2025: What will the Superannuation Industry look like in a decade?

A long-term outlook for Asset Owners and Managers
Table of contents
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>04</td>
<td>2025: What will the Superannuation Industry look like in a decade? A long-term outlook for Asset Owners and Managers</td>
</tr>
<tr>
<td>05</td>
<td>Executive outlook</td>
</tr>
<tr>
<td>06</td>
<td>The Global economy by 2025 – half empty or half full?</td>
</tr>
<tr>
<td>18</td>
<td>Key strategic risks for the superannuation industry in 2025</td>
</tr>
<tr>
<td>19</td>
<td>What will investors want in a decade?</td>
</tr>
<tr>
<td>29</td>
<td>Local Australian issues</td>
</tr>
<tr>
<td>32</td>
<td>Innovate and grow</td>
</tr>
<tr>
<td>35</td>
<td>A changing industry</td>
</tr>
<tr>
<td>41</td>
<td>Future gazing – industry crystal ball predictions</td>
</tr>
<tr>
<td>43</td>
<td>About this outlook</td>
</tr>
</tbody>
</table>
2025: What will the Superannuation Industry look like in a decade?

A long-term outlook for Asset Owners and Managers

What do you think our industry will be like in 2025?

One thing is certain; the environment that we are operating in today will not exist in 10 years’ time. Markets, our industry and the world will keep changing.

The next decade will no doubt bring changes, some of them perhaps 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 which part of our world next? What can we see now that may win out over other influences? Where does common sense tell us to look for change? Where do we think that the collective viewpoint may prove wrong?

The Australian Institute of Superannuation Trustees (AIST), in conjunction with BNP Paribas Securities Services, undertook research to identify key longer-term issues we might all face. By asking where you think the industry will be in 2025 we sought to consider how to best shape our industry, overcome challenges and maximise opportunities for asset owners, managers and investors.

We identified several notable trends:

- Demographic shifts will create investment opportunities.
  - These will vary by region and country, and
  - Entice more asset owners, managers and investors offshore.
- A wider range of asset allocation approaches will be used to try to reduce volatility.
  - This should lead to new asset classes being developed, and the
  - Introduction of new performance measures and investment reporting.
- 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.
- Ageing developed populations will seek incomes from their funds.
  - Asset owners and managers will develop and 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.
- There will be continued restructuring of industry participants.
  - Asset owners and managers need to better determine where they can add true value.

We hope you find this study helpful.

Ian Perkins
Acting Head of Australia & New Zealand
BNP Paribas Securities Services

Tom Garcia
Chief Executive Officer
Australian Institute of Superannuation Trustees

1. This outlook provides general information only and is intended for asset owners and managers and other associated wholesale institutions. Please refer to the “Important information” at the end of this document.
Executive outlook

There are a range of trends, themes and issues ahead that the industry believes it will need to plan for by 2025. Some of them reflect current challenges and opportunities. Other predictions are longer range and anticipate developments not currently on the industry’s radar. Which ones do the Australian superannuation community believe will be the biggest strategic risks in a decade?

Ageing population
The ageing investor population concerns our industry the most, with two thirds (69%) of asset owners and managers most concerned about its impact on their business.

While ageing populations offer less growth and create challenges, there are also opportunities for astute organisations. As an increasing number of investors near retirement, how investors access their superannuation is likely to shift from ‘lump sum windfall’ to ‘income’ replacement and post-retirement product development will be a key focus in 2025. An increasing number of superannuation funds are expected to move to showing how long investor’s assets will last at an estimated spend rate after retirement, along with total accumulation.

Regulation
Over 40% of respondents expect regulatory change will be the single biggest risk to our industry in 2025 and more than seven-out-of-ten (71%) expect there will be even more regulation in 2025. This was reflected in a lot of the verbatim responses also.

Clearly the industry is worried about regulation and do not see any let-up in the next decade. This is not surprising when you consider the changes we have seen in the past few years and the additional work required for Stronger Super. It is also not surprising that some respondents worried that the Federal Government will increasingly look at super as a source of revenue in the years to come. Recent news that Government might consider allowing people to access their superannuation savings before age 55 for purposes such as first home deposits is also clearly translating into continued industry concern as to what the next decade holds.

Technology
Technology is another major concern, especially what ‘unknowns’ and what changes they might bring.

The industry is also considering how to best harness technology. For example, it will be key to developing more personalised engagement as well as providing real time and bespoke data delivered on mobile platforms. An overwhelming 83% of superannuation trustees expect to personalise each member’s fund experience by 2025.

Those that do not adopt new technology are cautioned that they could go the way of Kodak’s demise in the photography industry. Others are concerned that technology could allow some players not currently in the market to suddenly take market share. Some superannuation providers, for example, are about to offer home loans and credit cards. How far will they be able to use technology to encroach into ‘traditional’ (as well as yet to be developed) banking products and services? And will it be worth it for them in terms of revenue as well as member engagement?

Meeting investor needs
Despite expected change, some investor needs are forecast to remain constant over the decade ahead; with most respondents saying the main factor that will influence their selection of an investment manager will remain returns. Two thirds (67%) said it was of high importance and almost a third (32%) said it was of moderate importance.

However, volatility weary investors are expected to increasingly want to better understand how much risk is being taken to obtain returns. We expect this will see new risk-return measures developed. Almost half (48%) of respondents in our survey predict a swing towards absolute return objectives by 2025.

What do you think is ahead?
The Global economy by 2025 – half empty or half full?

While you can find most things online these days, you will have trouble finding much information on the future of our industry. Searching Google and Yahoo reveals few results on what we may all be facing in a decade.

That said, there are a range of longer-term economic outlooks. The International Monetary Fund, for example, forecasts the world will enter a five year period of low growth until 2020. The OECD expects global growth will slow from an average of 3.6% in 2010-2020 to 2.4% in 2050-2060. “Still, such growth rates will mean that global economic output will more than quadruple over the coming 50 years.”

What do Australian asset owners think? Half of the Australian asset owner community is relatively confident about the future of the economy over the next decade, predicting it will be on trend or just above trend. However, the remaining 50% are either less optimistic or uncertain what the future might hold.

What do you think the global economy will be like in 2025?

If there is growth, this level of growth is unlikely to be consistent around the globe. It is expected to increasingly diverge between some regions; before converging again towards the end of the decade. The US should lead growth in the developed nations for many years, as it is at present. Growth is also expected to be stronger in the United Kingdom, compared to other parts of Europe. The Eurozone and Japan are forecast to remain comparatively stagnant for several more years, then likely grow, albeit at a slow rate.

This will also result in a divergence of monetary policy over the next few years. The European Central Bank and the Bank of Japan are both expected to extend accommodative monetary policies, with their central banks not expected to start raising rates until 2018 at the earliest.

There will be many consequences of this divergence, including investors on the Continent looking across the Atlantic and further afield for greater returns on some of their money, while Americans may reinvest in their own growing economy and look further afield for ‘bargains’.

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015
Asia is most likely to continue to provide some of the greatest growth. Chinese GDP growth is expected to be consistent around 7% a year for much of the decade, as forecast in its latest five year plans, and while down from previous double digits is more sustainable – and still more substantial than many other markets.

Closer to home, the Australian economy is expected to build momentum from late this year, providing some of its best growth since 2011. Growth may then ease in 2017-8 as interest rates rise, according to BIS Shrapnel. The forecaster expects domestic growth of around 3.5% in 2018-9 and strengthening further through 2020. The longer-term outlook is more uncertain and dependent on events elsewhere around the globe.

It is important to note that these figures, while suggesting an improving global, as well as local economy – only provide part of the outlook as to the potential state of the industry in a decade. For example, we also expect growth, everywhere, will be driven by consumers. They will be the engine of economic recovery, more than any other sectoral contributor, in what will be the ‘consumer decade’. As such, each country’s recovery is likely to depend on how their consumers feel about their local economy and their individual future. (Accordingly, a focus on reducing unemployment will continue to be important.) Governments everywhere as well as business would do well to recognise the power of improving consumer sentiment.

More volatility ahead?

Whatever the final economic outcome by 2025, many asset owners believe that we’ll experience another downturn in the meantime, according to our survey.

Do you think there will be a major market downturn within the next decade?

<table>
<thead>
<tr>
<th>Answer Choice</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>70.65%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>11.96%</td>
</tr>
<tr>
<td>No</td>
<td>9.78%</td>
</tr>
<tr>
<td>Several</td>
<td>7.61%</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

Their views are supported by research from the World Competitiveness Centre, which suggests the world is afflicted by an economic crisis every six years, on average, since World War II. It said the cycle involved roughly 58 months of steady economic growth followed by 11 of free fall.

