J.P. Morgan

The Future of Superannuation:

How data, AI and digital transformation are
reshaping the superannuation industry

Foreword

Australia's superannuation industry remains one of the most advanced in the world, continually adapting to regulatory changes and market dynamics. Our 2024 Future of Superannuation report highlights how data, artificial intelligence (AI), and digital transformation are reshaping the industry. This year, we explore how superannuation funds are leveraging these technologies to enhance member engagement, improve operational efficiency, and safeguard against cyber threats.

We are grateful to the executives who shared their insights, demonstrating a steadfast commitment to delivering better retirement outcomes for their members. Their focus on innovation and adaptation is paving the way for a brighter future for all Australians.

At J.P. Morgan, we are dedicated to supporting the industry by providing cutting-edge solutions and services that help our clients navigate this rapidly evolving landscape. We look forward to continuing our partnership with superannuation funds as they embrace new opportunities and challenges.

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Executive Summary

Australia's $3.9 trillion retirement system is one of the most advanced in the world. It is a diverse landscape that includes mega-funds which have been propelled by strong returns and merger activity, as well as smaller niche funds targeting specific parts of the industry.

Yet they all face similar challenges in an uncertain economic environment characterised by rising geopolitical risk and regulatory change. Superannuation funds are navigating these challenges with an ongoing focus on innovation, data to generate insights and digital transformation to boost member engagement.

As funds continue to grow and mergers are bedded down, operational efficiency is another key area where funds can generate crucial yet incremental gains. AI and increased automation promise significant gains in future years as funds explore their potential.

J.P. Morgan recently interviewed executives at some of Australia's largest super funds supplemented by an industry poll, to gauge their views on just how important these elements are, particularly as work practices and the pace of innovation have radically accelerated in recent times.

Key Highlights:

01

As investment portfolios become increasingly complex, advanced data management systems are able to provide funds with up-to-date, detailed insights.

02

Funds are constantly refining their processes and procedures to create greater 'operational alpha' as they manage their increasing size.

03

Funds are investing heavily in digital transformation strategies to boost member engagement and deliver more personalised advice.

04

Funds see enormous potential in AI but are initially deploying it cautiously to speed up simple processes.

05

Cybersecurity is the bedrock of funds' growing digital capabilities and is crucial to protect and retain confidence in the super system.

Superannuation funds are updating their operating models

Super funds operate in a heavily regulated yet complex and uncertain environment. They face multiple challenges including delivering investment returns, managing fee pressures, complying with new regulations and guiding members through retirement.

This was reflected in the 2024 J.P. Morgan Future of Superannuation survey, which found funds ranked several issues at similar levels. Improving member engagement and communication strategies was marginally ahead of enhancing digital capabilities including technology infrastructure and cybersecurity measures.

Nick Paparo, head of Securities Services Sales, Australia and New Zealand at J.P. Morgan said the COVID pandemic was a key turning point, underscoring the importance of resilience during times of disruption. "Funds with a less standardised approach and a lack of straight-through-processing were more vulnerable," he said.

"Clients are particularly concerned about ensuring their operating models are robust and efficient. This aligns with our focus on streamlining processes to mitigate risks and enhance operational resilience, allowing funds to operate smoothly even in challenging circumstances and adapt to evolving regulatory requirements."

In the context of your fund's operational model transformation, please rank the following areas in terms of priority

Improving member engagement and communication strategies (i.e. personalised services)

Enhancing digital capabilities including technology infrastructure and cybersecurity measures

Optimising internal processes for improved operational efficiency and cost effectiveness

Strengthening regulatory compliance frameworks and enhancing risk management practices

Enhancing advice capability and scale / scope of advice delivery

Advancing sustainable and responsible investment practices

Source: Future of Superannuation Survey 2024, J.P. Morgan

One of the country's largest funds, Aware Super, has integrated four other funds in recent years, prompting it to review its entire operating model. To improve service and reduce costs and risks, it consolidated from three of everything to one of everything. This included moving to one registry and advice system, one website and app and bringing administration in-house.

"Having full control means we can now innovate with speed. The new approach allowed Aware to quickly launch online binding, non-lapsing beneficiary nominations," said Jo Brennan, Group Executive, Member Engagement, Education & Advice, Aware Super.

