



investment magazine

18-20 MARCH 2015

CMSF15

Gold Coast Convention & Exhibition Centre

DAY ① 2 3



Nick Sherry, Garry Weaven, Dr Rosemary Kelly and Alex Dunnin

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HOUSING: SUPER'S NEXT FRONTIER

Joe Hockey's proposal on housing is politically popular and the industry shouldn't "kid itself" about this warned Nick Sherry, senior advisor of superannuation and pensions at Citi and former superannuation minister.

One of the few asset classes in Australia that has not been commoditised by the funds management industry is residential housing, and if funds didn't address it politicians would, said Garry Weaven, chair of IFM Investors and bank ME.

Alex Dunnin, executive director of research and compliance at the Rainmaker Group, flipped the perspective by saying that if the

industry wanted to get government's, communities' and young people's attention the issue of housing needed to be tackled, and if it was, super funds would "run the table".

He pointed out that UK pension funds collectively had put about \$30 billion in residential housing investment projects and that doesn't happen in Australia.

"Alan Kholer did some analysis of investment returns. Over the past several years the average default super fund has pulled in 6 per cent per annum, after fees and taxes. That is exactly what the housing index has returned over ten years, so investing in housing is actually really good investment, subject to tax issues," Dunnin said.

Weaven suggested shared equity with home owners as a possible way forward, which would address the problem of

residential property units being too small, but highlighted the need for collective research in this area between funds, funds managers and banks.

Another avenue, proposed by Sherry, was investing in social housing as the management model being developed had some promise.

The investment in social housing dovetailed with another aspect of the debate - the widening view of fiduciary responsibility.

Dr Rosemary Kelly, trustee director at First State Super, summed up this evolved view of fiduciary responsibility as a question: "What sort of society are our members retiring into and how can we improve that?"



Data management worries a third of asset owners & managers*

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Stern of manner, speedy in delivery, Helen Rowell, member at APRA, stopped CMSF delegates from feeling too pleased about themselves, by pointing out areas in which funds must do better.

CHANGE MANAGEMENT

Rowell warned that with much regulatory change ahead from the government reaction to the tax review and the Financial System Inquiry the ability of trustees to manage change was of interest to APRA. "All trustees need to be looking ahead and proactively considering how they should tackle these inquiries," she said.

CONFLICTS OF INTEREST

APRA conducted thematic reviews of insurance management and conflicts of interest in 2014. Rowell said she was much more concerned about the conflicts of interest review.

A third of the 40 funds reviewed by APRA were considered to have conflicts of management frameworks that were weak or vulnerable to conflicts of interest. These funds, said Rowell, will be receiving letters informing them of this over the next week, with recommendations on the actions they needed to take. APRA will also be informing funds of enhancements they can make in this area over the coming months.

One concern is where funds did not acknowledge directors who were directors of other bodies not absenting themselves from decisions that could be

linked to such organisations.

Rowell said APRA would also take a close look at the Royal Commission into the activities of trade unions and how it informed industry practice in the area of conflicts of interest.

INDEPENDENT DIRECTORS

APRA generally fights shy of directly endorsing the use of independent directors, but came closer than ever in Rowell's speech. "Experience over many years over all the industries we regulate suggests that having at least some independent directors on board, will support sound governance outcomes," she said.

To this end she called for ongoing improvements in the appointment and selection processes of directors and in the implementation of "robust performance assessments" of directors.

Rowell linked the need for a broad range of skills and capabilities on boards as one of the key ways of meeting APRA's governance and prudential risk standards.

REMUNERATION

APRA has recently conducted a review of a sample of funds to assess the quality and consistency of information being disclosed on fund websites. "We would

APRA member,
Helen Rowell

have to say we were pretty disappointed with what we found," said Rowell.

She reported anomalies and apparent errors in the remuneration disclosed on fund websites and to APRA, particularly for directors where remuneration was calculated as zero. APRA also could not find disclosure on some fund websites.

"There is room for considerable improvement in this area and we will be following up on this," warned Rowell.

She noted that where the disclosure on a website was incorrect or misleading it was a matter for ASIC.

RETIREMENT INCOME PRODUCTS

Rowell's message around retirement products was softer, urging caution around the development of product ranges and monitoring of providers.

Her biggest concern was around the offer of products with guarantees for members. APRA will look at the arrangements agreed with providers very closely.

For more ordinary pension products, she urged funds to ensure they had the necessary level of administration, resources and advice and that they had properly considered the cash flow and liquidity.

She noted that not all funds would want to offer a range of retirement products or even be able to offer them and that they would need to partner with other organisations and that in this case robust governance and oversight was needed.

