



Institute of Actuaries of Australia

4th Financial Services Forum

Innovation in Financial Markets

19 and 20 May 2008 – Melbourne

Back Office Innovations

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Back office is...

- Administration and support
- Processing of transactions
- Limitations:
Super, wealth management



“Melbourne has demonstrated that it has all of the elements required to provide world’s best practice in administration”

- Australian Custodial Services Association, May 2007



HOUSEWORK
IS EVIL.
IT MUST BE
STOPPED.



Back Office – Dramatic changes in last 10 years

- Industry structure
- Operational efficiency

What are the drivers?

Where is the future?



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Innovation is ...





Why innovate?

- Provide new product
 - grow business, greater satisfaction
- Improve quality
- Enhance user experience / service
- Better value, less cost, more efficient
- Reduce risk
- Increase flexibility
- Stay competitive



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**So what has
changed?**



Industry observations #1

	1998*	2008
Superannuation assets	\$360bn	\$1,200bn
Life office share of superannuation assets	34%	19%
# fund managers	108	183
# software / IT providers	15	105
# administrators	Not listed	29

* 1998 approx; Sources: see next page



Industry observations #2

	1998*	2008
Web use – retail & corporate	Infancy	Mainstream, comprehensive
Regulation	Present	Intense
Reaction to “Please hold - your call is important to us”	@**&@!	@**&@!

*1998 approx; Sources: Aust. Financial Services Industry Yearbook 1999 -2000; Money Management Web Site 2008; APRA; Authors’ observations.



Back office innovation examples

	1998	2008
Client correspondence	Physically filed	Scanned & stored on accessible database
Client transaction reconciliations	Manual and spreadsheets	Systems and by exception
IT Systems	Multiple systems	Integrated across functions and data
Service delivery	Hours, days, weeks	Real time, hours, days



Process example - Unit pricing #1

	1998	2008
# unit prices	A few thousand	Tens of thousands
Entities doing unit prices	Mostly life offices, unit trusts	LOs, FMs, WMs, Super Funds, Administrators
Software	S/sheet	Specialist software
Monitoring	Actuary, fund accountant	Teams across entities, APRA & ASIC

