

Operating Model Transformation

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The Superannuation sector is transitioning through a period of significant disruption and consolidation, resulting in a need to examine the impacts on operating models.

The superannuation industry has witnessed rapid change over recent years, with significant levels of reform across the regulatory and legislative environment. This has resulted in heightened merger activity and fund consolidation.

Regulators have shifted reforms towards providing greater transparency and information to members, with an increased emphasis on 'choice', ensuring that "members have the right to have their savings in well-governed and high performing super funds".

An increased focus on the best financial interests of members, operational efficiency and sustainability, and investment performance has created additional pressure. This is amplified by mounting competitive pressure as the emerging mega funds pull away from the pack, realising scale efficiencies and competition intensifying.

At the same time member expectations are changing. Members will want better experiences and ease of engagement with their fund.

These factors have contributed to increased and new complexities across the sector and the emergence of 5 key market thematics. These thematics can be seen as **drivers for change** for superannuation funds with clear impact to, how super funds have traditionally operated:

1. Reference: APRA Margaret Cole speech to the AIST conference of major superannuation funds 7 September 2022)

	Mergers & Consolidation	Industry-wide consolidation has been driven by a maturing regulatory environment and business model sustainability
	Evolving Retirement Market	With a significant proportion of Australia's population entering the drawdown phase of retirement, there is a gap in the current market's product offering
	Member Retention & Acquisition	Ability for funds to engage with customers at key moments throughout the customer journey (e.g. first job, changing jobs) has become increasingly important
	Shifting Member Expectations	Increased member demand for shift towards convenient and personalised digital experiences (enabled through data & technology)
	Digital & Value Chain Disruption	Funds are increasingly looking to implement member-centric operating models in response to regulatory expectations and member demands
	Insourcing / Outsourcing	A focus on continuous improvement, strong member outcomes and operational <u>risk based</u> assessments, drives the need for strong monitoring and oversight of outsourced providers

In light of these thematics, super funds have an imperative to look at how their operating models need to transform to ensure that they can continue to deliver quality outcomes to members and are fit for the future. For funds to remain competitive and sustainable, they must identify opportunities for growth, retention and innovation with a core focus on member-centricity.

Operating model transformation

To respond to disruption and evolving member expectations many funds will need to revisit their operating model.

KPMG applies a three-step approach to delivering operating model transformation in the superannuation sector, which is underpinned by a strong trustee decision-making framework anchored on the best financial interests of members.

Trustees must demonstrate that they have strong systems and processes in place to point to evidence of how they acted and make decisions appropriately, with a critical evaluative lens on decision-making inputs, and strong documentation of key considerations and rationale, and in accordance with their best financial interests obligation.

To respond to disruption and evolving member expectations, many funds are revisiting their operating model

KPMG's approach to Operating Model Transformation in the Superannuation sector

STEP 01 Define future state aspirations ...

- Develop a clear strategic intent for the fund that reflects on the fund's current market position and which sets an achievable vision for the future which focuses Trustee decision-making on the delivery of quality outcomes for members.
- In particular, strategic planning should be actively driving a culture of continuous improvement, accountability and transparency.

STEP 02 Translate aspirations to future state capabilities ...

- The capabilities required to deliver on the firm's aspiration. What capabilities need to be **established or enhanced**?
- Reviewing existing capabilities across the value chain provides a means of considering the end-to-end model and reflecting on what is working well, and what could be improved.
- Increasingly technology is a **key enabler** to power up capabilities

STEP 03 Define key decisions which will define the future state ...

- Typically funds face a number of strategic operating model questions. Defining and addressing these questions supports the development of a conceptual Operating Model. Detailed design should only proceed once these key decisions are made.
- KPMG's 6-design layered **Target Operating Model Framework** provides a means for thinking through key design options and decision points, and for implementation planning.

