Product Rationalisation

Extracting efficiencies now - a framework

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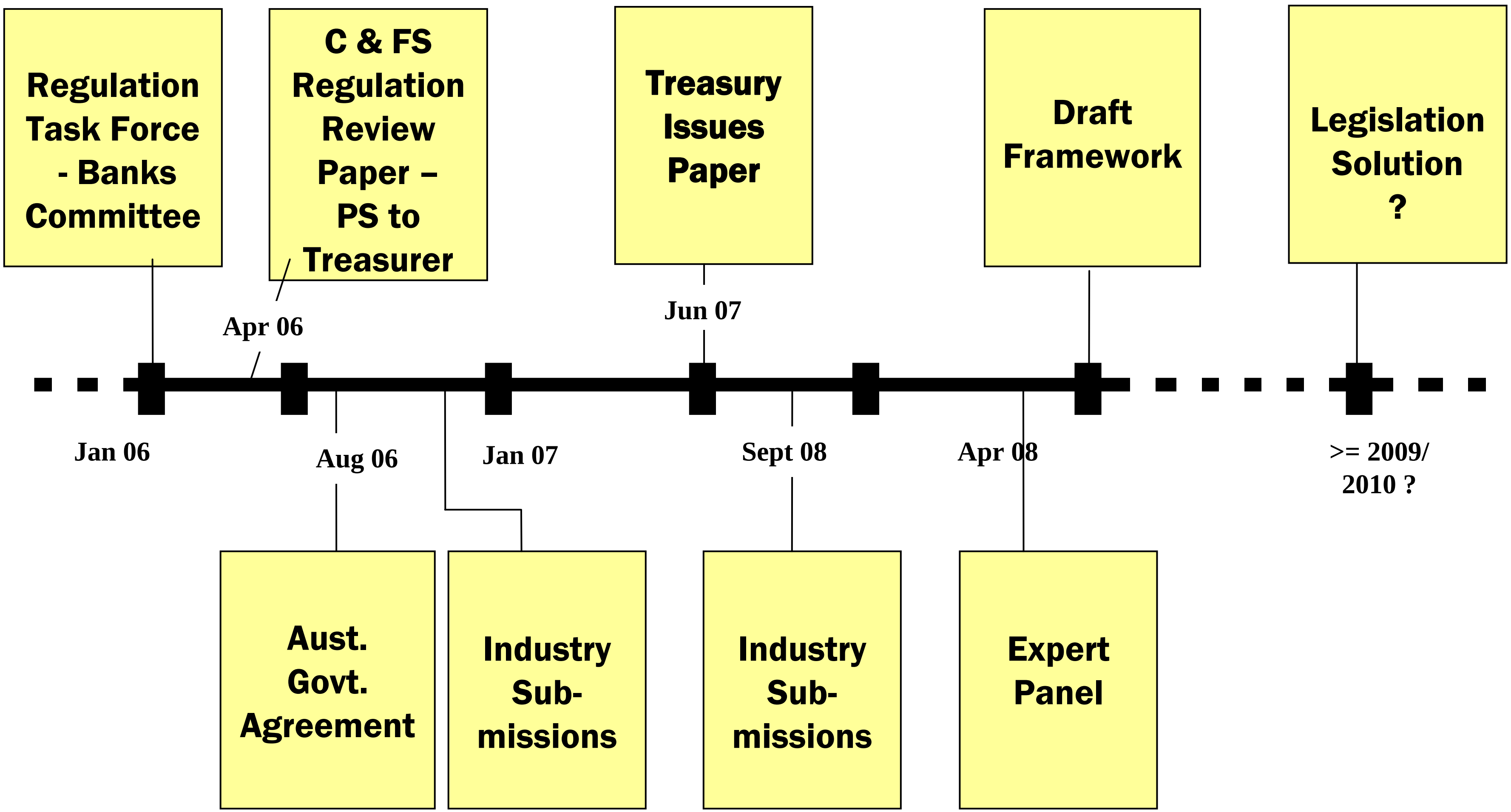
What we'll cover …

- Background
- A framework
- Minimising risk

Framework evolution



Background

What is product rationalisation?

- A process for moving customers from “legacy” products to more modern products without financial detriment.

What is a legacy product?

- Treasury: "..products that are closed to new clients but remain in force because there are still investors.."
- Products close due to
  - Legislative changes
  - Market changes
  - Unsuccessful products / poor performance
  - Technological changes
  - Merger and acquisition activities

Problems with legacy products

- Many old & inflexible systems
- Loss of expertise and knowledge
  - Product
  - Systems

⇒Poor service levels

⇒High expenses

⇒Higher operational risk

Some statistics (IFSA, Treasury)

- Legacy products = 1/3rd of 6,000
- Legacy FUM = 25% to 30%
- 2005 *annual* economic benefit to customers is \$120m to \$350m
  - \$70 per year per customer (in legacy product)
- 2004 Legacy exit fees o/s = \$950m

Impediments to product rationalisation

- Legal constraints - limited mechanisms in current regulatory framework
- Lack of consistency over different product regimes
- Adverse tax consequences for investors
- Risk of loss of funds under management
- Product rationalisation is a large, complex project. Much can go wrong.