Markets will continue to fluctuate, cycles will continue with their own variations and investors will try to develop new ways to outsmart them and profit. The variety of human interactions and their impacts on markets will ensure new challenges persist. It is also from this variety that opportunities will continue to arise.

Aside from the vagaries of economic and market outlooks, what we do ‘know’ is that our industry is changing – some suggest more than ever before – given the amount of reporting and regulation and impact of new technology. Assessing likely conditions and analysing how then to best position for them is what good management, and client service, is about.

Most published outlooks assume that the eventual cessation of quantitative easing (QE) and today’s low interest rate environment does not lead to another unforeseen issue that recreates another bout of market-wide volatility. Rather, low, zero and even negative interest rates are likely to be a fading memory, relegated to history as rates return to more traditional levels by 2025.

The majority of outlooks do not expect rates to rebound and rise too far the other way. The US held interest rates low from the 1930s into the late 1950s and markedly higher rates may not be something we see for some time.

Nonetheless, debt and deleveraging will be major issues towards the end of the decade, especially as rates rise. How they are addressed will obviously be key. Will organisations have grown enough to pay down their debt by then? Only time, and good management, will tell.

Changing demographics, regulation and volatility

There are several substantial trends that will undoubtedly impact economies, markets, the industry and investors. These include demographics, regulatory change, continued market volatility and more.

When asked, two thirds (69%) of asset owners and managers believe the impact of an ageing population will be the most profound influence on their business in 2025.

Other factors they believe will influence their business include technology developments, (58%), regulatory change (44%), market volatility (43%) and business changes (30%), as shown below.

What do you think will be the biggest influences on your business by 2025?

<table>
<thead>
<tr>
<th>Influence</th>
<th>High influence</th>
<th>Medium influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ageing population</td>
<td>68.75%</td>
<td>26.25%</td>
</tr>
<tr>
<td>Technology developments</td>
<td>58.02%</td>
<td>32.10%</td>
</tr>
<tr>
<td>Market volatility</td>
<td>43.21%</td>
<td>46.91%</td>
</tr>
<tr>
<td>Regulatory change</td>
<td>43.75%</td>
<td>50.00%</td>
</tr>
<tr>
<td>Business changes</td>
<td>30.00%</td>
<td>61.25%</td>
</tr>
<tr>
<td>Growth of Asia</td>
<td>27.16%</td>
<td>56.79%</td>
</tr>
<tr>
<td>Tax increases</td>
<td>19.75%</td>
<td>43.21%</td>
</tr>
<tr>
<td>Geopolitical pressure</td>
<td>18.75%</td>
<td>46.25%</td>
</tr>
<tr>
<td>Environment</td>
<td>11.39%</td>
<td>54.43%</td>
</tr>
<tr>
<td>New asset classes</td>
<td>7.50%</td>
<td>33.75%</td>
</tr>
<tr>
<td>Disease</td>
<td>5.00%</td>
<td>7.50%</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

Certainly, demographic factors, including ageing of Western investors, will be a major influence on the industry – here and around the globe.

While already well reported, it is worth recalling how growth in the largest emerging economies is forecast to be stronger than that of the largest developed countries. While they are roughly equal at present, the gross domestic product (GDP) of the largest seven emerging economies is expected to increase 50% by 2025 and be double that of the largest seven developed markets by 2050, as shown below.
Gross domestic product of G7 and E7 emerging economies

<table>
<thead>
<tr>
<th>Year</th>
<th>G7 (US, Japan, Germany, UK, France, Italy, Canada)</th>
<th>E7 (China, India, Brazil, Russia, Indonesia, Mexico, Turkey)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>US $29.0 trillion GDP</td>
<td>US $20.9 trillion GDP</td>
</tr>
<tr>
<td>2050</td>
<td>US $69.3 trillion GDP</td>
<td>US $138.2 trillion GDP</td>
</tr>
</tbody>
</table>

Source: PwC analysis Capital project and infrastructure spending outlook, as at 2014.

The simple reason for this shift is the sharp rise in the number of people in developing economies making the transition from producer to consumer. By 2025 there are forecast to be an extra 1.5 billion of us on the planet, with 97% in developing, emerging and frontier economies\(^5\). Brazil, China, India, Indonesia, Korea and Russia will collectively account for more than half of global growth at that time, according to World Bank estimates\(^6\).

This is expected to transpose into consumption and associated economic shifts; with emerging economies expected to expand by an average of 4.7% a year – more than twice the developed world’s anticipated 2.3% annualised growth rate between now and 2025.

Asia will be the most populous region in the world, the biggest economic zone, the biggest consumer and home to the majority of the world’s middle class.

China will be the single biggest economy, trading country, saver and investor in the world\(^7\). That said, it is important to recognise that China’s economy and growth engine has changed. Its GDP growth is likely to have peaked and no longer offer double-digit growth; but rather more moderate and sustainable growth that stems from increasing consumerism. As such, selling to Chinese consumers will become the focus for the next decade\(^8\), rather than selling raw commodities.

Some of these Chinese consumers will be investors seeking products and services from overseas. As the Sino middle class continues to grow, they are expected to shift from investing in domestic real estate to properties overseas (as seen recently in parts of Australia) and then expand to other forms of investment towards the end of the decade.

This growth in developing markets, especially in Asia, will attract a range of asset owners, managers and industry players. However, those seeking to expand into these markets need to determine where they can add true value as demographic changes and impacts will vary by region and country. As PwC notes “*ageing populations in Western Europe and Japan, for instance, will require additional healthcare facilities, while countries in Sub-Saharan Africa, the Middle East, and many parts of Asia-Pacific will need more schools for their youth*”\(^9\).

To have a chance of success, adventurous asset owners and managers should learn lessons experienced by others who have already gone before them. Consider how retailers and internet firms from around the world tried to break into the Sino market. Some have succeeded, some just for a short while; and even less have achieved long-term success. There is no guarantee of success when transposing products from one market to another.

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5. Paris School of Economics Lionel Fontagne.
8. AXA Investment Management’s Head of Asia Mark Tinker
Also, all markets are becoming increasingly global and any local player considering expanding into an overseas market will not only encounter entrenched local competitors but also the major global players and their economies of scale, technology, processes and systems.

New approaches are required. Consider how some Australian asset owners have become experts in ‘real assets’ (such as real estate and infrastructure) in the domestic market and are now exporting this leadership to the global marketplace.

Another path is for aspiring entrants to foster partnerships with local Asian and other developing investment institutions to determine what investment opportunities they might have that could interest investors offshore and help them take these abroad, while simultaneously providing them with options from overseas. This bilateral model is beginning to show promise for some early adopters. Again, consider how AMP Capital has developed ties with other institutions in other regions, such as China and is sharing investment expertise and products. Institutions in developing markets seek the world-leading expertise that many Australian industry participants possess.

We also see opportunities for platforms and specialised technology to provide entry points beyond products for many offshore markets. Infrastructure development is a substantial opportunity and players could work together to provide this as well as products. Any expansion requires a competitive point of difference that investment consumers in these markets will easily comprehend and desire.

Proportion of the world population aged 60 years or more

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>8%</td>
</tr>
<tr>
<td>2000</td>
<td>10%</td>
</tr>
<tr>
<td>2050</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: UN report World Population Aging 1950–2050 and PwC

By contrast, the developed markets of the US, Japan and parts of Europe have comparatively stagnant and ageing investor populations. The ageing of Western pension markets are expected to have a major impact on the industry in these countries, with one study forecasting that some 40% of major pension funds are already in drawdown mode and 69% will be in drawdown within 10 years.10

Locally, the proportion of Australians aged over 65 is expected to almost double from 13.7% in 2014 to almost a quarter by 2050.11 That means that one-in-four Australians will be retired and drawing on their investments. The AIST and BNP Paribas Securities Services poll found that almost two thirds (64%) of respondents expected the age pension will still be available as a supplement to superannuation in 2025, but to a lesser level.

While ageing populations offer less growth and create challenges, there are likely to be compelling opportunities for astute organisations. For example, this trend will lead to the development of other investment products, as market participants recognise that they can provide retirees with an income stream from their pensions, rather than just a lump sum payout.

10. AMP Capital Institutional Investor Report #3 May 2014
Regulators to become more regular

Regulators are expected to continue to assess how to best ensure the good conduct of all market participants. They will likely all assess a widening range of industry activities. "Weak compliance systems, poor cultures, unsustainable business models and conflicted distribution may result in poor advice, mis-selling and investor loss, especially in managed investments," said the Australian regulator ASIC in late 2014. "Poor retail product design and disclosure and misleading marketing may disadvantage consumers, particularly at retirement."

As such, the industry should expect regulators around the globe to address these, and other similar, concerns. How they will regulate for these is uncertain; whether through prescriptive regulation, standards or suggested guidelines.

As regulatory regimes begin to converge, there is an urgent need for standardisation of regulatory oversight. Regulation enacted in one jurisdiction increasingly impacts other markets.