Adopt a strong trustee decision making process anchored on the best financial interests of members

- Ensuring that a decision around the fund's evolving operating model is in the best financial interests of members is paramount.
- Our decision-making framework enables trustees to adopt a structured approach to decision-making to help critically evaluate the insights and evidence central to determining if the proposed path is in the best interests of members.

Step 1: Define future state aspirations

The first step is to define the funds future state aspiration. A clear strategic intent for the fund which sets an achievable **vision for the future** is critical to support a differentiated value proposition and to inform operating model design.

Additionally, a well understood strategic intent, reflected in the fund's business plan, provides direction to the business to allow for prioritisation of initiatives and resources, and to support strategic decisions that need to be made to enable operating model change.

In determining the aspiration for the fund, through the lens of SPS 515 *Strategic Planning and Member Outcomes* superannuation funds need to evaluate their performance in delivering quality outcomes to members. Moreover, strategic planning should deliberately drive a culture of continuous improvement, accountability and transparency.

The below table highlights some examples of aspirational objectives for funds to differentiate themselves in an increasingly dynamic and competitive superannuation marketplace, and which are likely to require consideration of impact to operating models and operating model changes.

Figure 2: Example Future State Aspirations



Step 2: Translate aspirations to future state capabilities

Once a clear aspiration is defined, the next step is to consider what capabilities need to be uplifted or established in support of that aspiration.

Reviewing existing capabilities across the value chain provides a means of considering the end-to-end model and reflecting on what is working well, and what could be improved. This process will help trustees to

understand where gaps exist to develop new capabilities or where capabilities need to be enhanced to deliver on the funds future state aspiration, providing a clear view of the delta to reach target state.

Utilising a value chain framework that outlines end-to-end capabilities also supports Trustees by providing them with a consolidated view of implications for members.

The trustee decision making process should be reflected in Step 2, addressing any requirements for capability uplift in the key strategic initiatives under the funds business plan.

Step 3: Define key decisions which will define the future state

Typically, funds face a number of strategic operating model questions. Defining and addressing these questions supports the development of a conceptual Operating Model.

KPMG's Target Operating Model framework supports this exercise by prompting Funds to consider each of the 6 design layers across each stage of the value chain. The framework ensures complete coverage across the Fund delivering greater practical application for implementation planning.

Figure 3: KPMG's 6-design layered Target Operating Model Framework

Operating Model Layer	Definition	Key Questions
Service Delivery model	The locations and channels by which a funds product and services are accessed and delivered. Including digitisation, outsourcing and centralisation	How and where will service be delivered?
People	The organisational structure, reporting and accountability hierarchy, leadership, capabilities, culture and performance expectations for people and organisational units	How do we transform to best leverage the workforce of the future?
Process	The processes and interdependencies of the fund which all work to enable the products and services to be carried out	What core business processes need re-design?
Technology	The digital platforms and tools required by the organisation to deliver on the business model including member portals and digital advice solutions	What can be digitised, augmented and automated?
Performance insights and data	The performance insights and data required by the organisation to support the execution of processes and to inform business decisions	What insights and information do we need to make optimal decisions?
Governance	The approach to align the organisation's governance, risk and compliance processes to its strategy to ensure that trustee can continue to meet and perform its obligations as a trustee	How do processes and data support the Trustee in providing ongoing governance and manage risk and conflicts?

The decisions made across each of the design layers should be evidenced and supported by an assessment of member impact, aligned to the fund's trustee decision-making process. Critical to this process is identifying any potential or inherent conflicts in relation to the proposed Operating Model, and ensuring that the trustee remains well placed to continue to fully perform its obligations to members.

KPMG has identified a number of decision-making opportunities for funds to consider when exploring and assessing alternative options across the target operating model in order to meet their obligations.

