the COVID-19 lockdowns in 2019[14].

ACTIVITIES PERFORMED ONLINE BY INTERNET USERS IN THE PAST 6 MONTHS (%)



▲▼ *Significantly different to prior year at the 95% confidence level.*
See ACMA annual consumer survey questionnaire for full description of each category.
Base: Australians aged 18 and over who accessed the internet in the past 6 months: 2019 (n=1,991), 2020 (n=1,984), 2021 (n=3,549).
Source: ACMA annual consumer survey. QD8 Please indicate whether you have done any of the following in the past 6 months at home or elsewhere.

DIGITAL ADVICE IS SET TO HELP TELSTRASUPER MEMBERS TOWARDS **A BETTER RETIREMENT**

TelstraSuper was one of the first among the corporate and profit-to-member fund sector to launch a fully licensed financial advice arm in 2002.

That need for advice has only grown over the years with the average member now almost 50 years of age and with a healthy average balance of almost $290,000.

“We’ve got a lot of members that can get tremendous value out of financial advice services, which is why it’s such a big part of what we do as a fund,” says Telstra Super Chief Customer Officer Tim Anderson.

TelstraSuper Financial Planning now employs 22 advisers who offer comprehensive personal advice. Several more advisers now provide simple and limited advice, helping answer about 20,000 queries from members each year, ensuring the fund’s advice offering is no longer one-size-fits all.

“There’s a lot we’re doing to build awareness and create ways in which members can start that advice journey themselves,” says TelstraSuper Head of Practice Operations and Responsible Manager, Michael Gilmore. “Then they can choose either a low, medium or high-touch advice solution depending on their needs and level of engagement.”

Strengthening its digital advice capabilities is key to making that vision a reality given the fund – despite ongoing investment – still has about one adviser for every 3000 members.

It already offers a wide range of on-line calculators and engagement tools and is now rolling out more comprehensive personal advice (which is accompanied by a digitally-generated Statement of Advice).

“We see that digital advice being a key starting point in the journey,” Anderson says. “But our expectation is that it is exactly that – a starting point. Members will have lots of questions as part of their retirement journey so we’ve built specialist guidance teams that can drop in and help members as they navigate through those kinds of questions.”

The outcome is more members will receive advice and engage with the fund, ultimately leading to a better retirement lifestyle.

“There’s an opportunity to engage more with members who have only ever used the fund’s app or secure portal. Once we start that journey, we expect we’ll be talking to members more often – perhaps members that we’ve never spoken to before and ultimately, that’ll lead to more members getting comprehensive advice.”

While TelstraSuper members view the fund as a key benefit of working for Telstra, recent legislative changes, such as the Retirement Income Covenant and fund stapling, have underlined the need to form an even closer bond.

A keyway to do this is to learn more about members by integrating advice across systems. A TelstraSuper adviser can now automatically pre-populate their Midwinter platform with the member’s details straight from the fund’s registry.

“When you put together the advice experience in any form – where members are telling you a little bit more about themselves – with the information we’ve got on them and through our superannuation system, then we start to build a much richer picture of our members,” Gilmore says.