But will regulators reach agreement for global standards? Or will US regulators continue to be de facto Western standards? (If regional investment fund passports are to succeed they require greater standardisation of regulation.) The International Organisation of Securities Commissions (IOSCO) has already called for regulators to collaborate to minimise inconsistencies in risk mitigation requirements for cross-border non-centrally cleared OTC derivatives. Hopefully this can be extended to other areas of asset management as well.

Overall, we expect continued regulation to occupy the industry over the first half of the next decade – as it has in recent years. This will obviously have continued impact – and costs.

An overwhelming majority of respondents cited regulation as being greatest factor in stifling innovation and progress at their Fund.

There will be even more regulation in a decade, according to three quarters (71%) of respondents to our survey. One-in-five (21%) expect the amount of regulation to be similar to what it is now and just under 4% expect it to be less.

Do you think there will be more or less regulation in a decade?

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015
As to what role government and regulators should play in the industry in 10 years’ time, respondents made a range of suggestions.

- “Similar, but with stricter adherence to standards and timelines” or “as now, but not too complicated”.
- “Recognise vast differences between superannuation and banking.”
- “Consultative, collaborative, more flexible and integrated.”
- “A more compliance management approach, rather than enforcing risk management until it hurts!”
- “Working more actively with international regulators to better mitigate risk inherent in international financial markets.”
- “The cost of implementation has been an issue.”
- “By 2025, I would like to hope that regulators understand the super business better (as well as the key risks they need to protect members against) and regulation will be aimed at addressing these critical member risks.”

Another survey undertaken by BNP Paribas in 2014 found that regulatory change was the biggest risk to asset owners and managers’ business performance for the near future, concerning over 40% of respondents and rating double their concerns over economic uncertainty. Almost nine-in-ten respondents (87%) reported increased costs due to meeting those regulations. A further 8% were uncertain of the impact regulation had on their cost base. (Interestingly, two-out-of-five reported that external custodians and administrators helped them overcome this challenge and reduce costs.)

Those institutions that thrive will be those that meet these regulations, while growing the rest of their business. Accordingly, the industry should expect to continually improve its transparency, accuracy, reporting, operational and compliance arrangements. Other service providers are expected to increasingly step-up to help them meet reporting requirements (such as global custodians with international automated information management capabilities).

**Volatility and risk reduction**

Another major influence on the industry will be how to meet investors’ desire for more predictable investment outcomes. This has repercussions for asset managers in how they more holistically manage volatility and risks, while focusing on generating sustainable return streams that meet investors’ long term needs.

Given the multitude of crises investors have been through in the past decade, and the continuing sustained levels of high volatility in global markets, investors around the globe are very risk aware. A future economic shock was considered the third most concerning issue for those polled by AIST and BNP Paribas Securities Services, as shown below.
What do you think will be the single biggest risk to your business in 2025?

- Regulatory changes: 40.51%
- Operational costs: 22.78%
- Economic shock: 20.25%
- Mergers and Acquisitions: 18.99%
- Market changes: 16.46%
- Asset class issues: 6.33%
- Business aim changes: 6.33%
- ESG / climate change issues: 2.53%
- New entrants: 0%

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

Some of this heightened concern translates into investment risk aversion which will continue through-out the coming decade. This could potentially lead to the development of targeted solutions such as tail-risk hedging, target return/risk portfolios, scientific beta approaches and the like, all with the aim of being more transparent in terms of the risk-reward equation.

Accordingly, we believe risk-return attributes of products will play an increased role in promotion over the decade ahead as investors maintain a focus on safety and security. This is already witnessed in the increase in demand for direct investment in real assets such as real estate and infrastructure with their long-term investment focus. Increasingly we also see Investment Manager Agreements (IMAs) featuring explicit risk limits, with reference to Value at Risk (VaR) and Tracking Error the most common risk measures by which institutional investors engage their third party asset managers in this dimension.

The appetite for investment risk will vary from country to country, as currently demonstrated by how investors in the US are prepared to take more risk compared to their counterparts in many parts of Europe and highlighted by the comparative rise of US stock markets. We expect this to shift towards becoming more in balance over the decade, as European markets gradually rise out of their current slump and follow American growth.

This will be closely related to the demographic changes highlighted previously, as investors move from savers to spenders, thereby changing their risk appetite with explicit ramifications for their preferred set of investment strategies.
There are also other risks that asset owners and managers – and investors – are concerned about, including market, asset, issuer, credit, counterparty, country, liquidity, safekeeping, operational and regulatory risk to name just a few. Another recent BNP Paribas Securities Services study noted that improving risk analytics and improving the risk-return profile of portfolios worries over two-thirds of Australian asset owners and managers. More than half want a better understanding of their investment risk, while two-out-of-five (40%) are not satisfied with their risk reporting.\(^\text{12}\)

Many more asset owners and managers will recognise that they have to address these concerns to ensure they maintain a competitive advantage and meet investors’ requirements. (Parts of the custodian industry have already anticipated this and are providing significant improvements in these areas for astute players.) Another influence on the industry will be how to meet the needs of those retiring investors’ desire for less volatility and risk; for more reliable returns.

Renewed growth

Another expected shift that may also impact the industry is that governments around the world will increasingly commit to a more comprehensive growth agenda, as signalled at the October 2014 G20 meeting in Brisbane, Australia.\(^\text{13}\)

There should be increasing recognition that ‘free’ money and low interest rates alone do not solve economic problems. Instead, the growth lead taken by the US, and its resultant investment market increases, are likely to be echoed around the globe by other governments – if they can afford it. Sustaining growth, while addressing inequality among populations, will be a major policy challenge for governments everywhere. A vital element will be transforming investment market growth into actual real-world economic prosperity for populations, resonating through improved labour statistics, social costs as well as more effective long-term retirement solutions. More international co-operation will be needed in an increasingly multipolar world.

Locally, Australia’s Intergenerational Report forecasts that the nation’s productivity growth will remain around 1.5% a year over the next four decades – well below the 2.2% annual growth of the 1990s. Unless this can be boosted, Australia’s living standards, incomes and business will stagnate. Similarly, within the decade, the leaders of more companies will also realise that they cannot continually keep cutting costs as a means to ‘grow’. Accordingly, some will renew focus on how to grow their business. Just how much is uncertain. This change in management thinking could ultimately also lead to new technological advances and in turn renewed productivity improvements and increased overall economic growth as we move towards 2025.

Lower oil prices are tipped to also help many industries, especially energy consuming ones, to reduce their costs – adding straight to their bottom line. Also, as consumers recognise that lower oil (and some other commodity) prices are likely to remain low for some time, and are not a temporary blip, they should begin to spend (consume) more. This will provide another boost to help grow their local economies. After oil prices plunged in 1986, 1998 and 2008, US shares alone gained an average 23% over the subsequent 12 months.\(^\text{14}\) What is less certain is how the actions of sovereign OPEC producers impact energy producing businesses, such as in the US and how the American government may act to ensure the country’s own energy self-sufficiency in this latest oil war.

As mentioned we expect growth everywhere will be driven by consumers, that they will be the engine of economic recovery more than any other sectoral contributor.

Each country’s economic recovery will depend on how their consumers feel about their local economy and their future. Business and government would do well to recognise and encourage this.

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14. AMP Capital’s Dr Shane Oliver January 2015.
Technology

Information technology (IT) will continue to be a focus throughout the decade for asset owners and managers – though just how much is uncertain.

Those surveyed by AIST and BNP Paribas Securities Services thought that technology would be the second-greatest influences on their business in 2025 for 59%.

A high number of respondents cited ‘enhanced member communication’ as the area technology will have the most profound impact by 2025. Many others felt it was the key to personalising the member experience. Respondents commented:

- “Technological developments will require funds to adapt to changing consumer distribution preferences. Funds could become the next Kodak if adoption or transformations to meet these needs are not made.”
- “Technological improvements may allow some players not currently in the market to suddenly take market share.”
- “Technology could allow infrastructure hubs such as the ASX replace existing platforms”.

Consider how innovations in drilling and fracking in the US have transformed the entire global energy sector – with some unexpected consequences, such as the sharp drop in prices. Similar developments in health care could do the same to that industry. And who knows what else may be developed technically? Google, for example, expects to roll out a self-driving car in the next five years and we expect finger-print recognition on a range of payment methods by the decade’s end.

We also expect major changes in the use of data. ‘Big data’ is an industry buzz phrase, referring to the increasingly huge amount of increasingly complex data that is available. (Some 90% of all data stored in the world today was made in the past two years.) How to best use this data is expected to be a key technical focus for the industry over the next 10 years. This should see a shift in focus from collecting data to how to use it to provide additional value to asset owners and managers. Data on its own is meaningless: it is the transformation of the data into decision-ready information that underlines its usefulness. Consultants McKinsey found companies that use data and business analytics to guide decision making are more productive than those that don’t. We expect more asset owners to harness more ways to extract value from their technology and data.