For example, many super fund member requests traditionally required paper applications or PDF print outs. On average 40% of these will have some form of error because superannuation forms are complex, formal documents.

All of Aware Super's online solutions include pre-validation to eliminate errors with 85% of all transactions completed by 'straight-through processing.'

AustralianSuper's Mike Backeberg, Chief Technology Officer said managing the growth in member numbers and assets was the biggest challenge facing the sector.

"Funds need to deliver the right services to members through the right channels at the right time. A major focus for us is how we can leverage scale to better service our members while meeting their expectations as they evolve. Growth in our digital channels is at the core of this and it also means we need to scale effectively across our investment and corporate teams."

In terms of efficiency and innovation, where are the main areas your fund is deploying its efforts?

Digital services
Data analytics / transformation
Process automation
AI / Machine learning
Member engagement
Regulatory compliance
Cybersecurity measures
Strategic partnership
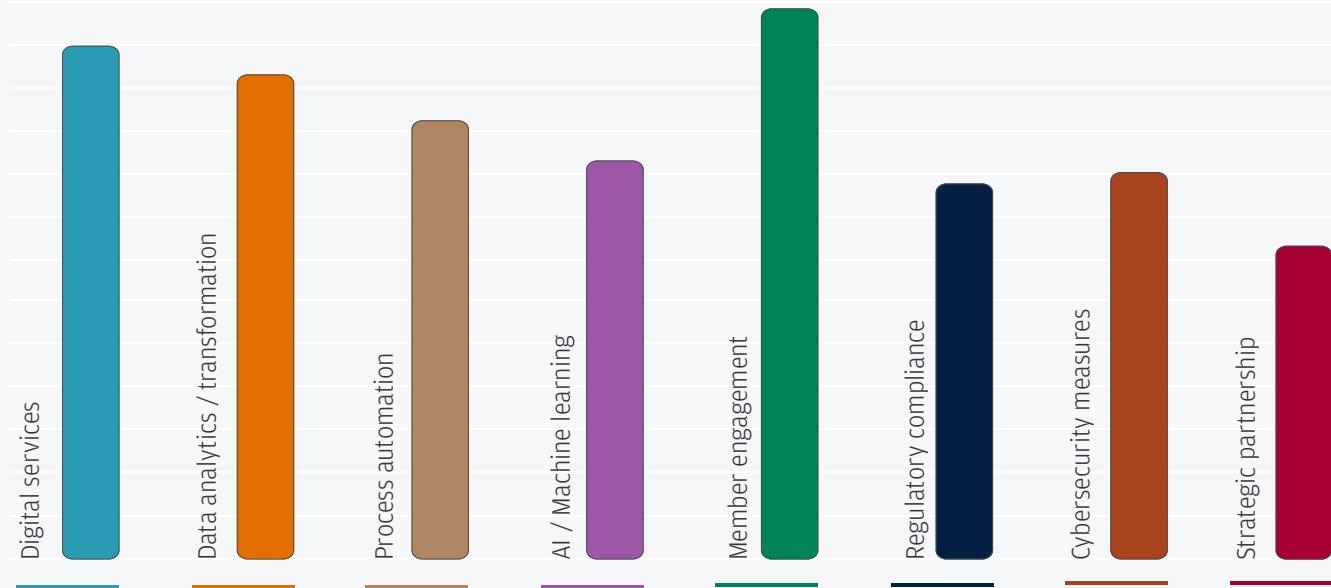
Source: Future of Superannuation Survey 2024, J.P. Morgan

Cybersecurity is at the foundation of funds' expanding digital capabilities

Superannuation funds are increasingly reliant on technology to operate and grow their organisations. However, this increased reliance on technology also brings with it a growing risk of cyber-attacks.

John Livanas, CEO at State Super, said the fund has measures in place to protect member data, business continuity plans, and cybersecurity backups, while it also runs through scenarios.

"We believe that at some stage, there will be a cybersecurity incident. We can't predict what this will be or how we should react to it. Therefore, like most, we play out some scenarios to get used to the cadence and rhythm of handling such incidents. In addition, we have created a playbook as a holistic guide.