FEES AND COSTS

APRA has called for funds to question the trade off between the choice of funds and insurance offerings to members, with the cost of offering them.

"There are significant complexities in the super system and there is scope for efficiencies to be enhanced in many areas," she said.

A recent survey by APRA found there were a total of 40,000 investment options on offer to Australians for their superannuation, a figure Rowell cited as 'staggering'.

"We find it hard to believe those investment options are really needed," she said. 📌



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Tom Garcia's opening address to conference



AIST'S DIGITAL IDEA

The AIST is to launch a digital innovations department that will seek to create solutions which take advantage of the collective scale of industry funds.

The digital innovations department, which will launch in the second half of 2015, comes as part of a pledge made by Tom Garcia, chief executive of AIST, to help not-for-profit funds keep pace with digital innovation carried out by bank-run super funds.

"We are aware that banks are making the most of their scale," said Garcia. "We see this initiative as an investment for our members."

AIST is also conducting a research tour to the US in May that will visit firms such as Google as part of this initiative.

"We are acutely aware banks and other commercial providers are dedicating serious levels of money to their digital platforms," he told delegates. "They are partnering with emerging online players and using data insights to do business in new ways."

But Garcia thought the collaboration

would be a factor in progress.

"The not for profit sector as a whole, has a unique competitive advantage in the form of its culture and a willingness to collaborate," he said.

Additionally, he thought not for profit funds' focus on acting in members' best interests could not be underestimated.

As a measure of the urgency he highlighted how some were predicting that every single financial transaction would be carried out on a mobile device in five years' time.

He urged: "The world is moving to self-service and members are doing it for themselves."

He referred to a vast array of digital solutions entering the market.

Garcia suggested that innovation might be a financial aggregator for members through an App; an e-commerce portal for employers; or better business analytics of member data to help customisation of services. ■

SPONSORED EDITORIAL

WHAT DO YOU THINK OUR INDUSTRY WILL BE LIKE IN 2025?

The world we are operating in today will not exist in 10 years' time. Markets, our industry and the world will keep changing, says Ian Perkins, acting head of BNP Paribas Securities Services.

The next decade will no doubt bring changes, some of them beyond our imagination. Consider how just a decade ago, iPads and iPhones were still years away from launching. A trip to the video store was popular. USB drives were just coming to market. Facebook was limited to Ivy League students and we were riding the wave of an economic boom that was on borrowed time.

What technology will revolutionise our world next? Where will markets move? What will regulators do next?

BNP Paribas Securities Services in conjunction with AIST undertook research to identify the longer-term issues we might all face. This research – presented at the CMSF conference – identified several notable trends:

DEMOGRAPHIC SHIFTS WILL CREATE DIVERGENT INVESTMENT OPPORTUNITIES

- These will vary by region and country.
- However, all will have to become more astute in how they seek to capitalise them.

THERE WILL BE A GREATER EMPHASIS ON RISK-RETURN ANALYSIS, INCLUDING:

- Identifying how much risk is taken to generate returns as well as providing data in real time.

A WIDER RANGE OF ASSET ALLOCATION APPROACHES WILL BE USED TO TRY TO REDUCE VOLATILITY

- This will lead to new asset classes being developed, and the introduction of new performance measures and reporting.
- Due to an ageing population, smart asset owners and managers will offer retirees new forms of 'income stream' products.
- Regulators will maintain strong oversight.
- Technology will continue to revolutionise our industry and how it meets clients' demands.



Ian Perkins is acting head of BNP Paribas Securities Services Australia and NZ

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CAPTURED

IFAA's Kate Grant, Women in Super's Sharon Morris and IFAA's Greg Gear



Sunsuper's Teffi Whatley with Lisa Samuels from NGS Super



CMSF's fast paced crowd



We luv the Kombi coffee



Richard Weatherhead, AustralianSuper, catching up with old friends



Louise Bradshaw from Eaton Vance Australia with Peter Higgs from Tactical Global Management



A new way to look at things



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HESTA's award winning Maree O'Halloran celebrates with Bob Lipscombe and Rod Harty from First State Super



Off to a busy start of the day



Karen Volpato AIST, Elly Grace NAB and Elizabeth Maclean REST



Tony Jones kicks off the debate



The creme brulees didn't last long



Michael Lefton and Lanhee Yung from Starwood Capital Group



HESTA's Carole Menere and Angela Emslie



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Improving risk analytics & risk-return profiles concerns two-thirds of asset owners & managers*

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LEADERSHIP SETS CULTURE...