When asked for their predictions on how Big Data might be leveraged in 2025, respondents suggested:

- “Use data mining to target new membership and resist aggressive attempts to poach members”
- “Nudge recommendations”
- “It will be mainstream and a key driver of activity and strategy”
- “Will facilitate the provision of individual solutions”

We expect technology to be used to develop more personalised distribution and investor engagement strategies. For example, we are likely to see an increase in real time, flexible and bespoke personalised data delivered on more mobile platforms. We anticipate that 80% of asset managers will replace paper reporting to institutional clients with digital delivery within five years and soon after to all clients, including retail investors. This will have a strong impact in engaging the younger segments of the population – so often apathetic about long-term retirement options – and providing for sustainable growth in the superannuation industry.
An overwhelming 83% of superannuation trustees we polled expect to personalise each member’s fund experience by 2025, as shown below.

Do you think that you will be able to personalise each member’s fund experience by 2025?

![Bar chart showing 83.54% Yes and 16.46% No]

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

That said, only 10% of respondents believe that advice will be delivered entirely online in 2025. Rather, 89% believe there will be a mix of distribution channels.

With respect to technology, they commented:

- “We currently personalise member’s experience” and “we already do much in this area, but much potential remains.”
- “Data is the new black. The key will be how to serve data back to members to create better utility for them.”
- “Technological advancements will be such that members have at their finger-tips (perhaps literally) access to up-to-the-minute information regarding all of their finances including progress to achieving goals.”
- “There will be much more tailored communications, such as websites that hold and track your activity and personal likes, simple self-generated advice and projections easily altered for changes in personal circumstances.”
- “There will be better engagement electronically, in real time, related to the member’s life stages and the fund will be seen as a valued adviser on financial issues at key decision points.”
- “I would love to see super funds using data to really cater to improving quality of life for super fund members, in whatever way for example, health and mental health issues, proactive medicine and screening reminders, involvement in activism and creating a sense of community.”

Another expected technical improvement is better use of data to measure and management risk more effectively. Superannuation funds are already required to stress test (under SPS530) to understand what the impact to the fund’s value under different scenarios (such as a major swing in interest rates).

To meet these needs they will increasingly require sophisticated technical tools to model and calculate scenarios. But the tools themselves are not enough; it is imperative to have access to data that is both comprehensive in coverage and granular in detail to be able to allow flexible scenario modelling.

Some institutions will use this as a means to improve portfolio construction, optimise beta design and whether to allocate capital to internal or external expertise – all part of better delivering to their stakeholders. A consequence of this more holistic approach is that those organisations that take less risk but obtain similar returns to their less risk-aware peers will use this in their organisation’s positioning and marketing to competitive advantage.
Respondents believe technology will have a range of significant impacts on the industry, including:

- “Technology will be the separator, in transaction management and investment performance as well as in member engagement and education.”
- “It will completely change the service model.”
- “Technology will continue to drive the industry – with greater influence on the personalisation and understanding the end user.”
- “Technology should help drive down admin costs and provide more personalised services to members.”
- “More data – online apps – greater connectivity with members” and “increased customer interaction”.
- “Significantly improve members’ capability to self-manage their own accounts, with access to information that will enable immediate account activity.”
- “Significant opportunity for distribution expansion, productivity, automation and self-serve of advice.”
- “It will make or breaks funds!” and “ensure more competition and consolidation happens.”
- “Funds could become the next Kodak if adoption or transformation to meet these needs is not made.”

Technology will continue to be used to streamline costs and improve efficiencies as well as facilitate more rigorous compliance and regulatory reporting.

It will also play a continued role in developing the best of breed infrastructure for front, middle and back offices.

Taken together, this will allow institutions to grow. Technology can help asset owners and managers develop optimised operating models, launch tailored products in multiple jurisdictions and take advantage of the various pass-porting schemes in a seamless manner, to reach untapped investors.

The result of this evolution is likely a closer integration of institutions and custodians with technology vendors. As the lines between provider and institution become more blurred, we might even see joint ventures between these towards the end of the decade.

Overall, smart thinking, analysis and distribution are expected to be the norm in 2025.
Key strategic risks for the superannuation industry in 2025

Predictions from those we surveyed include:

- “Relevance, technology, regulatory change, customer experience.”
- “Loss of confidence in the efficacy of superannuation by the population as a whole.”
- “Tax and regulatory changes, world stability, volatile markets.”
- “The continuing war between retail and not for profit sector…”
- “The sector being dominated by few major funds…”
- “Trying to find suitable medium- to long-term investments to place super monies into; pressure on members to pay less into super because of high mortgages, cybercrime and fraud attacks on pension funds.”
- “Rationalisation of Super Funds due to standardised commoditisation. As super moves more and more towards being a standard commodity in terms of differentiation then there will be pressure on the small to medium funds to be merged into the larger Funds. The choice of options for people to invest in other than a few main will continue to reduce as the competition is rationalised. This may well present a risk as the need to continue to evolve products and services and work for the benefit of members may be jeopardised or at least compromised by the larger players.”
- “Ageing population reaching retirement and entering ‘pension’ phase which will see cash flow decline. Encouraging ‘younger’ generation to plan for their future and contribute to their super.”
- “Poor performance and unsophisticated superannuants.”
- “Technological disruptors, such as new types of platforms, could make legacy systems obsolete.”
- “Transitioning from a focus on accumulation to actually catering for members needs in actual retirement.”
- “Keeping pace with the Digital innovations and ensuring that members are provided multiple platforms to access their information. Provide for seamless, anywhere, member interaction. – Providing member best returns versus providing for a diverse number of different size funds to ensure that competition is strong and provides for self-regulation of the industry.”
- “Maintaining certainty for members in the face of short-term political focus.”
- “Low growth environment – disconnect between the ‘real economy’ and financial markets; sub-par/uncertain returns; growing wealth inequality and uneven burden/shifting of risk; demographic challenges including impact of ageing of the population and pressure of health and ageing costs; lack of a holistic approach to retirement beyond retirement income alone; lack of appropriate global regulation/controls to help mitigate/prevent the next GFC.”
- “The centralisation and commodifying of super in the name of lowest denominator cost which will stymie innovation, choice and personal accountability for retirement income adequacy.”
- “We will also see the ageing population move from accumulation to draw-down, some funds will decrease in FUM to the point that mergers and amalgamations are critical. Legislative changes to the applicable financial Acts will also be a risk that can never be fully mitigated.”
- “The failure of many funds to implement an efficient post retirement strategy for members.”
What will investors want in a decade?

How will investor requirements change? What will institutions want more of in 10 years?

Our survey found that some investor needs are likely to remain constant over the decade ahead. For example, respondents said the main factor that will influence their selection of an investment manager will remain returns. Two-thirds (67%) said it was of high importance and 32% said it was of moderate importance.

This was followed by new investment ideas (51% – more than one response was permitted), risk reduction (49%), better data and analytics (44%) and reduced volatility (39%).

What will influence your selection of an investment manager in 2025?

<table>
<thead>
<tr>
<th></th>
<th>High importance</th>
<th>Moderate importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns</td>
<td>67.14%</td>
<td>31.43%</td>
</tr>
<tr>
<td>New investment ideas</td>
<td>51.47%</td>
<td>41.18%</td>
</tr>
<tr>
<td>Risk reduction</td>
<td>49.28%</td>
<td>46.38%</td>
</tr>
<tr>
<td>Better data and analytics</td>
<td>44.29%</td>
<td>47.14%</td>
</tr>
<tr>
<td>Reduced volatility</td>
<td>39.13%</td>
<td>56.52%</td>
</tr>
<tr>
<td>Improved service from providers</td>
<td>23.19%</td>
<td>62.32%</td>
</tr>
<tr>
<td>More technology</td>
<td>23.53%</td>
<td>48.53%</td>
</tr>
<tr>
<td>Improved front, middle and back office support</td>
<td>22.06%</td>
<td>54.41%</td>
</tr>
<tr>
<td>New assets</td>
<td>20.90%</td>
<td>58.21%</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

A clear ramification is that with returns remaining the primary focus for investors, providing those returns through investment processes that are coupled with risk reduction will likely be favoured by investors.

The asset manager in 2025 will need to have in place strong risk management practices – which means either a full rigorous in-house capability including people, platforms and processes, or innovative partnership with service providers to allow access to solutions and service models that balance the need for rigorous risk oversight versus the need to optimise the cost base.

Some 62% of respondents see better service from their service providers of moderate importance, underlining this point.

Increased focus on risk-return

Investors today are certainly more risk aware, and perhaps even more risk averse, than they were a decade ago. Will they still be so in 2025?