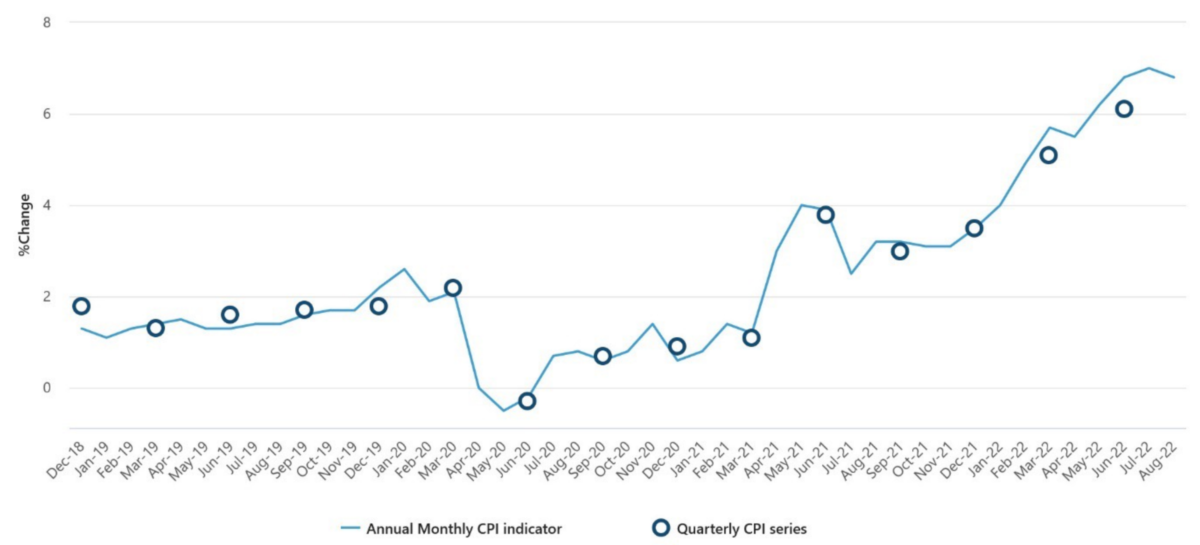
TelstraSuper

THE NEED FOR ADVICE RISES AS THE **ECONOMY BECOMES MORE CHALLENGING**

A rising number of Australians are struggling with soaring living costs, underlining the need for financial advice. While the COVID-19 downturn prompted the first recession in a generation, massive fiscal and monetary stimulus also underpinned the fastest recovery in history.

Unfortunately, it also helped revive inflation, which has been made worse by global supply chain issues and geo-political conflicts.

WEIGHTED AVERAGE OF EIGHT CAPITAL CITIES – ANNUAL MOVEMENT (%)



Source: Australian Bureau of Statistics, Monthly CPI indicator rose 6.8% in the year to August 29/09/2022

In response, central banks around the world have quickly hiked interest rates. More than 90 per cent of Australians have seen their household expenses increase over the past year while almost one-quarter (23 per cent) of households are struggling, according to a June 2022 survey by consumer group CHOICE[15].

The average homeowner with a mortgage is now paying $687 more each month than before the rate rises started in May 2022, according to an analysis by RateCity[16].

"The largest asset that most Australians have is their home, followed by their superannuation, but what's often lost in the conversation is that often the largest liability they have is their mortgage," Davison says. " There's been about a 15 per cent increase in the number of people retiring with debt according to the last Census and arguably members that get help and guidance are likely to have better retirement outcomes."

The RBA's ongoing rate rises – the fastest pace of increases since 1994 – are also pressuring investor portfolios. Most major asset classes barring cash and infrastructure were pushed into the red over the year to September 2022. The median balanced super fund lost 0.5 per cent in August and 3.8 per cent over the previous 12 months according to SuperRatings[17].

These pressures are not just changing the way Australians live today – they are reshaping the plans they need to reach their future financial goals.

They need good, affordable advice now more than ever.

REGULATIONS RESHAPE RETIREMENT **SECTOR AND DRIVE COMPETITION**

Australia's superannuation sector is being constantly reshaped by regulation. The Your Future, Your Super (YFYS) package, which began mid-2021, has prompted one of the biggest changes.

More than a dozen funds have merged after failing the regulator's new investment performance test. A smaller number of larger mega-funds are starting to dominate the retirement landscape.

KPMG expects just eight mega-funds to each manage more than $125 billion in funds under management each by 2025. This growing scale is allowing funds to lower fees and invest more in member-facing services.

While the investment performance test has attracted headlines, fund stapling is also changing the relationship funds have with their members. The regulation links a fund to an employee for life (unless they choose a new fund).

Funds can no longer rely on a steady flow of new members when they start a new job because super fund accounts aren't automatically opened. Retention and engagement of existing members is far more important in this environment.

While helping retiring members is key for funds, there is also no denying that losing retirees can have an operational impact on a fund's long-term viability.

"Advice will play an important role in helping members at, and through retirement. Done well, this translates to member retention," Davison says.

RETIREMENT INCOME TAKES PRECEDENCE

The Retirement Income Covenant, which began mid-2022, now requires funds to help members plan for their retirement income needs.

"It's no longer just about accumulation, but about securing a better retirement outcome," Ron Mullins – Head of Enterprise Sales APAC at Bravura Solutions, says. "Funds are wanting to provide tools, engagements, and brand recognition to advisors to help them support their members."