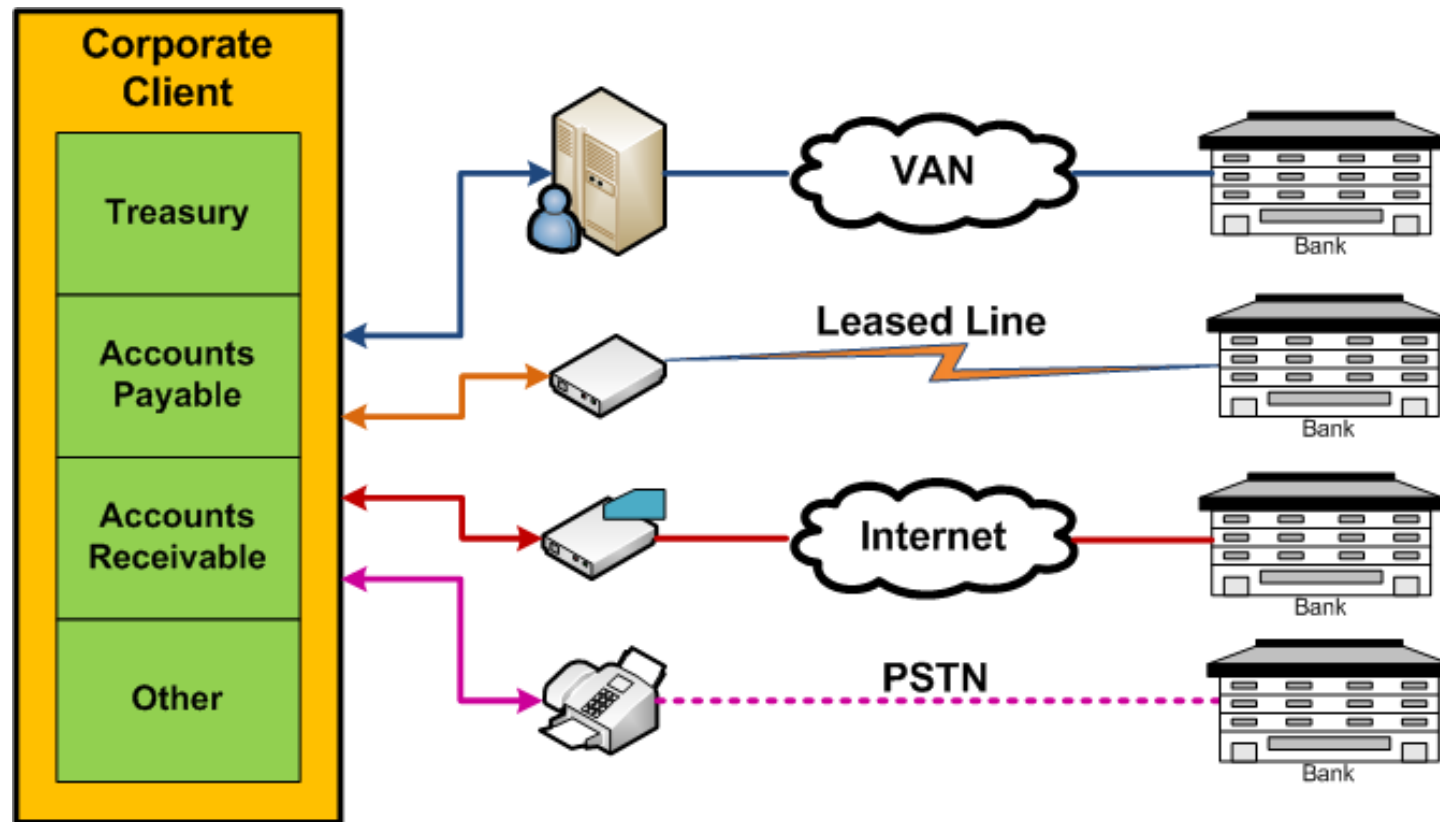


Process example - Unit pricing #2

	1998	2008
Cumulative \$ compensation	\$m	\$bn
Regulation & Guidance	None explicit	APRA/ASIC Guide; IFSA & ASFA standards & guidance