"We also don't shy away from putting additional checks in. During the COVID era, when people were withdrawing $10,000, we put an added check in there. You won't believe how much that stopped people from trying to game the system."

Adonis Polychronopoulos, APAC Regional Information Security Officer and APAC head of Cybersecurity & Technology Controls at J.P. Morgan, said super funds face risks including third-party and supply chain failures, as well as sophisticated social engineering, which is being accelerated by AI-generated content such as deepfakes.

Meanwhile, some cyber-criminals are finding ways to bypass multi-factor authentication (a security process that requires users to provide two or more verification factors to gain access to a resource)

Technology control frameworks that enable funds to identify and measure any potential security risks related to adoption of new technologies, which are then managed with strong controls, are important defences.

"Automate these controls as much as possible so you are not reliant on manual processes, use template configurations - for example, so that non-approved tools and configurations are automatically blocked in your technology environment," said Polychronopoulos.

Polychronopoulos also recommends funds adopt Endpoint Detection and Response (EDR) technology and Zero Trust principles.

"There are also interesting and rapid developments in identity and access management to include password-less authentication, which can be highly effective against credential phishing, and the ability to detect AI-manipulated video/audio/images. The latter is key if funds rely on remotely onboarding members or employees."

Funds are continuing to raise their cyber-security defences across the industry. The Association of Superannuation Funds of Australia (ASFA) launched a Better Practice Guidance on Minimum Fraud Controls for Superannuation Funds in July 2024 and a Financial Crime Protection Initiative in September 2024.

What is 'operational alpha' and how are super funds using it?

Australian super funds have generated impressive long-term returns. The median fund has gained an annualised 7.2% a year over the decade ended September 30, 2024, according to SuperRatings.[2]

However, investment returns can be volatile which puts the impact of fees and costs into sharp focus. Many funds have cut their fees in recent years owing to their growing size and scale, but it also adds complexity.

According to Deloitte, average MySuper administration fees across the industry charged on a $50,000 balance in a retail super fund dropped to 0.33 per cent from 0.47 per cent over the year ended June 2023, while average industry fund admin fees fell from to 0.24 per cent from 0.30 per cent.

Operational alpha describes the way funds can overhaul common manual processes and procedures to improve their efficiency. This can flow into better member services, lower fees, or higher investment returns.

"We have been enabling greater digitalisation and straight-through processing across the fund to improve the experience for our members," said Siva Sivakumaran, Chief of Staff at UniSuper.

"This is important from a member experience perspective because we want to resolve 80% of member interaction with us immediately. This is a key component of our member servicing strategy," Sivakumaran said.

Backeberg said, "Digital interactions and other forms of member communication need to be seamlessly connected to make processes and transactions smoother and faster.

"As an example, allowing members to authenticate seamlessly when engaging the contact centre makes this a superior service for members. This is aligned with how we want to provide members with guidance as they work towards and into retirement."

The majority of funds pointed to technology advancements as the key to unlocking greater operational alpha. However, it is not just technology that enables streamlining processes; better data management, as well as enhancing data quality and integrating it into operating models, also play crucial roles. "Asset owners seek platforms that integrate data seamlessly while ensuring consistent operations," said Jane Dauparas, APAC head of Product Development for Securities Services at J.P. Morgan.

"We are completing our transition to global platforms, which enhance efficiency and streamline processes for clients. Accounting is our final component, and the project is set to be completed by 2025, aligning with the industry's increasing digitisation," Dauparas added.

Operational alpha is the value generated by adopting more efficient processes and procedures. What are the three newest areas your fund has been concentrating on in the last 12-24 months?