An organisations leadership sets the culture and thereby its brand, Bob Every, chair of Wesfarmers and Boral, said.



Vision, strategy and operating style are the three critical components needed to be utilised by leadership if they want to define culture and build a sustainable brand he said.

“Vision is the net presence value of future thought. Great leaders articulate and define the vision. They put a light on a hill and show where we want to be. People can get behind it, even if it is a stretch.”

Strategy and operating style he defined as how we go about our daily work, adding that tools are there to help, but that “some leaders get confused and think tools are the panacea”.

He emphasised that a leaders actions need to match their rhetoric.

On the topic of boards he said they don’t run the company, management does, therefore, even with the increasing responsibilities being placed upon boards, the single and most important function was the selection, oversight and succession planning of the chief executive.

While the relationship between the chief executive and chair was a “critical conduit” and must be based on respect and transparency, though how the two interfaced would be fluid and change depending on a range of factors.

“Vision is the net presence value of future thought. Great leaders articulate and define the vision. They put a light on a hill and show where we want to be. People can get behind it, even if it is a stretch.”

He pointed out that role of the board can vary from company to company, drawing from his experience serving on two boards to illustrate this point.

He viewed his role at Wesfarmers as a custodian, continuing to deliver on satisfactory returns to the shareholders, saying this was the “dancing tune” of the company and one he had admired from the beginning. Boral served as a contrast. Here Every believes his role is a champion of cultural change and stated that he is about 3 years into a 5 year plan in achieving this. 📌

...AND CULTURE DEFINES BRAND

A super funds single most important asset is the brand because it defines member relations, a marketing and public relations expert told delegates.

Mark Sareff, chief strategy officer of Ogilvy Australia, likened brands to religion saying that super funds needed to move beyond viewing it solely as a logo and realise that it includes the core beliefs and philosophy of an organisation.

“If Coca-cola suddenly had all of its trucks destroyed it would still exist as an organisation because the brand remains,” Sareff said.

He asked the rhetorical question of who would be listened to more: the multi-million dollar advertising campaign; or the friend whose sister hated working for an organisation because of poor internal culture.

“If your reputation is in tatters, if people fall out of love, you are in crisis. Can you leave that up to marketing? Not a chance!”

He said that not enough attention had been given to core beliefs and philosophy and that this could create problems as they were the informing principals on how an organisation behaves, in turn eliciting a response from members.

“If your reputation is in tatters, if people fall out of love, you are in crisis. Can you leave that up to marketing? Not a chance!”

In his view the chief executive is the ultimate brand manager, as opposed to marketers, because they set the day-to-day running of the fund. Boards also play a significant role. If the chief executive creates the ‘how’, then the board creates the ‘why’.

“Beyond money, purpose is the reason we go to work and the only one with the right to determine the purpose of an organisation is the board,” Sareff said.

He added that there are four major shifts in the world that boards need to examine when considering their brand and how it engaged members. They were demographics moving, digital changing the balance of control, democratisation of ownership and an increasingly sophisticated Australian society who understood marketing games. 📌



Claims excellence is better than just being part of the system

We believe a personal approach with a direct pathway through triage, assessment, and our team of specialists delivers a better claims experience for the fund, employer and member.

ADVICE ON MULTI-CHANNEL MARKETING

Creating a signature experience for members that can only be delivered by your fund is necessary as the current environment has placed limits on how far funds can differentiate themselves by returns and savings on fees, a customer engagement professional said.

Australia is a “switching market” (where people already have a product or service and choose between them) and with a decreasing pool of accounts, down 1.4 per cent from last year, funds are being forced into an increasingly competitive position with one another according to Chris Howatson, managing director of CHE Proximity.

The old-fashioned model of share of voice driving share of market is diminishing, he said. As changes to publishing have shifted buying attention it has become harder to engage because there are so many more avenues.

Using case studies from similar industries, Howatson demonstrated the challenges and opportunities of the multi-channel media age.

A strategy that was successful with GE Money, which was bought at the weekend for a reported \$8.2 billion, was to engage consumers much earlier on in the purchasing chain.

They developed platforms, including a website giving lifestyle advice around finances that caught consumers at the dreaming and research stage, harvested the data from this and then used it to give targeted products later on in the consumers’ life based on analytics of big data of the best situation to contact them in.

“You need to tap into moments to change

member’s behaviour,” Howatson said.

He added that the message was only as powerful as the context through which they delivered, so the creative digital solutions need to be part of the engagement strategy. He asserted that these creative solutions came through bringing together a diversity of people.