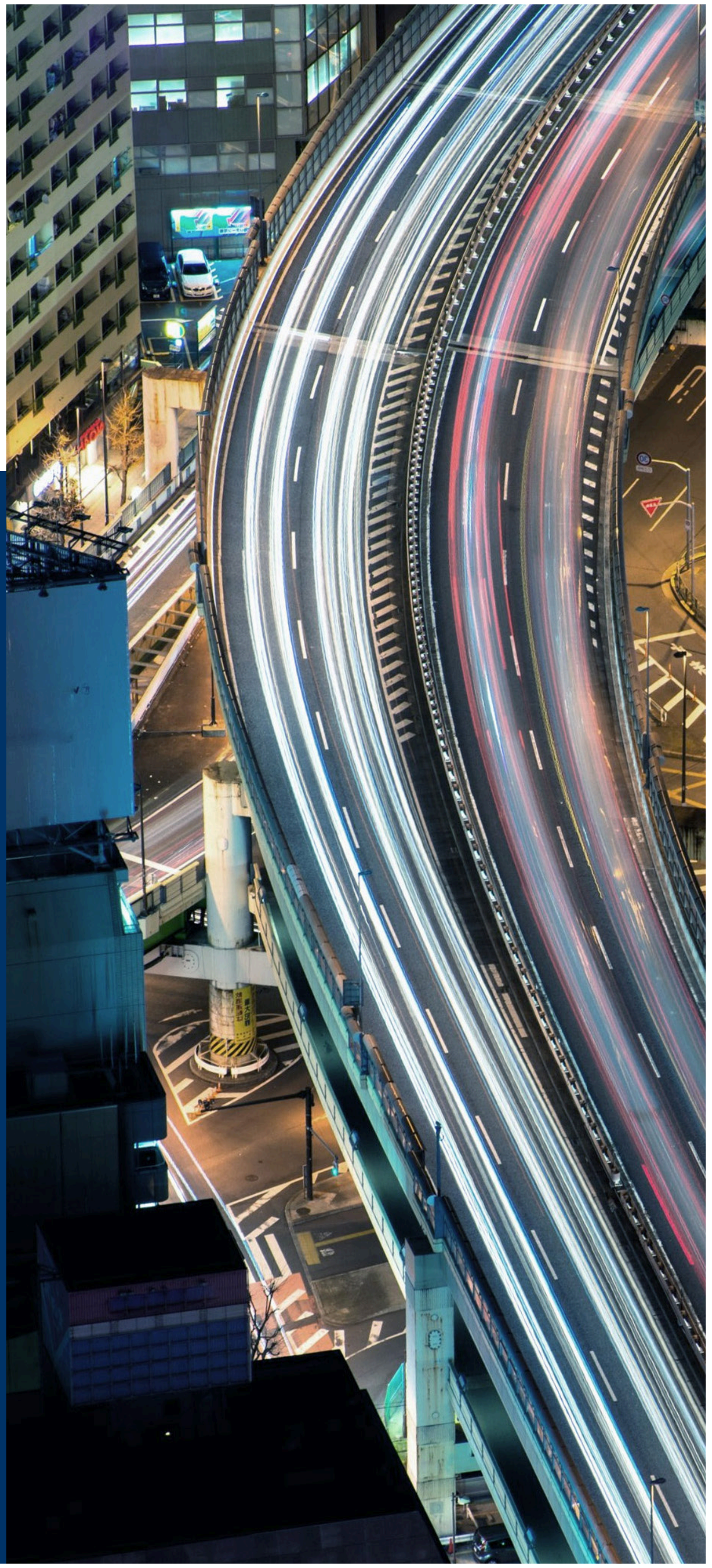
To improve members' retirement income, funds will need to understand and segment members by retirement income needs and help them maximise income and certainty while retaining flexibility.

It will lead to more comprehensive retirement solutions, including new tax-effective products that go beyond allocated pensions or annuities. However, given the inherent complexities of such products and the retirement phase, their benefits will only go so far without advice.

"A lot of the media discussion around the Retirement Income Covenant has been focused on product innovation," Mullins says. "But the product innovation will actually be a very small set of what the solution is – financial advice will ultimately be a bigger part to help funds meet the Covenant's obligations."

This suite of regulations are spurring greater engagement through digital tools and advice as the government finalises its Quality of Advice review, which could also turbocharge the reach of financial advice.

HOW A FUND CAN MAKE ITS DIGITAL **ADVICE JOURNEY A SUCCESS**



The impact of these forces – new regulations driving competition, the inherent complexities of retirement, and growing demand for advice – can't be resolved easily. It takes leadership, great people, honesty, discipline, and technology[18].

Super funds' relationship with tech is being transformed as they take more control of the member experience by bringing services in-house. Digital advice is becoming a key component that is creating a stronger relationship with members while improving their retirement.

It marks a new maturity in the digital advice sector which had its origins with simple stand-alone robo-advice businesses.