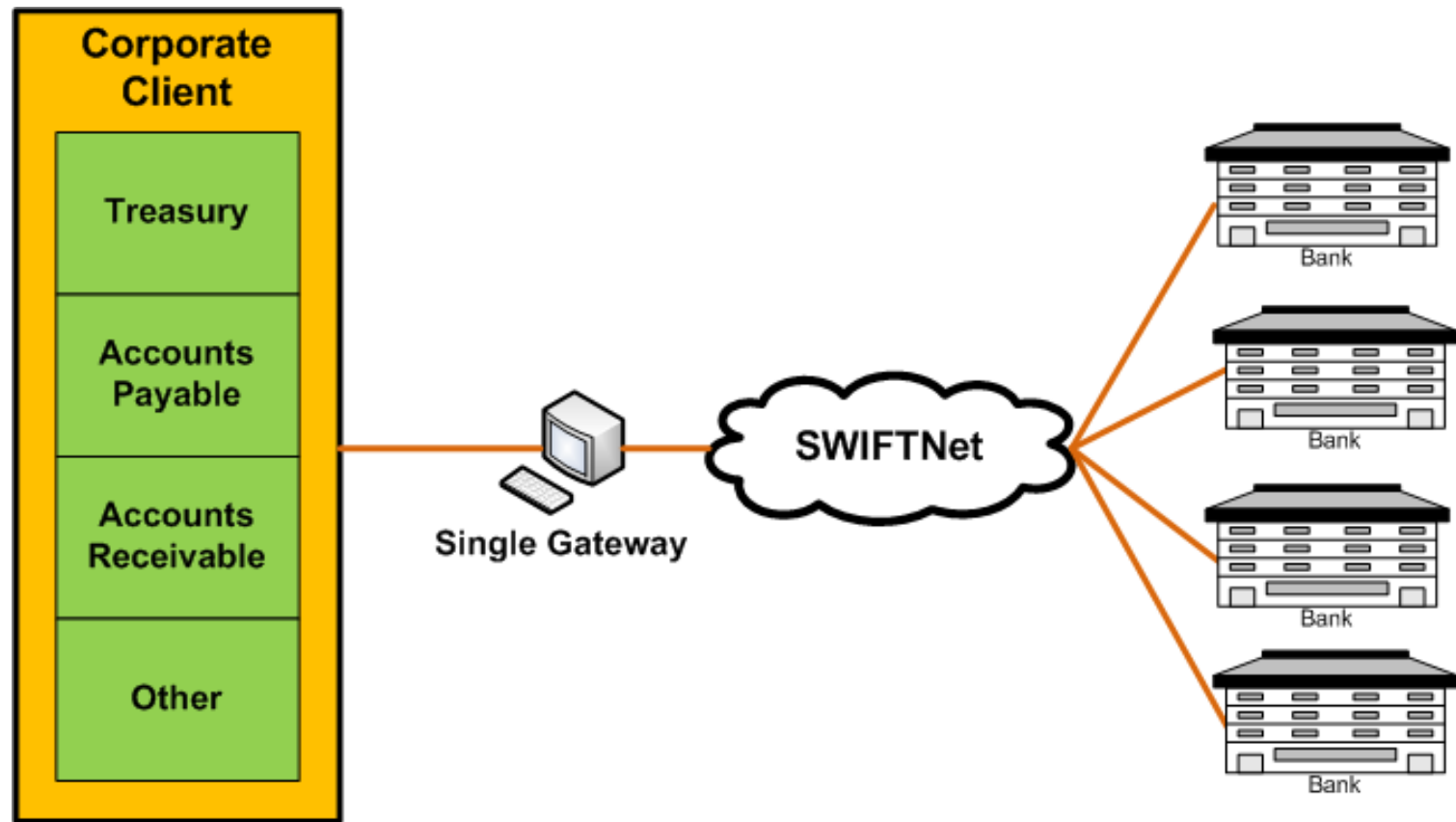


Innovation example – SWIFTnet #1





Innovation example – SWIFTnet #2





Drivers of change leading to innovation #1

- Super legislation – critical mass, big \$, choice
- Competition – opportunity, globalisation, strategic decisions by banks -> wealth management
- Technology – web, speed, direct access
- Economic boom – individual wealth



Drivers of change leading to innovation #2

- Regulation – higher standards & expectations
- Consumer protection
- Entity specialisation, outsourcing
- Financial product innovation
- Increasing consumer sophistication



Where do we go from here?



Innovation themes & facilitators

- **Technology**
 - Web, software, transaction volumes & cost
- **Processes**
 - New products, BPR, outsourcing, controls
- **Global village**
 - Ideas & successes, global businesses, competition



Future #1

	2008	2018
Superannuation assets	\$1,177bn	\$3,400bn
Life office share of superannuation assets	19%	10%
# of fund managers	183	300
# of software providers	105	200
# of administrators	29	40

Sources: see next page



Future #2

	2008	2018
Web use – retail & corporate	Mainstream, comprehensive	Pervasive, Web 3+
Regulation	Intense	International; 1Mega Aus regulator?
Reaction to “Please hold - your call is important to us”	@**&@!	@**&@!

Sources: Money Management Web Site 2008; APRA;

Authors' assessments.



Future innovation outcomes

- **Integration**
 - across business functions and processes
- **Straight through processing**
 - Standard across most functions – not just investment trading
- **Enhanced consumer capability**
 - individually tailored and supported
 - action and reporting/viewing
 - global
- **Enhanced business partnering**
 - Technology, business processing, distribution, global



Summary & Conclusions

- Massive innovation last 10 years
- Innovation improves the experience
- Drivers are wide ranging, continuing
- Future: Innovation themes & outcomes
- Much easier to observe than to do

“Innovate or Perish!”



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Comments, Questions, Discussion

Your views?