Super Snapshot

Current and emerging challenges in the superannuation sector

The COVID-19 outbreak is causing widespread concern and economic hardship for governments, businesses and communities across the globe. The situation is fast moving and presents a wide range of challenges. We've prepared a short summary of the key current and emerging considerations for senior executives of superannuation funds to help you to continue to support your members.

Liquidity and stress testing	Large numbers of members switching to cash, increases in benefit payments (including hardship), reduction in contributions (due to job losses) and significant losses on currency and interest rate hedges have put a spotlight on liquidity. Funds should revisit and closely monitor cashflow assumptions and stress test their liquidity. These events are also having a significant impact on asset allocations.
Asset and liability valuations	Volatile markets and increased investor activity mean it is critical that valuations (including unlisted investments) are accurate and timely for unit pricing and crediting rates. Deferred tax assets and buy/sell spreads included in unit prices also need to be carefully monitored and managed in accordance with established policies and regulatory requirements.
Member services, ways of working and trust	There has never been a more important time for funds to be there for members and maintain their trust. Social distancing and isolation measures are requiring funds to revisit how they do business. New ways of working have had to be created to ensure continued availability and quality of critical services such as enquiry and complaints handling, financial advice, hardship applications, insurance claims and other key operational areas. Third party service providers also play a critical role in supporting funds to deliver on their promises to members.
Regulatory risks	Although ASIC and APRA have announced the deferral of certain regulatory reforms, they have also advised that unless they have granted specific relief, trustees' legal, regulatory and reporting obligations remain unchanged. Consequently, complying with all existing requirements, as well as any future initiatives announced relating to COVID-19 will be a significant challenge for most funds. Areas of heightened risk now include liquidity management, valuations, unit pricing, complaints handling and financial advice.
Counterparty and credit risk	In volatile markets and economic downturns, understanding and managing financial and operational exposures to counterparties is critical to achieving good outcomes. In particular, complex contractual arrangements can make credit risk assessments a challenging exercise. Knowing where you stand in these arrangements can help identify and manage risks more effectively.
Fraud, cyber and information security	Although some progress has been made establishing support from the ATO, member identification and data to support hardship and other payments will be significant. Remote working introduces new risks regarding confidential and private information with most employees now working remotely. Organisations are also experiencing a sharp increase in attempted cyber-attacks.
Project prioritisation	Delivering BAU and major projects in the current circumstances will challenge most organisations. Some projects may need to be cut or deferred, but others including remediation and certain regulatory reform projects are likely to continue. Planning and prioritising will be key.
Complex investments and transparency	Risks in geared, less liquid and transparent investment structures and securities can take some time to emerge. Early identification and management of these risks can improve outcomes.
Operating models and cost management	Declines in asset values are likely to put more pressure on funds to reduce costs through more efficient and effective operating models.
Mergers	The medium to longer term implications of this challenging environment are likely to create more momentum to merge.

pwc

Contact now

Contact your usual PwC client service team or **Craig Cummins**

Craig Cummins
Superannuation, Asset & Wealth Management Leader

Phone: +61 408 231 179
Email: craig.cummins@pwc.com