Our poll found that just over half (55%) of institutional respondents believe investors will have much the same risk aversion in 2025. A fifth (20%) expect investors to be more risk averse, with 17% expecting them to be less.
What will investors want in a decade?

Will investors be more or less risk averse in 2025?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much the same</td>
<td>55.70%</td>
</tr>
<tr>
<td>More</td>
<td>20.25%</td>
</tr>
<tr>
<td>Less</td>
<td>16.46%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>7.59%</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

We expect more institutions to use increasingly sophisticated approaches to better manage the risk-return profile of their allocations. Institutional investors, for example, will increasingly want to see what risks one manager takes compared to another for the returns generated.

As highlighted previously, there will be explicit benchmarks and targets focused on risk – not just return – given to asset managers, as investors demand more evidence that the results are skill-based and not the result of ‘luck’ or fortunate market conditions. After all, the key goal for investors is long-term sustainable returns that help them meet their objectives.

As a result, volatility weary investors will increasingly want to better understand how much risk is being taken to obtain performance. We expect this will see new risk-return measures developed, focusing on the downside, on extreme market scenarios, liquidity, credit and even operational risks.

A result is that many investors, locally, regionally and globally, have grown less dependent on market capitalisation-based benchmarks. After all, to have a truly diversified portfolio with the investor’s risk-reward needs as its core can potentially mean innovative strategies that demand the use of smart beta, alternative strategies and the like.

Almost half (48%) of respondents in our survey predict a swing towards absolute return objectives by 2025.
What will investors want in a decade?

Do you predict a swing towards absolute return objectives by 2025?

Further, 84% of respondents believe ‘after tax’ performance will become the norm by 2025.

Do you believe ‘after tax’ performance will become the norm by 2025?

More retirement income products

As an increasing number of investors near retirement, how investors access their superannuation is likely to shift from ‘lump sum’ windfall to ‘income replacement’. More retirees are expected to start to think of their assets at retirement not as a pot of ‘gold’ to spend, but rather as an investment pool that can generate ongoing income (be it on its own or as an in-part supplement any government-funded pension that they may be entitled to).

Accordingly, an increasing number of member-based superannuation funds will move to showing how long an investor’s assets will last at an estimated spend rate after retirement, along with total accumulation.

Some 44% of respondents expect that investment objectives and performance reporting as a percentage of returns are likely to be replaced by personalised projected income by 2025.
Do you think that investment objectives stated as % returns will be replaced by personalised projected income objectives by 2025?

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

Such reporting is expected to make each report more personalised for each investor. As some respondents note:

- “With the use of technology we will be able to easily segment members by age and superannuation assets that the fund holds. This will allow for a degree of personalised information to be provided. With the increasing use of estimators we should be able to tell each member how much they need in their superannuation to satisfy the ASFA standards.”
- “Members will have much more tech knowledge, and thus demand the information they see as relevant to them. They will want to incorporate their asset plan outside superannuation with their super balance to obtain an overall picture of their net wealth.”

This, we believe is likely to result in new post retirement products being developed by asset managers (here and overseas), such as annuity/wealth products.

An overwhelming 93% of respondents to our survey said post retirement product development will be a key focus by 2025. (Only 7% said it would not be or were uncertain).

Some 13% of respondents believe that most post retirement offerings will be in a capital protected format. 82% believe a proportion will be offered and only 5% believe this product type won’t be offered.

Trustees and employers around the world regularly consider how to make good on the schemes’ investment objectives and ensure that members are compensated appropriately. This thinking is actually all about good risk management and just how much risk trustees and employers are prepared to take on behalf of members in order to continue to make good on their pension promises. Taking it a step further, there are two key elements in support of that thought process:

- Being able to model both assets and liabilities, including ALL asset classes and derivatives, and
- Being able to analyse investment and market risks in detail so as to understand the extent of the match (or mismatch) of assets and liabilities.

This then is the journey that superannuation and pension funds have embarked upon – whether they know it or not – that of Liability Driven Investing.

This will also result in an increased focus on asset liability management investment and risk management. For asset owners, this could lead to an increase in development of liability asset matching investment approaches.
What will investors want in a decade?

Our poll identified a range of views on such direct investments from respondents.

- “There will be pressure to improve and diversify direct investment options.”
- “Direct investment options will be a standard feature on platforms.”
- “It is an ongoing trend, whether or not it leads to better outcome is uncertain” and “a passing fad” and “This sounds good but the cost and benefits involved remain questionable”.
- “Their role will increase as competition for investing opportunities is limited due to increasing funds under management” and “good value opportunities will become scarcer as more funds compete for fewer opportunities”.
- “People will want choice where their money goes – they will want direct investment options. Funds will need to offer them.”
- “Already have the option” and “will meet the market”.

Stability versus liquidity

With drawdowns expected to increase among Western pension funds, some will need more liquid assets in their portfolios. Over two-thirds of institutional investors have limitations on the amount of illiquid assets (such as private equity, direct real property, and infrastructure) in which they can invest. Studies have found that, on average, this limit is 25% of their total assets. For many, the average allocation to illiquid assets is already close to 24%. In other words, those who have a governance limit on illiquid assets note that they are close to being fully allocated to these types of investments.

We expect this will accelerate the development of hybrids, such as listed infrastructure investments, to capture the benefits of direct infrastructure assets with steady, consistent and inflation-linked dividends, coupled with the liquidity offered by stock market listed funds. Some institutions are already reducing their exposures to general equities and transferring some of this allocation to listed real estate and listed infrastructure to benefit their income profile.

Overall, our experts forecast that an institutional investor, in 2025, could look something like the following.

a vision of an investor in the next decade

![Vision of an investor in the next decade]

Assets and allocation

As the influences discussed come together, we anticipate shifts in the asset allocation practices of the world’s asset owners.

Some institutions suggest that traditional asset allocation models have reached their ‘use-by date’. The annual average return of a traditional portfolio of 60% stocks and 40% bonds is expected to fall from around 4% at present to around 2% over the next five years, according to QIC17.

By 2025, we expect more asset owners to adopt a combination of investment approaches:

- **Top down** asset allocation – where the focus is on the top down allocation of capital across different asset classes then filters down to mandates and managers to enact.
- **Bottom-up** investment focus – this approach focuses on investing in best-of-breed ideas and strategies, driven by the belief that this forms the most effective use of capital.
- **Risk-optimised** asset allocation – uses risk budgeting techniques to quantitatively allocate risk drivers regardless of asset class or market.

**Top-down asset allocation** – seeks to generate returns through a range of investment levers including asset allocation, sector tilts, manager style and security selection. Allocation is about assessing the potential returns given forecast market performance. Most asset owners and managers do not tend to react to short-term market factors or sentiment. Rather, they focus on prospects for major economies and the ability for asset classes to earn reasonable returns under forecast market conditions.

**Bottom-up / investment opportunities focus** – some chief investment officers (CIOs) believe portfolio construction is typically done at too high a level. One suggests that taking an allocation to property that is split 60% domestic and 40% international is like taking a view of the world at 20,000 feet. He suggests allocation be undertaken on a more granular basis, even down to the level of analysing individual buildings as investments. The sovereign wealth fund that this CIO heads uses an investment process that seeks the most interesting risk-adjusted return opportunities available anywhere and constructs a portfolio from these best ideas. As such, opportunities often come from sub-sector themes, with each theme examined for the level of return that can be delivered from associated equity risk, illiquidity risk, credit risk, inflation risk and real yield exposure. This enables it to be compared like-for-like on a risk-adjusted basis with an opportunity in another sector competing for the same capital. Investment opportunities are debated against each other regardless of asset type. The investment team starts by searching for the best investment opportunities around the globe – be it themes or individual opportunities – analyses and compares them and the asset allocation is the result.

**Risk-optimised asset allocation** – allocates through a risk-weighted approach. For example, a 60%-40% allocation to equities and bonds does not mean the equivalent in terms of market risk, given the disparity in equity versus bond volatility. To redress this imbalance, and especially to mitigate severe drawdowns in stressed markets, funds can use risk budgeting to replace standard equity market allocations with alternatives that contain significant return potential with low correlation to the equity markets. Through risk budgeting, duration risk can be measured and managed and even hedged, thereby supporting a more informed liability-driven investing (LDI) strategy.

There is obviously a range of portfolio construction approaches in-between the above-mentioned.

We expect, within the decade, that asset owners and managers to use a mix of approaches to determine the best investment opportunities and allocations.

Interestingly, a third (34%) or respondents to our survey expect life cycle strategies to be the default investment option in 2025. In contrast, a similar amount (32%) does not expect this to be the case.