80.00% Technology advancements

26.67% Artificial intelligence

6.67% Tax optimisation

26.67% Transaction management

66.67% Enhancing data quality and integration into operating models

26.67% Treasury management

53.33% Renegotiating fund manager fees/ relationships or insourcing funds management
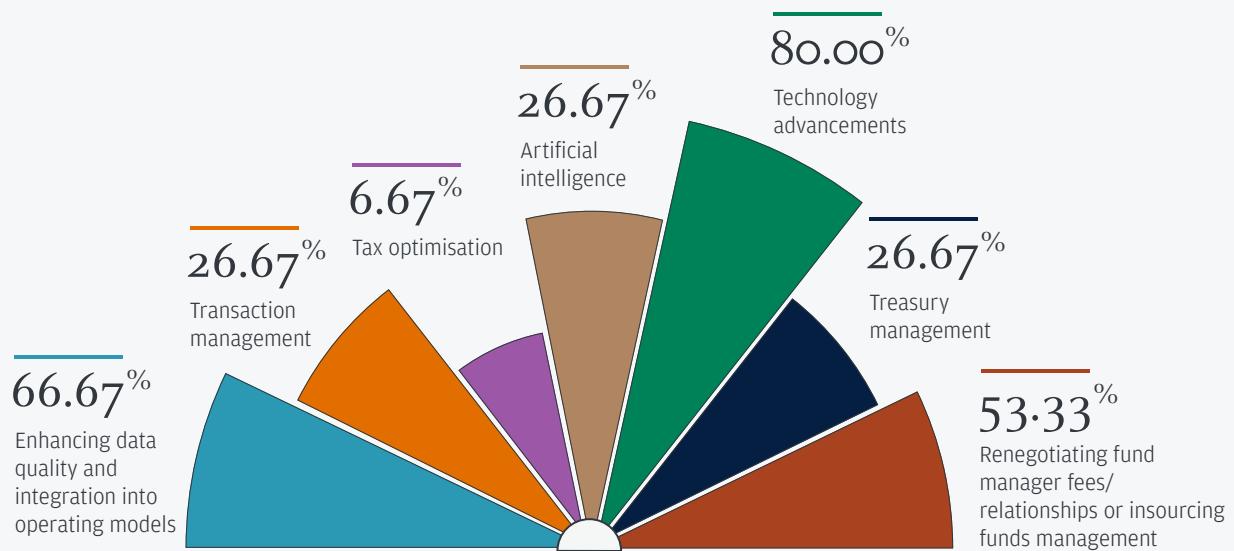
Source: Future of Superannuation Survey 2024, J.P. Morgan

How super funds are using data to unlock investment and member insights

Funds are now managing huge amounts of data from multiple providers, including investment information and member data.

Dharmendra Dayabhai, head of Portfolio Analysis and Implementation, UniSuper, said, "Better use of data has given the fund much greater visibility over its $139 billion portfolio.

"In some instances, we thought we had an over exposure to a particular sector, but when we got that clarity of data all the way down, we realised it may not be enough to move the dial. So, we've either increased or decreased that in certain sectors or country exposures. We are continuously looking at refining that."

Data is also crucial to boost member engagement, which ranked as the number one area of focus to improve efficiency and innovation according to J.P. Morgan's survey.

"We're moving into a much more competitive environment with stapling and choice being introduced – we need to fight for every member we get and retain them.

"We have a lot of member data. One of our biggest focus areas is how we utilise that data to understand our membership better so that we can personalise the service we provide in the way they want to receive it, so they're more likely to engage with the fund and stay with us," Sivakumaran explained.

"But managing such data is highly complex. Funds typically create large cohorts to segregate similar members, but Aware Super plans to create an ultra-personalised 'cohort of one' in the next three years," Brennan said. "Data is fundamental to fulfilling that vision."

"We have data custodians for each of our data domains who work with certain rules and within clear governance framework, and we have data quality dashboards that come through to owners daily for checking and recording.

"Our data governance council meets monthly to oversee our policies and processes, and, importantly, our governance framework around data and information," Brennan added.

That data could allow the fund to create personalised nudges as a member approaches retirement and improve the overall retirement experience.

How many data providers (e.g., investment data, ESG data) is your fund using today?

