



Institute of Actuaries of Australia

5th Financial Services Forum

Renovating the Financial System

2010

13 and 14 May 2010 – SYDNEY

More about ..

Innovation in Superannuation

.. fund structure, management etc

Sean McGing & Andrew Mead

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SEBPC Update – Cooper, Henry, Johnson, Ripoll and the Federal Budget – What else?

Institute of Actuaries of Australia SEBPC

What we'll cover

- What do we mean by innovation?
- Why innovate?
- Innovated Super – a dream
- We'll narrow the field to look at innovation
 - past and potentially in the future in
 - Super fund structure
 - Operational efficiency
 - Post retirement incomes

Definition of Innovation

- Innovation – A radical or incremental change in thinking, products, processes or organisations;
- The goal of innovation is positive change, to make someone or something better.

* Sources : Wikipedia, Presentation of “Back Office Innovations” by Sean McGing & Rachael Foo to Institute of Actuaries of Australia 4th Financial Services Forum 2008.



Concept of equitable innovation

- Members outcomes are the first and last consideration
- Must improve member outcomes
- Directly or indirectly
- Over time
- Equitably with respect to other stakeholders positions
- For profit vs not for profit super funds

Why innovate in superannuation?

- To improve members' positions in retirement
- 2008 Back Office innovation paper:
 - Better value, less cost, more efficient
 - Enhanced user experience / service
 - Improve quality
 - Reduce risk
 - Increase flexibility
 - Stay competitive



What drives innovation in superannuation?

- To create further innovation in super, understand the drivers that lead to change:
 - Legislation & regulation including tax
 - Competition
 - Technology
 - Consumer protection
 - Entity specialisation
 - Product development

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**You look after your life.
We'll look after your super.**

A new era in financial advice



Innovated Super – you're dreamin'?



- Best returns
- Best income in retirement
- Best service
- Full access
- Total trust
- Cool!
- ..for members



Super fund structure – past innovation

- Australia 2nd in world - per Melbourne Mercer Global Pension Index
 - Adequacy (4th), Sustainability (2nd), Integrity (1st)
- Main driver is legislation & regulation – i.e. Federal Govt. policy on superannuation & tax
- Other past equitable innovations:
 - Awards, then SGC Insurance
 - Co-contributions & spouse contributions;
 - SMSFs
 - Member choice
 - Not DB to DC

Super fund structure – future innovation

- Cooper Review – MySuper, SuperStream
- Henry Review – Retirement incomes
- Ripoll Inquiry – Financial advice
- Industry would benefit from innovations:
 - Encouragement to pay pensions not lump sums – “double dipping” inequitable
 - Management of longevity risk
 - Integration with social security
 - Financial advice – members need low cost “lite advice”
 - Corporate DB schemes insurance or deposit scheme – to avoid severe loss of pensions on company failure

Operational efficiency – past innovation

- Emergence of industry funds with scale
- Member choice – where exercised wisely
- Platforms – service but ...multi ticket clipping
- Outsourcing of administration to specialists
- Use of IT&T – service, product, processing, e.g. unit pricing – but limited compared to potential
- Limited web based self service

Operational efficiency – future innovation

- Equitable innovation goals
 - Reduce costs, reduce fees, increase speed
- Implement standard definitions and processes
- Increase the use of technology to connect stakeholders and automate processes
 - Use best of other mass transaction businesses
 - Web based member communication & service
- Increase transparency and improve compatibility
 - Build industry assessment benchmark and monitoring tools

Post retirement incomes – past innovation

- Account based (allocated) pension with min/max limits by age
 - retains member control for later
 - enables exposure to growth assets,
 - but big risks around volatility
- Tax free benefits in retirement – great member outcome - or just fiddling with the rules?
- Most recently – guaranteed retirement growth and income products (eg variable annuities)



Post retirement incomes – future innovation

- Product innovation
 - Wider variety of choices to meet need for guaranteed income
 - Investment risk transfer back from members to markets, insurers
 - Lower costs of products and/or easier access to lower cost products
 - Blend member needs, longevity, risk, decision processes, investments – allocation, returns, derivatives, alternatives, infrastructure
- Regulatory / Government
 - Discourage lump sums + remove rules discouraging income products
 - Provision of very long dated and inflation linked government bonds
 - Development of Australian longevity index
- Advice
 - Find optimal cost effective ways to communicate with members and guide them to optimal financial decisions

Summary

- Equitable innovation = improved outcomes & equitable to members = better retirement income, less risk.
- Past innovation not always equitable
 - e.g. “Actuarial funding”, complication vs transparency
- Future innovation critical:
 1. Encourage lump sum to income – improve adequacy
 2. Force ebusiness basics standardisation - to achieve operational efficiency across industry
 3. Retirement income products which protect members at reasonable cost



References

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- 5 Ernst & Young Submission to Cooper Review on Phase 2: Operation and efficiency. 10 December 2009
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Contact details

Sean McGing

(03) 9288 8970 0411 229 641

sean.mcging@au.ey.com

Andrew Mead

(02) 9276 9074 0403 585 765

andrew.mead@au.ey.com