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17. QIC chief economist Matthew Peters said: “The future is rarely a simple extrapolation of the past and the traditional asset allocation model has reached its use-by date because a clutch of structural, economic and financial factors will inhibit future returns from listed equities and, in particular, sovereign bonds.” Investor Strategy News January 2015
Institutional co-investment expected to increase by 2025

While asset owners, overall, are expected to continue the trend towards bringing more asset management in-house to continue to reduce costs, we expect another trend to emerge – one of increasing partnerships among asset owners and managers\(^{18}\).

For example, Australia’s Future Fund is looking to build partnerships, rather than compete with managers. “We work with the best investment managers we can find anywhere in the world, what that means is we have got thousands of people scouring the globe for the best investment opportunities for us.”\(^{19}\)

The $A104 billion sovereign wealth fund expects to increase its co-investments as a means of improving its margin of return. The fund says that it seeks to use its scale and know-how to work to co-invest with fund managers on deals. The number of these deals it carried out accelerated in 2014, undertaking 30 direct or co-investments since 2007, with 14 of these undertaken in 2014.

The Future Fund added it is also adopting an increasingly flexible and quick approach to the acquisition of assets as a competitive advantage, rather than a set and forget asset allocation.

Increased environment and social governance (ESG)

ESG risk analysis is already gathering momentum as evidenced by the strong support for the United Nations’ Principles for Responsible Investment (UNPRI), which as of January 2015 counted 286 asset owners and 879 asset managers as signatories globally\(^{20}\). This number is likely to increase over the next decade.

This is despite the current status where only two-out-of-five (43%) asset managers are considering ESG factors when constructing their portfolios. However, these percentages vary widely by region: in Asia-Pacific and in Europe and the Middle East more than 60% of respondents take ESG into account, while in the Americas only 14% do so\(^{21}\).

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\(^{18}\) Research revealed that large pension funds pay an average 0.46% to external managers while the cost of internal management averages 0.08% – Financial Standard December 2014

\(^{19}\) Investment magazine October 2014

\(^{20}\) www.unpri.org/signatories/signatories/

The motivations for employing greater use of ESG in driving investment returns and/or risk can be many and varied. As this chart highlights, there are several classes of investor with clearly different focal points in terms of their investment approach.

Currently, the majority of institutional investors tend to fall into the ‘traditional’ to ‘screening’ dimensions, with a select few in the ‘integration’ and ‘themed’ pillars taking advantage of their size, reach and influence to utilise ESG as a differentiator in generating returns. This is expanding, with sustainable investment assets growing by 22% a year since 2011 in Asia alone, with sustainability-themed investing recording the fastest growth (56% compound annual growth rate/CAGR). An example of a large investor moving to ESG principles is the Employees Provident Fund (EPF) of Malaysia, which announced that as of the beginning of 2015 it will adopt ESG policies for its fixed income assets. Given the allocation to fixed income comprises 50% of its asset base this is a significant development and one we expect to be echoed over the decade.

We also expect more investors to take into account ESG issues as they recognise that ESG overlays can also provide additional returns. For instance, the MSCI World ESG Index, consisting of companies with high ESG performance in developed economies, gained 28.2% in 2013, compared to a gain of 27.4% by the MSCI World Index, which includes companies responsible for 85% of the market capitalisation of those same countries. The MSCI World ESG Index also beat the broader index during the five-year period ending 31 January 2014, with gains of 17.1% versus 16.9%.

22. Understanding the impact of your investments, UNPRI, July 2013
23. 2014 Asia Sustainable Investment Review, Association for Sustainable & Responsible Investment in Asia
24. RM623 billion as of September 2014

Source: BNP Paribas Securities Services as at February 2015
Almost two-thirds (66%) of respondents expect the role of ESG to increase in our industry, according to those surveyed.

Will the role of ESG (Environmental, Social and Governance) in our industry....

In contrast, 26% expect it to remain the same. Only 3% expects it to decrease in importance.

A reason offered by many investors is an ethical angle, whereby the investment into certain controversial areas such as armaments, alcohol, gaming and tobacco are excluded from mandates. Another important reason is that investors are seeking to integrate ESG principles into their portfolio construction process, with the most commonly adopted sustainable investment strategies in Asia being ESG integration (52% of sustainable investment assets)26. Key motivations for sustainable investment are risk management, fiduciary duty and financial opportunity, with the biggest demand being driven by institutional investors.

Pockets of opportunity

With the expected divergence of various regions and economies – in particular the US and UK growing while Europe and Japan remain subdued for the near term – investors will have to consider an increased range of influences and factors. Investors, for example, need to determine whether to:

- Invest in ‘expensive’ markets that have already risen, such as the US bull market, and hope that they continue to rise; or
- Invest into ‘cheaper’ markets and hope they appreciate.

The first requires faith that the current bull-run in the US is likely to continue, even with the end of quantitative easing and rising interest rates. The second requires a rotation away from the strong US into other markets. A third option is obviously a combination of both.

Another asset allocation option is to consider what cyclical, structural and secular issues are driving economies, markets and individual corporations. Cyclical trends deal with the impact of the economic cycle on the markets, such as inflation, employment and the like. Structural issues are more granular and impact how markets or industries function or operate, and then invest for those respective movements.

Tying this into the various models of asset allocation described previously, it is clear that very innovative strategies will need to be constructed by asset managers seeking to partner with institutional investors for the long-term.

26. 2014 Asia Sustainable Investment Review, Association for Sustainable & Responsible Investment in Asia
The investor of the future is less likely to accept a standard market focused strategy tied to a benchmark. We are more likely to see investors demanding mandates that deliver value – returns at an appropriate cost. As an example, consider that for fixed income mandates, the common market benchmarks tend to overweight issuers with the highest debt issuance, whereas investors are actually seeking to invest in strategies that deliver the best risk-return. In other words, current benchmarks tend to understate or ignore issuers with real drivers of growth which is what investors often seek. For an asset manager to take positions in off-benchmark issuers to drive returns would generate higher active risk (tracking error) than perhaps their peers or even that is allowed by the mandate, hence leading to a compromised solution. The mandates of the future will consider more relevant weighting schemes, targeting GDP or economic value or more risk-factor based scientific approaches.

While there are many investment challenges over the decade ahead, there are also many opportunities: the challenge is recognising them. BNP Paribas Wealth Management, for example, recently highlighted some is has identified including:

- Opportunities in the bond market include European and American high yield bonds, a selection of emerging corporate bonds and European convertible bonds. These should be able to accommodate a moderate rise in long-bond yields.
- High dividends investments. But remember the quality of the dividend is as important as the amount; the dividend must be secure in the future. Listed real estate investments provide attractive yields, much higher than the cost of capital.
- Investments that benefit from the rising US dollar and as the US economy outperforms many others.
- Selected value opportunities in Europe. Europe is changing slowly, but surely. It is gradually becoming a more integrated and more competitive region and European stock markets should recover in the long run, partly due to the comparatively weaker euro make it more affordable.
- Major structural reform, economic growth and increasing trade should benefit some emerging markets, such as China, Mexico, India and Indonesia.
- Technology innovations and operational efficiency should enable companies to rationalise costs and improve margins.

Another significant short to medium-term influence on markets around the world is Japan’s $1.2 trillion Government Pension Investment Fund’s move to reduce its investments in domestic bonds and increase its investments in stocks, including global equities. Under new asset allocation guidelines, Japanese stocks and foreign stocks are expected to each account for 25% of the fund’s holdings, up from 12% each previously, while allocating 35% of its money in domestic bonds, down from 60%. The move is part of Prime Minister Shinzo Abe’s efforts to make Japan stocks more attractive and speed up the nation’s economic recovery.

Will asset bubbles burst?

There may also be a shakeout in some asset classes, in particular those that rose as a result of low interest rates and easy cash levels. This saw increased demand for lower volatility assets such as residential property and higher-dividend paying stocks. Some investors may have paid high prices for such assets, which could be valued less as rates rise and markets return to ‘normal’. The question is whether this will be gradually or suddenly?

There are already concerns about the prices investors are paying for direct infrastructure assets as more institutions look for more predictable returns. Investors still need to carefully assess whether prices actually represent good value.

Local Australian issues

Australian asset owners and managers should be better positioned in 2025 than they are now. Sustained inflows, courtesy of Australia’s compulsory superannuation system, will obviously continue to support the local industry.

However, the industry could come under pressure from various fronts – such as government, regulators, competitors and consumers – and be forced to improve its effectiveness and competitiveness.

Asset owners and managers may become more accustomed to increased regulation, here and overseas, and more easily and cost-effectively meet its requirements.

Government and regulator pushes for reduced fees should have subsided and a multi-year drop in fees should have stabilised as managers get better at demonstrating the value they add. Media will no doubt continue to monitor fees charged and value obtained. Stronger Super is likely to continue to be refined to provide better value for those who continue to take little interest in their retirement savings.