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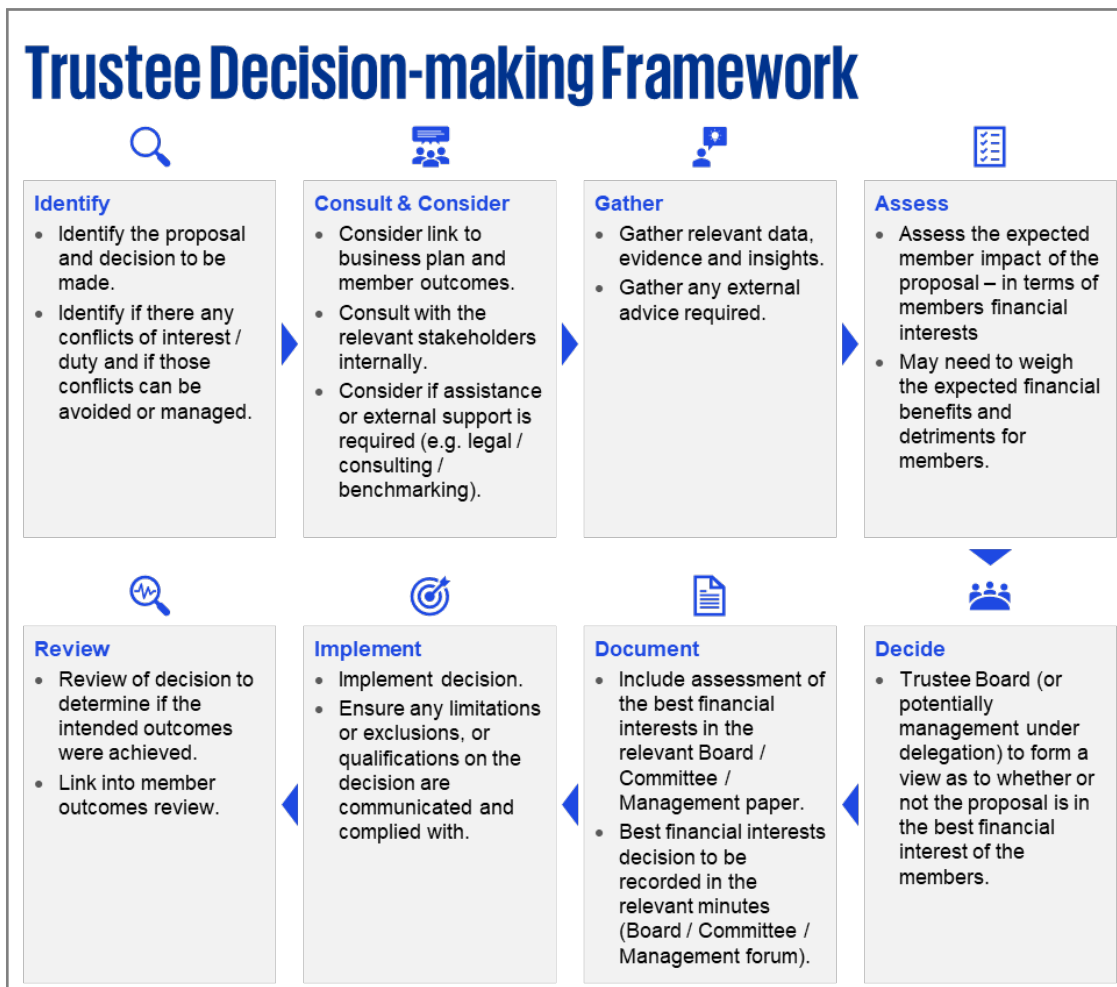
Funds Must	Why?
Ensure robust analysis and rationale underpin key decisions on the funds operating model	A strong decision-making process is fundamental to determining if a proposal is in the best financial interests of members
Implement robust security around data and data protection, providing visibility to members on how their data is used, stored, and managed	Increased data protection and privacy regulations stipulates that members have a right to be informed about how their data is stored, used and managed Recent cyber security breaches highlight the importance of adequate data protection
Assess viable alternatives of insourcing/outsourcing arrangements prior to signing or resigning vendor contracts	Trustee's must demonstrate that they have strong systems and processes in place to point to evidence of how they acted and made decisions appropriately in accordance with their best financial interests obligation
Funds Should	Why?
Invest in uplifting member experience and self-service capabilities	Member choice of fund means competition in attracting new members and in retaining current members. Those funds seeking to grow will need to ensure overall attractiveness and ease of member engagement
Decide what level of advice they want to give members	Each fund will need to make decisions based on their particular members. What level of advice would lead to better financial outcomes? Should advice be delivered by the fund itself or by through partnerships (and what are the advantages and disadvantages of each option?)
Explore fit-for-purpose, cloud-based technology systems that can support growth and consolidation (Consider global options for administration and servicing technology)	Enables merged funds to potentially achieve greater economies of scale, providing increased value to members in the future From a member best financial interests perspective, trustees should explore and assess the options available and demonstrate that all viable options have been considered