1-5
40.00%

6-10
26.67%

11-15
20.00%

16+
13.33%
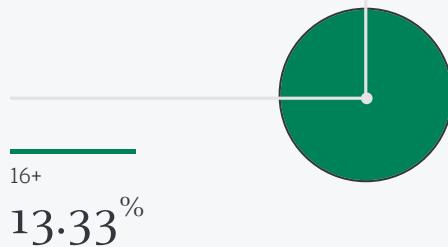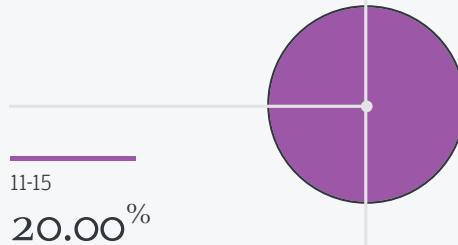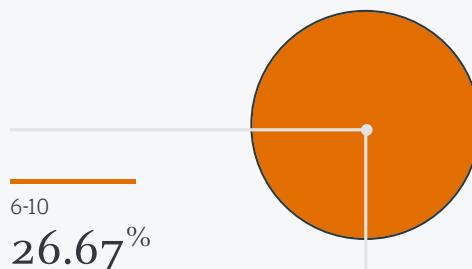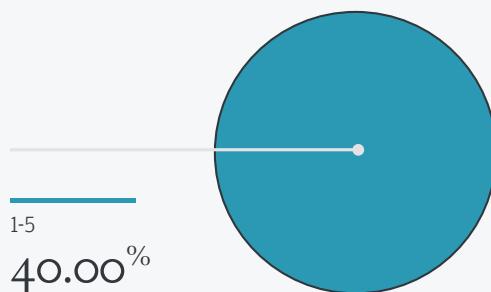
Source: Future of Superannuation Survey 2024, J.P. Morgan

Data can also power personalised digital tools that can lift financial literacy. Financially literate Australians have super balances around twice the size of those who are not financially literate, according to research conducted in 2020 by the University of Western Australia.

Last year, industry regulator APRA encouraged the industry to make better use of data to help members improve their retirement as part of the Retirement Income Covenant, which requires trustees to develop a retirement income strategy for their members. The most popular way to meet the demands of the Covenant was to implement more advanced cohort analysis for groups of members, according to the J.P. Morgan survey.

The Retirement Income Covenant has placed new requirements on funds to have a retirement income strategy that identifies members' retirement income needs. How are you meeting this requirement?

Implementing more advanced cohort analysis for groups of members

Providing in-person financial advice for members

Gathering personalised data directly from members
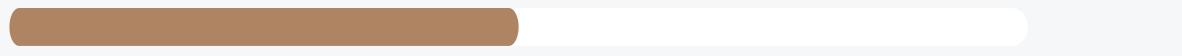
Applying industry standards such as the ASFA Comfortable Retirement index to create retirement goals for members
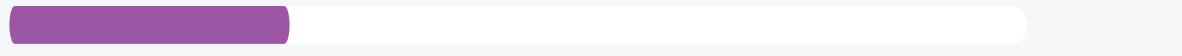
Using third-party data (e.g. ABS or bank transaction data) to understand members
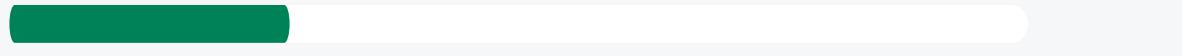
Providing digital advice for members
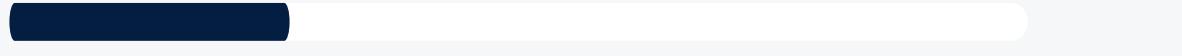
Other
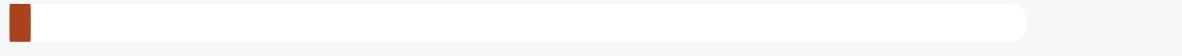
Source: Future of Superannuation Survey 2024, J.P. Morgan

How are super funds using Artificial Intelligence (AI)?

AI is expected to provide a $15.7 trillion boost to the global economy by 2030, revolutionising common business practices and boosting demand, according to PwC.[3]

Livanas said, "AI (Machine Learning) has helped our organisation interpret massive amounts of market data into possible market signals for our investment team. Given that our funds are in severe negative cashflow, we don't have the luxury of allowing the market cycles to play out. Our machine learning capabilities allow our investment team to consider these signals as part of their market assessment and respond more rapidly to downside surprises."

Livanas continued, "Separately, given that our fund manages complex defined benefit schemes, we are also exploring how we could integrate an AI Large Language Model to access and accurately summarise our complex scheme rules. This is intended to provide relevant support to our Customer Service team when they are responding to complex member queries."