Both asset owners and managers will continue to adopt technology and global processes to drive productivity gains.

The mining boom and downturn may be a distant memory and the sector recovered somewhat. The big players are expected to have become even smarter about where they invest. For example, BHP will have likely expanded further into agricultural chemicals to help the world meet increasing demand for food for expanded populations mentioned earlier. Those people will also be requiring more transport and housing, which will in turn see a rebound somewhat in demand for the nation’s mineral commodities and renewed interest in resource stocks.

Looking at fixed income assets, it is uncertain whether the local bond market will have flourished. Given that it has not expanded considerably over the past few decades it is more than likely that it will also not do so in the next 10 years.

More likely is that continuing global demand for the local currency will translate into the development of some new, purpose-designed, easily investable and tradeable A$ products.

Various regional funds investment passport initiatives may have had little local impact, as other regions’ industries and governments have been quicker. Expect them to capture regional investment growth opportunities through tailor-made regional funds and maybe even new market indices and exchange traded funds.

As noted above, the biggest challenge, over-all, for the industry in Australia is considered the ageing population, according to those surveyed by AIST and BNP Paribas Securities Services. It concerns two-thirds (69%) of industry participants. Other concerns include technological developments (58%), regulatory change (44%) and market volatility (43%).

What will be the biggest influences on your Australian business by 2025?

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<thead>
<tr>
<th></th>
<th>High influence</th>
<th>Medium influence</th>
</tr>
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<tbody>
<tr>
<td>Ageing population</td>
<td>68.75%</td>
<td>26.25%</td>
</tr>
<tr>
<td>Technology developments</td>
<td>58.02%</td>
<td>32.10%</td>
</tr>
<tr>
<td>Market volatility</td>
<td>43.21%</td>
<td>46.91%</td>
</tr>
<tr>
<td>Regulatory change</td>
<td>43.75%</td>
<td>50.00%</td>
</tr>
<tr>
<td>Business changes</td>
<td>30.00%</td>
<td>61.25%</td>
</tr>
<tr>
<td>Growth of Asia</td>
<td>27.16%</td>
<td>56.79%</td>
</tr>
<tr>
<td>Tax increases</td>
<td>19.75%</td>
<td>43.21%</td>
</tr>
<tr>
<td>Geopolitical pressure</td>
<td>18.75%</td>
<td>46.25%</td>
</tr>
<tr>
<td>Environment</td>
<td>11.39%</td>
<td>54.43%</td>
</tr>
<tr>
<td>New asset classes</td>
<td>7.50%</td>
<td>33.75%</td>
</tr>
<tr>
<td>Disease</td>
<td>5.00%</td>
<td>7.50%</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015
The self-managed superannuation fund (SMSF) phenomenon is forecast to continue, albeit at a slower pace of growth, as individuals’ desire for greater control of their own future continues. The number of SMSFs is expected to increase from more than half a million funds in operation today to substantially more in 2025 – and continue to exceed the money invested in retail funds or industry funds. Some smart managers and technology developers may have started to export commoditised SMSFs to other parts of the world.

Those surveyed voiced a range of concerns for the future of the superannuation industry in 10 years’ time. These included:

- Further political disruption, with superannuation and investments being constrained by regulation.
- De-accumulation – transitioning from a focus on accumulation to catering for members needs in actual retirement. As longevity and falling contributions, versus rising drawdowns equals reduced cash flow.
- Maintaining certainty for members in the face of short term political focus.
- Keeping and attracting good talent dedicated to the industry.
- Board structures. “We all keep saying to keep the board structures as they are due to prior successes but a number of industry funds look more retail than the retail funds. Board structures will change for sure.”

Providing better protection for end investors is the single most important thing that could improve the future of the superannuation industry according to 47% those polled. This was followed by providing better risk measures, more robust data management and better information for stakeholders to discharge their fiduciary duties.

What is the single most important thing that could improve the future of the superannuation industry?

![Bar chart showing responses to the question:](chart.png)

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015
Our survey also determined how much financial advice trustees expect their members will seek financial advice through their fund in 2025, as shown below.

What proportion of members will be accessing financial advice through your fund by 2025?

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015
Innovate and grow

As for innovations expected in the industry by 2025, respondents forecast:

- “Greater personalised interaction with members through portable devices to enable instant decision making on a personal level including making transfers between funds.”
- “Through advanced technology people will have better control over their investments in real time.”
- “We need to see innovative changes to the sector and super to encourage people to invest in their future and retirement – super being ‘tax free’.”
- “Industry funds becoming a banking service.”
- “Integrated financial services.”
- “Creating a model which demands member engagement form an early age.”
- “Cradle to grave experience” and “having a broader financial relationship with one organisation that includes all assets and financial requirements throughout life.”
- “Aged Care offering” and “Cradle to Grave services including health.”
- “Education Services.”

With several funds expected to have half their members comprised of retirees by 2020 they will face challenges. Taking members from another fund is the only way to grow in a nation with a shrinking workforce, if a fund relies on a strategy of membership growth. However, they could expand the products and services they offer to this segment.

Accordingly, developing post retirement pension products and services is expected to be the largest growth segment in the next 10 years for most respondents.

Will post retirement product development be a key focus in 2025?

![Bar chart showing the percentage of respondents who answered yes, no, or uncertain about post retirement product development being a key focus in 2025.](chart)

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

One respondent expects “members will choose to commute a percentage of their lump sum to annuity products at ages 70, 80, 90 when they reach 65, 75 and 85. This will be underwritten by the age pension so that a guaranteed minimum amount is provided and a guaranteed supplement is added based on the lump sum available. Lump sum withdrawals over $100,000 each five years won’t be possible (extreme hardship provisions remain).”
Some 84% of respondents expect post retirement offerings to include ‘some’ form of capital protection. However, only 11% expect ‘most’ to include such protection, while just 4% expect there would be no protection.

As asked how their fund will have to evolve their engagement strategies with post-retirement members, respondents cited:

- “Online tools that provide guidance on drawdowns from pensions (taking into account market forecasts, the individual’s budget, inflation, etc.).”
- “Financial advisors specialising in post-retirement consulting on budgeting, debt management, investments.”
- “Better designed annuities and engagement via value-adding advice.”
- “Provide more personalised service – treat them as people not accounts.”
- “A greater proportion of post retirement members will be technology savvy and require multiple member access points i.e. mobile phone, tablet etc.”
- “Improved technology and extended availability of debit card facilities.”
- “Better provision of financial services and wealth management to become the primary provider of financial services to members.”

There will also be other products and services developed and offered by the industry. Super funds are expected to soon offer home loans and credit cards to members, according to forecasts by Coredata. This will be one way for superannuation funds to enhance member engagement. This will obviously start off slow and how far this will be embraced by investors by the end of the decade is uncertain. Will funds become more like financial institutions?

Other areas expected to grow over the next decade include:

- Improving customer interactions, such as through online services,
- Direct assets, such as property and infrastructure investments,
- SMSF products and services,
- Tailored solutions, and
- New assets such as defensive equities, social infrastructure bonds and a return of debentures.

However, respondents note there are several internal barriers to innovation. The greatest external barrier was overwhelmingly cited as Government tinkering and regulatory constraints. They also cite internal barriers such as:

- Lack of budget,
- Risk aversion,
- Management approval processes, and
- Complacency.

The change or innovation most sought by industry participants was cited as including:

- “All information required by APRA coming from the one integrated system.”
- “Better quality data and analytical tools.”
- “Less regulation. This is the most over regulated industry in the country.” “If the political parties could agree to leave super alone and the regulators simply improved on what they are currently doing, we could concentrate more on the members and their needs.”
- “Greater product flexibility.”
- “Better skills at a board level and a more progressive board willing to resource a team appropriately to respond to the future requirements of the fund.”

Overall, superannuation respondents predict:

- “Substantially reduced competition, more confusion created by continual government interference, and less people achieving the real end out – a comfortable retirement.”
- “I am really worried we are going down the route that the mutual life companies did a number of years ago, with catastrophic impacts for our members.”
- “Increasing number of funds form alliances for cost savings rather than merge.”
Innovate and grow

- “Superannuation Social Infrastructure Bonds” and “Super funds will be allowed to be used proactively for major Australian infrastructure such as water, roads, green energy technology.”
- “Client loyalty is key, members rarely switch. I would like to see a Facebook style experience for members that incorporate their data in health, wellbeing and financial advice tailored to their life expectancy and lifestyle by tapping into online data and survey information to continually engage the members.”
- “One association for the super industry.”
- “The Australian Republic will nationalise the superannuation industry funds into one big fund and this behemoth will provide a cradle to grave solution. The one big fund will cover all aspects of the financial life of the Australian citizen and will dominate all other players in the financial world. Then again maybe not!”
- “SGC at 15%” and “22 million member accounts.”