Assess options using a 'Trustee Decision making Framework'

KPMG has developed the Trustee Decision making Framework in response to the 'Your Future Your Super' reforms, which stipulate that strategic and operational decisions made by Funds and their Trustees must be in the best financial interests of members.

The Trustee Decision making Framework introduces parameters for evaluating strategic and operational decisions across a fund's operating model and value chain, to ensure that Trustees appropriately assess impacts to members when making operating model changes, and to ensure decisions support regulatory obligations.

Figure 4: KPMG's Trustee Decision-making Framework



The Framework is designed to be applied at all stages of transformation to ensure both strategic and operational decisions are aligned with member best financial interests.

Examples of the application during different transformations could include conducting an independent evaluation of **insourcing/outourcing** arrangements or a **significant technology investment**, including assessment and consideration of:

- The risks and challenges associated with outsourcing, managing and monitoring the outsourced relationship;
- The continued ability of the trustee to fulfil its legal and regulatory obligations;
- An assessment of fair value and management of conflicts of interest; and,
- Any implications to align with required future changes in conjunction with operational risk prudential standard CPS230.

Governance

Understanding trustee obligations is critical when designing operating model enhancements. Clear records of the decision-making process will be required, as well as quantifiable metrics and evidence to demonstrate compliance with their obligations.

Trustees will also need to demonstrate how they actively review and monitor their decisions on an ongoing basis. The Trustee Decision-making Framework can be applied during ongoing review and assessment to ensure capabilities remain in line with trustee obligations as operating environments and economic conditions evolve.

For all operating model changes trustees will need to be prepared to meet these requirements and ensure effective and regular review, governance, and oversight.

Conclusion

KPMG's approach to Operating Model Transformation for Superannuation Funds provides a clear pathway with actionable steps to achieving sustainable change.

This approach guides superannuation funds to position operating model change in the context of the relevant fund's aspiration for the future and outlines the importance of defining the capability uplifts as required and embedding robust governance model to establish a strong foundation.

It adopts a decision-making framework that sets the guardrails for detailed design and implementation planning and ensures trustee obligations and members' best financial interests are appropriately considered, and the funds' operating model can be centred around the delivery of quality member outcomes.

Contacts

Linda Elkins

National Sector Leader
Asset & Wealth Management

T +61 88656113
E lindaelkins@kpmg.com

Dr Lisa Butler Beaty

Practice Lead, Superannuation
Advisory, Partner, KPMG Law

T +61 2 9346 5541
E lisabbeatty@kpmg.com.au

Jayne Parish

Partner,
Management Consulting

T +61 2 9455 9439
E jparish@kpmg.com.au

Bernie Crowe

Principal Director,
Management Consulting

T +61 2 9335 7667
E berniecrowe@kpmg.com.au

Rhian Hughes

Director,
Audit Assurance & Risk

T +61 2 9346 5966
E rhughes5@kpmg.com.au

Vanessa Stephens

Director,
Management Consulting

T +61 2 9335 8461
E vstephens@kpmg.com.au

KPMG.com.au



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