



**Jonathan Steffanoni, senior legal and regulatory consultant, QMV Super Solutions**

Jonathan Steffanoni is a lawyer, lead consultant at QMV Super Solutions and an associate of ASFA. He has consulted on a broad range of projects with many Australia's most prominent superannuation funds, including on the outsourcing of the administration services. Jonathan has completed a Juris Doctor, Diploma in Financial Services, and Graduate Diploma in Legal Practice. He also holds undergraduate degrees in Business and Arts.

## THE END OF THE ROAD?

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**I**s the market for superannuation administration services in Australia at the end of the road? The marketplace for what we call superannuation administration services is no longer competitive. Yet, competitive risks and opportunities remain if we divide and redefine the market into the distinct services which make up superannuation administration.

Competition in the market for superannuation administration was substantially lessened with the acquisition of Superpartners by Link Group in late 2014, giving a single service provider a market share over 85% of all outsourced Australian Prudential Regulation Authority (APRA) regulated superannuation in Australia (excluding self-administered RSEs from the market).

This appears to place Link Group in a strong market position, with few comparable alternatives for trustees of APRA regulated superannuation funds looking to outsource or change provider of administration services. On closer inspection, there are some indications that the market might start to fragment, giving rise to competitive opportunities and risks for existing and new service providers to the market.

On face value, one could be excused for thinking that the acquisition might have attracted the attention of the competition regulator. The ACCC didn't intervene, even though the acquisition has substantially lessened competition. Superpartners' technology and system related troubles over the past decade meant that they could not really be considered to be a vigorous and effective competitor. Furthermore, there was a strong argument that Superpartners was a failing firm, with Superpartners in imminent danger of failure due to being unlikely to be successfully restructured without the acquisition.

An obvious view in such a consolidated market is that with such a strong market share position, Link will be able to use their strong competitive position and stranglehold on market share to concurrently capitalise on efficiency gains through the economy of scale in centralising the fixed costs of infrastructure while incrementally increasing the fees charged per member (yet reducing fees relative to growing asset values).

There is certainly some truth in this, and is likely to be forefront in the mind of potential investors when Link proceeds with an IPO on the ASX this year. Yet on closer inspection, there remains reason to believe that vigorous competition in the market might be just around the corner.

## Competitive environment

The market for superannuation services should no longer be considered as a single market, but rather a cluster of complementary markets, focused around the somewhat specialised topic of superannuation. Services providers such as Link, Superpartners, Pillar and Mercer provide a core service of managing and transacting on member and financial registry systems, but complement this with a suite of services complementary to the core business, which might include:

- claims management
- member disclosure and communication
- enquiry and complaint handling
- member financial advice
- accounting and regulatory reporting; and
- member online services.

Consideration of the competitive forces in each of these markets may be more useful in identifying the opportunities for new competitors and competitive risks for the Link Group.

## Member and financial registry systems

The foundation stone to the business model of superannuation administrators is the provision, maintenance and transacting on core member and financial registry systems. We should start to see this as a stand-alone market in itself.

There are notable barriers to entry into this market, with the data management infrastructure and software maintenance costs being one area where there is significant opportunity for economy of scale and efficiency gains by sharing fixed costs.

Furthermore, the costs and risks associated with changing member and financial registry service provider are manageable, but remain significant and a possible barrier to increased competition, making it potentially challenging for new entrants into the market.

Nevertheless, there may be opportunities for new entrants to the market. Established financial registry platform providers might embark on market development strategies to service the needs of RSE trustee customers in addition to their existing client base. It would come as no surprise to see digital only Platforms as a Service (PaaS), offered by established suppliers such as FNZ, Tech Mahindra, Cognizant and DST, increase the intensity of their competition with the traditional administration service providers such as Link, Mercer and Pillar. RSE trustee customers looking to position themselves in a stronger bargaining position might look to alternative service providers as a way to rise up the pecking order.

## Claims management

There is the realistic possibility that the claims management function is cloven from the core business of superannuation administration service providers, being an opportunity for some insurers and a risk to Link and other administration service providers.

While RSE trustees are required to consider and decide on claims for the release of benefits (in particular death and disablement benefits), superannuation administrators have traditionally played an important role in the preparation of the case to be decided, including liaison with the claimant.

RSE trustees will generally hold a policy with an insurer to underwrite death and disability benefits. Assessment of the claim often occurs both under the terms of the trust deed and under the terms of the insurance policy held by the RSE trustee, usually reaching the same decision. Life insurers are established in their claims management practices, and could consider adding value to RSE trustee customers by including claims management as an additional service.

Decision making authority would need to be retained as a function of the trustee, but there is no reason that the insurer can't administer the claim application process and propose recommendations to the trustee.

## Member disclosure and communication

Much like claims management, the distribution of member disclosure and other information is a service which could be the subject of fragmentation from the superannuation administration market.

The key disclosure items remain the issuing of product disclosure and member benefit statements, relying heavily on access to the data in member and financial registry systems, but also being influenced heavily by marketing and compliance considerations.

Provided that RSE trustees can access accurate and reliable data from registry systems, there are opportunities for specialised communication service providers to compete with superannuation administrators in delivering customised omni-channel disclosure and communication both digitally and in the traditional formats.

This option might be attractive to RSE trustees, who may be able to improve their bargaining position by separating statement production from administration services, giving them the agility to procure communication services more closely aligned with the fund's communication strategy.

## Enquiry and complaint handling

The management of member enquiries and complaints has also long been included in the bundle of services defined as superannuation administration. There is a need for the information stored in member and financial registry systems to be at hand in dealing with enquiries and complaints. This has made enquiry and complaint handling services a common service provided under superannuation administration arrangements.

There is a possibility that there might be more direct competition in this space, with either RSE trustees vertically integrating by bringing enquiry and complaint management in-house or engaging a specialist service



### The quote

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provider who might be able to provide a service which the RSE trustee has greater control. There might also be possibilities for resolving complaints at an earlier stage, reducing the costs associated with SCT hearings or legal proceedings.

The barriers to entry into the market are not prohibitive, and greater control over the service might allow for a greater focus on improving the member experience, and possibly greater member engagement, satisfaction and retention.

### Strategic management and interface

The role of the RSE trustee company has been growing, with a greater focus on developing mature business and strategic management functions. As RSE trustee companies assume a more active role in the strategic management of a superannuation fund's business model, there will be a need for the providers of registry systems to provide better access to real time information from both a micro and macro perspective. Superannuation admin-

istration service providers may ultimately end up offering a service more aligned with the platform as a service model.

Member and financial registry systems remain at the core of the business operations of RSE trustees. If the market for administration services does indeed become increasingly fragmented, it is going to be important that market aligned interfaces are developed to facilitate the real time flow of information between the registry systems and the complementary service providers or more vertically integrated RSE trustees.

The competitive landscape for superannuation administration is likely to change in these, or in other ways which we can't yet predict. What is predictable though, is that the market for superannuation administration will be important for both RSE trustees and prospective investors in the planned Link IPO. It could become even more interesting if these two groups converge, with RSE trustees deciding to invest in an ASX listed Link. **FS**



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