"We've seen a host of disruptors, so called FinTechs, establishing robo-advice style propositions, and most of them discovered that their narrow proposition didn't meet consumer needs leading to high marketing costs exceeding their working capital" says Davison. "Today the proposition is broader and tested with consumers, and super funds have the member base to license technology that's been tested across multiple forums and apply it to their own differentiated propositions."

It is a crucial difference given super funds' importance to Australians and the unique challenges funds face. Technology needs to automate and underpin digital advice, while being embedded into funds' traditional technology, such as registry. At the same time, overall costs need to be kept low to meet consumer expectations and regulatory obligations.

MAKING A START

Building digital advice capabilities often starts with simple tools and calculators on a fund's public website. The actuarial engines that power these calculators should be the same that sit behind fully-fledged personal advice. It offers an immediate uplift in engagement and helps members make better decisions and capital market assumptions. These calculators can start members on the path to solving common questions such as 'Will I have enough when I retire?'.

This can form the foundation for more sophisticated self-directed digital advice journeys, which lead to actionable advice from within the member portal. This is the realm of personal digital advice. In its simplest form guiding a member through a risk assessment journey that could, for example, lead to a change in investment strategy. In a sophisticated form guide a member through a transition to retirement strategy.

The biggest leap forward is embedding this actionable advice seamlessly into the fund's operations. There should be no manual forms and a member should be able to execute the advice at once (if they choose to accept it).

When the advice system is embedded into the registry and across the fund's entire systems, this can be done easily – and what's more, members now expect that functionality. Whether it be rebalancing a portfolio to align with a risk profile questionnaire to moving funds from accumulation to pension and re-setting contribution levels.

"If you're not in control of the transactional part of advice, your ability to engage with your member will reach a limit," Tong says. "You can have a wonderful digital experience, but if you can't actually do something with the end result it can still become a frustrating experience."

COST AND EFFICIENCY BY TREATING PROCESSES AS A SERVICE

Funds have relied on traditional outsourcing to manage costs and keep up with technology – but the cost has been control, particularly around the member experience. At its worst, it can embed inefficiencies in a fund, particularly if those services are charged on a transaction basis but performed manually.

A more cost-effective way to benefit from the expertise of a technology provider is to treat a business process as a service (BPaaS) that is embedded across the fund's systems. BPaaS is a cloud-based technology solution that delivers business transaction processing on an outcome basis, rather than employing people to perform repeatable functions.

As part of a genuine digital strategy, it can remove many current manual processes, creating a better member experience that costs less because it is more efficient.

"Gone are the days of producing a Statement of Advice that gets hand-signed with wet ink and gets re-keyed into the system once it's ready to be executed," Tong says. "The whole process can be automated. The adviser and the member can participate in that process, understand where it's at, and give digital consent as necessary for the advice to be executed, as part of a real time digital experience."

Bravura's superannuation administration platform Sonata Alta allows funds to take more control of the services that they provide to members. Rather than traditional outsourcing, Sonata Alta enables operational efficiency through exception-based administration and straight-through processing and can help super funds adopt digital advice technology as an integral part of their member experience.

"Given the current landscape and our experiences, this is where digital advice should now sit," says Mullins, – "as a fundamental part of super fund services. "The ongoing rollout of new regulations, which show no sign of slowing, is driving competition to new levels and forcing uncompetitive funds with tenuous member relationships to merge. Members are desperate for further guidance as higher interest rates are curbing their lifestyles and retirement expectations. They are turning to their super funds as experts in retirement but are all too often met with a poor digital experience."

Now is the time to fast-track the shift to digital by incorporating advice into a fund's operations, laying the groundwork for its future success and a better retirement for members.

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FOOTNOTES

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ABOUT BRAVURA SOLUTIONS LIMITED

At Bravura, software is at the heart of everything we do. We develop innovative technology solutions that power the world's leading financial institutions.

We are driven by our corporate purpose – to make our customers successful. We do this by developing innovative cutting-edge software solutions that become the vital administration engine powering businesses across the wealth management and funds administration sectors.

With over 30 years of experience and A$5.7 trillion/US$4 trillion/£3 trillion in assets entrusted to our systems, our next generation software solutions help clients:

- increase operational and cost efficiency
- enhance their ability to innovate and grow, and
- minimise their risk, and
- enable them to provide an enhanced level of customer service.

Our ever-expanding team of over 1,500 people in 17 offices across Australia, New Zealand, United Kingdom, Europe, Africa, India and Asia, supports a rapidly growing customer base.

Using our global scale and local expertise, combined with our innovative modern technology, Bravura helps power and transform the world's leading financial services businesses, today and for the future.

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