The fund is also rolling out Microsoft Copilot inside the organisation to speed up the pace of retrieving data and policies. "As we get into a more highly regulated environment, we need to be able to interpret regulations and policies in our operations," Livanas added.

While the potential of AI is huge, funds are only slowly experimenting with AI given the highly regulated environment they operate in.

"One of the areas we will be testing is the chatbot, which can quickly respond to questions and summarise information. Some customers have told us they prefer using a chatbot initially because they can start asking basic questions to start their learning journey without feeling judged," said Brennan.

AustralianSuper said it is training staff to use AI across the fund, including its investment team. Staff use AI components to enable improved search capabilities across repositories, document classification and management, automation flows across the fund, managing communications, marketing management, document scanning and recognition services."

However, the fund is not yet using AI-driven services which interact directly with members.

"Our primary focus on AI at the moment is in the back office and corporate services. This includes machine learning modules, generative AI and automated processes," Backeberg said.

While prudential standard CPS 234 on Information Security and practice guide CPG 235 on Managing Data Risk are both applicable to AI, new AI-based frameworks are also ensuring that people always make final decisions in crucial AI-influenced workflows.

The government recently proposed 10 mandatory guardrails to ensure the safe and responsible use of AI.

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John Livanas
CEO, State Super

Super funds and digital transformation

"Super funds are investing heavily in digital transformation to upgrade the member experience," said Livanas.

"We need to continually innovate and move forward – as remaining stagnant is not the right approach. I think regulation hasn't yet caught up - we need to assist in bridging that gap. We need to better educate our directors and senior executives and then empower them to take the initiative with digital transformation," Livanas added.

The pace of implementing innovation has been turbocharged by the widespread adoption of cloud technology, which also enables high-powered AI, according to HESTA's Stephen Reilly, Chief Operating Officer.

"The idea of a self-contained financial institution is long gone," Reilly said. "You have to get really good at optimising an integrated ecosystem of partners to provide the best products or services for your members to drive the best returns, the most efficiency, personalisation and relevancy of what it is you offer."

"There has been a cultural shift across the industry, which has traditionally lagged behind the banking sector," Backeberg said. "Innovation within the fund has progressed quickly in recent times."

"We have an established innovation centre that provides colleagues with opportunities to bring forward thought leadership, new ideas and to solve problems," Backeberg added. "The fund has completed four hackathons and has multiple success stories which are now applied across AustralianSuper."

Members are now demanding more from their funds, including education and retirement guidance. A significant number of funds are now offering licensed digital advice to serve low to middle-income earners, which is complementing in-person advice.

"We think we'll have almost 25,000 Aware Super members moving into retirement every year," Brennan said.

"Our focus, in response to that big shift, is honing in on how we are unmatched in helping our members across that full spectrum from simple engagements, education, intra-fund and simple advice, as well as more complex advice."

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>
> **Stephen Reilly**
> Chief Operating Officer, HESTA

💡 Conclusion

Retirement has always been a fundamental part of life – one that is growing in importance due to Australia's ageing population.

More than [four million Australians](#) are already over the age of 67 – retirement age – and about 5.3 million are over the age of 50.

Super funds have played a central role in delivering healthy investment returns, but their role is expanding. They are increasingly guiding older Australians on their entire retirement journey. This shift is having ramifications for the way funds run their operations.

Funds are employing a mix of operational alpha, AI, digital transformation, and offering new engaging digital tools to change the way members interact with their funds and think about retirement.

Consolidation is giving funds the firepower they need to lead the financial services industry with new products and services delivered at lower cost. Funds are continuing to innovate in an environment of ongoing regulatory pressure and change.

The evolution in the superannuation industry highlights a bright future not just for millions of older Australians in or approaching retirement, but for future generations.

Footnotes

[1]APRA. Retrieved from [here](#).

[2]Rappell, K. (2024). Media release: Funds deliver strong quarterly return despite uncertain environment – Lonsec. Retrieved from [here](#).

[3]PricewaterhouseCoopers. (2024, October 30). PwC's Global Artificial Intelligence Study: Sizing the prize. Retrieved from [here](#).

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