Product rationalisation can be an expensive, high risk project. But costs and risks to not rationalising.

Current legislative framework

- Life insurance
  - Contract / Life Insurance Act / Insurance Contract Act
  - Part 9 Transfers
- Superannuation
  - Trust Deed / Trustee / SIS
  - Successor fund transfers
- Managed investment schemes
  - Scheme constitution / Responsible Entity / Corporations Act
  - Wind up / withdrawal with manager consent

Process

You have done some "Rationalisation" if you have worked on …

- M & A – entity, funds, sub funds
- Transitions – e.g. between administrators
- System migrations
- Super DB to DC / Accumulation

Treasury issues paper

- Objectives
  - Consistent arrangements across the “managed fund sector”
  - Beneficiaries receive benefits with at least equivalent benefits and rights
  - Beneficiaries do not suffer adverse tax consequences

Industry response

- Broad consensus – eg IFSA, ASFA
- Strong agreement on
  - Tax neutrality
  - “No detriment” to consumers
  - Product provider to drive and pay costs
  - Disclosure
- Less agreement on Product provider self-assessment & independent confirmation

Conclusions from background #1

1. Broad consensus – so plan product rationalisations in light of this

2. Core issues largely unchanged

3. New confirmation mechanism could be more or less onerous than existing

Conclusions from background #2

4. Transition, M&A, system migration activity ongoing

5. Expect rationalisation via product alignment & system migration where 2 year view of benefits less cost supports this

6. Worthwhile for providers to start investigations & planning on full rationalisation

Product Rationalisation Process
A Framework

- Governance
- A detailed plan - phased
- Do your homework
- Execute well
- Monitor

Which products?

- Identify all “closed products”
- Collate statistics on these and compare to all products
- Assess “goodness of fit” to current product rationalisation mechanisms
- Estimate current and future costs of rationalising v. not rationalising
- Consider strategic / indirect aspects

Key process elements

- Develop “offering”
- Analyse
  - Tax implications
  - IT Systems
  - Risks
  - Potential costs and benefits
  - Equivalence of rights & benefits
- Develop
  - Communications plan
  - Administration procedure
  - Complaints and compensation procedures
- Involve 3rd parties as required

Equivalent rights and benefits?

- Detail of test will depend on legislative framework
  - Equivalent rights and benefits (current Super)
  - No disadvantage (Treasury Issues paper)

Which rights and benefits?

Tangible	*Intangible*
Accrued	Flexibility
“Headline”	Investment choice
Ancillary	Service options
Fees	Service levels
Tax position	Security of benefits
etc	etc

Assessment of rights and benefits

- Bundle of rights and benefits - fair & equitable
- Discretions
- Assess at group or individual level
  - Be aware of potential for individual variations within a group
- Model these to extent necessary

Costs Benefit analysis

- Costs
  - Project costs – typically underestimated
  - Effect of loss of FUM
  - Specialist 3rd party costs – internal, external etc
- Benefits
  - Reduced systems and their maintenance
  - Fewer staff – across admin & other areas
  - Reduced risk – key person, errors, retention etc

Allocation of Costs & Benefits?

- How should costs / benefits be allocated between?
  - Provider / Shareholders
  - Beneficiaries
- Order of allocation
  - Costs by provider
  - Costs of benefits beyond "equivalence" in excess of providers costs - all to provider?

Risks & risk management

How can risks be minimised? #1

- Identify potential risks early

- Major risks
  - Underestimating size and complexity
  - When things go wrong
    - Client dissatisfaction / reputation
    - Loss of clients / funds under management
    - Mistakes can be costly to fix

How can risks be minimised? #2

- Be aware of what can go wrong
  - Inadequate documentation
  - Data management
  - Asset transfers
  - Data migration can uncover past mistakes
  - Adverse tax consequences
  - Failing on benefits equivalence
  - Poor communication

Project governance & management

- Governance process & Project plans
- Appropriately qualified staff
- Sufficient resources
- Change management processes
- Error management processes
- Documentation
- Communication

Summary & Conclusions

- Legacy products chew up time, resources and money
- Product rationalisation is not easy
- New framework is getting closer
- In the meantime
  - Rigorous analysis, careful planning and execution are critical
  - Don’t stop rationalising – do what makes sense now & start preparing for the “big bang”

Product Rationalisation Extracting efficiencies now - a framework

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Comments, Questions, Discussion

Your experiences?

Your views?