Kate Andrews, executive manager of marketing strategy, marketing and communication at HESTA, said that her fund’s members had been embracing technology, particularly mobile as most of them did not sit in front of a desktop computer at work. Email communication through this channel had a 70 per cent open rate. ■

SPONSORED EDITORIAL

HELPING CLAIMANTS GET THEIR LIFE BACK

It’s no secret that group insurance in Australia has been facing some challenges recently. Elevated claims levels as a result of a range of factors, from increased diagnosis of mental illness to increased involvement of lawyers in insurance disputes, are putting pressure on premiums across our industry, says Nat Cameron, chief group insurance officer with AIA Australia.

Far from being complacent on these issues, many group insurers are developing new initiatives that can help better manage claims volumes. AIA Australia has invested significantly in developing intervention systems to work with income protection and disability claimants early in the process. By engaging early with claimants and helping them to return to good health, we can not only improve bottom lines but also boost employer productivity and employee engagement.

Early intervention is the key to both managing the financial cost of claims and getting claimants back to work. Currently, the average duration for an income protection claim is 20 weeks (140 days). Reducing this average by just one week would save the insurance industry a total of \$84 million per year. And more importantly, it means claimants getting their lives and independence back sooner.

As an advocate of occupational

rehabilitation, we have worked with expert Petrina Casey to develop a set of best practice principles for successful rehabilitation of members suffering illness or injury, which we believe all insurers should adopt. These include:

1. Understanding that work is good for health and business;
2. Screening - Having an operational model that has strong linkages between claims management activity and rehabilitation is essential;
3. Ensuring that claimants are supported and empowered;
4. Supporting the right intervention at the right time for the member;
5. Communicating effectively with key external stakeholders, such as a claimant’s doctors and family members; and
6. Measuring the effectiveness of the rehabilitation program in returning employees to work.

AIA Australia has conducted extensive workplace rehabilitation trials over

the last two years, in conjunction with many of our major super fund partners. The results showed that return to work programs emphasising these six key principles had a hugely positive impact on health and productivity outcomes for workers and employers. And at the same time, it has provided significant cost savings for the businesses and super funds that we work with.

There is no doubt in my mind that early intervention and rehabilitation will continue to grow within claims management as the group insurance industry moves forward into a sustainable future. It is a true example of innovation that drives better outcomes for members, funds and employers and insurers alike.



Nat Cameron is chief group insurance officer with AIA Australia

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AIST/MERCER TRACKER LAUNCHES

Super benefits received by females are on average less than two thirds of those received by males, reveals the first piece of work completed by the AIST-Mercer Tracker.

This gap is offset to some extent by the age pension, but there is a difference of around \$45,000 for the average super balance for men and women.

The AIST-Mercer Super Tracker has been jointly developed by AIST and Mercer to provide an objective means of assessing super and road test new ideas and policies.

Mercer, senior partner, Dr David Knox, said: "This new tracker brings evidence based views to the table on hotly debated issues such as the equity of government support and the gender gap in retirement savings.

"Potentially, more than ever before, Australia's superannuation system is

being debated and it's critical that any future changes are based on evidence," Dr Knox said.

Other measures from the Tracker estimated the workforce participation of Australians aged 65 and older needs to almost double, from 12.4 per cent to 20 per cent, to improve the sustainability of the super system.

It also found participation rates for workers aged 60-64 also need to significantly increase from 53.7 per cent to 65 per cent to strengthen the system.

Generally the Tracker found that the system would deliver 70 per cent of the median income for full time workers for most Australians who enter the workforce at the age of 20 and retire at 67 years. 



Joint trustee of the year award

Maree O'Halloran of HESTA and Bob Henricks of Energy Super have been named as the first ever joint winners of the AIST's trustee of the year award. Both were commended for tireless dedication to their funds.



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Printing – Kwik Kopy (Southport)

CMSF Daily News is published by Conexus Financial, the publisher of *Investment Magazine*. All views expressed are those of the authors and do not reflect the views of the conference organisers.

Conexus Financial Pty Ltd is an independently owned Australian company.
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What do you think the industry will look by 2015?

FIGURES FROM SURVEY OF ASSET OWNERS BY BNP PARIBAS SECURITIES SERVICES AND AIST

71%

Believe there will be another major downturn in the lead-up to 2025

41%

Believe regulatory change is the most worrying factor

93%

Believe post retirement product development will be a key focus by 2025

83%

of superannuation fund executives expect to personalise each member's fund experience by 2025

66%

Expect the role of ESG to increase in our industry

62%

Believe their fund will offer disability insurance payments within a decade

38%

Expect industry rationalisation will lead to more competition

37%

Believe industry rationalisation could lead to less competition

FINAL WORD



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