As for the most significant innovation expected by 2025, respondents suggested:

- “Virtual fund managers; virtual financial advisers.”
- “IMAs as standard default offering.”
- “More information to members leading to more ownership from them”
- “New post retirement products” and “new types of annuities.”
- “Greater interaction in a personalised by members with portable devices to control their world. Instant decision making on a personal level, including making transfers between funds.”
- “The way we communicate with members” and “most communications will be delivered in a digital manner.”
- “Through advanced technology people will have better control over their investments in real time, we will see a reduction in funds through mergers and acquisitions.”
- “Collective defined contribution schemes.”
- “Personalised/targeted services to individual members.”
- “Having a broader financial relationship with one organisation that includes all assets and financial requirements throughout life.”
- “Cradle to grave experience.”
- “Banking services from superannuation funds.”
A changing industry

Industry rationalisation

There will undoubtedly be restructuring among the industry. “Nearly half of all asset managers will not exist by 2030 as client demographics, technology and social behaviour undergo rapid transformation,” cautions a report by KPMG. In a separate study, one-in-three institutional investors expect the number of fund managers to drop over the next five years. Seasoned industry observers note such predications have been around for decades, and while names and structures come and go, the number of asset managers actually increases as new markets and new strategies are developed. Consider the continued development in the Americas of the boutique hedge fund asset manager as a separate unit, distanced from the proprietary trading activities in many investment banks, when regulations and market sentiment influenced large banks to turn their trading desks into asset management companies. Locally in Australia, the boutique incubator model continues to thrive with many investment firms being seeded by a large institutional partner acting as a supporter and service provider, while the principals focus on investment and asset gathering activities.

Our survey found over a third (38%) of respondents expect industry rationalisation will lead to more competition. Interestingly, another 37% believe it could lead to less competition.

Do you think industry rationalisation will lead to...

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

29. Frontier Advisers as at November 2014
A changing industry

Respondents noted:

- “It will be a much more concentrated industry than it is now” and “Industry fund numbers will reduce by 20%.”
- “There will be several large funds that are leading the industry and several smaller funds who will be struggling to find their place and stay afloat.”
- “Significant (but not dominant) market share will be captured by a player that is largely invisible or non-existent today.”
- “My concern is that we become like the banking system. 4-6 mega funds that become systemically critical and a larger number of special purpose funds. I don’t think this is good for competition or returns as more allocations will be made to passive structures.”

We also expect a shake-out of sorts among funds, due to too many managers offering too many similar funds providing too similar returns (especially in terms of Australian equities).

Increased insourcing

The trend to insourcing of asset management by asset owners is also expected to increase. Almost two-thirds of respondents expect to bring more funds management and associated operations in-house over the next decade. Just a quarter (26%) do not expect any such increase in internalisation in Australia.

There are many reasons for this trend to take further hold over the next decade, not the least of which is the burgeoning size of some asset owners.

A potential evolution of the asset owner and the likely usage of internal asset management can be seen below.

Initial Phase
- Setup of organisation
- Mostly cash and unit trust investments
- Commingled teams
- Forming external relationships

Expansionary Phase
- Allocating to more markets and asset classes
- Widening and deepening external relationships

Next Phase
- Consider new beta, new markets
- Focus on risk budgeting vs SAA
- Importance of quant + qual investing
- Internal capabilities

Formative Phase
- Moving to segregated mandates
- Engaging with multiple asset managers
- Forming discrete internal competencies

Consolidation Phase
- Delineation of internal and external competencies
- Risk and investment units established
- Investing / co-investing
- Portfolio completion

Source: BNP Paribas Securities Services and Madhu Gayer as at February 2015
A changing industry

Australian superannuation funds cite the need for more tailored strategies that better fit their objectives, a closer alignment of incentives given the principal-agent model between owner and manager, informational advantage in some cases such as private assets, as well as of course managing the cost equation more closely.

However, as far back as in 2013, the Australian regulator APRA cautioned: “There is a trend towards more in-house investment management by trustees – this may be entirely appropriate for some trustees, however, frankly, most are unlikely to have the scale or expertise to effectively undertake in-house asset management. It is important they have addressed all of the risks and issues involved and don’t just focus on potential cost reduction”


Besides asset management, asset owners said they were considering bringing the following in-house:

- Investments and fund management, including private equity, property and infrastructure,
- Fund accounting,
- Member administration,
- Member advice,
- General administration, accounting, legal and marketing support, and
- IT and software platforms.

In contrast, some respondents said they expected to outsource some internal functions, such as:

- Some aspects of IT, including data processing and administration,
- Investment operations,
- Human resources, and
- Custody and administration.

It is important to note that scale does not necessarily equal investment and/or business success. Large scale investment managers and superannuation funds will not automatically be successful due to their size. Leaders of such institutions need to consider how some large scale organisations encounter a negative side effect as portfolio managers and top management seek to secure their positions and stop innovating. (There is a business adage that an organisation should purposely revolutionise what it does every seven years and continue its evolution in-between.) This partly explains why newer asset managers often outperform; but as they experience growth to an adequate level they are then enticed to settle back into the safety of the mainstream ‘pack’ to preserve their fund and the overall business.

There is also evidence to suggest that as AUM grows it becomes much harder to deliver outperformance, at least in certain asset classes such as small caps or micro caps. Intuitively this makes sense, given that the managers need to take active risk through under-appreciated / under-researched stocks which may trade thinly or have lower issued capital. Hence as the strategy grows in size the marginal contribution from these positions becomes smaller thereby becoming less effective in risk-reward terms.

Given these forecasts, who will survive by 2025? It should be those that anticipate the future and plan and build for what it might hold.
**Viva la difference**

To thrive in the next decade, asset owners and managers will need to better determine where they can add true value. A ‘me too’ approach simply trying to capture a slice of the markets is unlikely to be enough to grow a business beyond the ongoing contribution of superannuation.

As such, management teams need to improve their organisation’s positioning, including more clearly articulating what segments they are ‘leaders’ in and making it easier for all types of investors to understand what they offer and stand for – and why they should invest with them.

In the major asset classes, it is increasingly difficult to generate outperformance; a listing of the annual returns of domestic stock or bond funds in the market and you will notice the majority provide a similar return. We expect astute asset owners and managers to seek ways to differentiate their offerings to better attract investors.

As mentioned earlier, value and safety are expected to feature prominently going forward. We also envisage that instead of assuming that one size fits all, there is likely to be a shift from mass market products to more customised and personalised solutions for the wider marketplace. While a product-push approach may have succeeded during periods of rising markets, investors in the future will increasingly seek customised solutions from asset managers and servicers.

Disintermediation is underway and the traditional relationship between manufacturer and distributor may come under further strain. Costs are rising and margins are shrinking throughout most of the global asset management industry. Users are demanding more services and more sales support from manufacturers. Creating differentiation within a crowded industry and finding new ways to add value will become even more essential for survival.

**Culture and people changes**

When asked what position in their organisation will be the most powerful in 10 years’ time, the overwhelming response was, unsurprisingly, the position of Chief Executive Officer.

However, Chief Information officers and ‘data scientists’ came second, ahead of other C-suite roles and board members. This is perhaps to be expected when you consider that a lot of the opportunities for growth in the industry rely on better leveraging data and digital platforms.

Further to this theme, a high percentage of respondents included ‘technological savvy’ when asked to list the leadership skills that will be necessary to be successful in 2025. Flexibility, strategic agility, vision, communication and listening skills also ranking high in the feedback received. Being open and transparent with an ‘open door’ policy was also cited by numerous respondents.

This goes to the culture of the organisation, and half of those surveyed believe that the culture of their fund needed to change to meet the competitive challenges through to 2025. Suggestions included:

- “Be more commercial,”
- “A more engaged board,”
- “Become more client focussed,”
- “Less compliance driven, more risk based decisions,”
- “We need to think like a commercially oriented retail investment management business rather than a “cosy” industry super fund, in order to better understand and meet the competition coming from other sectors in the retirement savings market who have a stronger commercial and competitive orientation”
- “Be more ambitious.”

In terms of employee skills, the funds we surveyed believed there were a number of skills gaps that would need to be filled by 2025 in order to compete. The range of responses was highly varied, reflecting the funds appetites for innovation and change. The answers included:

- “More investment expertise,”
- “Specialist knowledge,”
- “More financial planning skills,”
- “Mobile and web development skills,”

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31. Global wealth and asset management industry outlook 2014 – Ernst & Young
A changing industry

- “Member communication and marketing,”
- “Experience mapping,”
- “Big Data expertise,”
- “Aged Care knowledge,”
- “Behavioural economics,”
- “Psychologists,”
- “Board members with diverse backgrounds,”
- “Greater investment skills around liquidity projections and impacts for new products to manage risks in investments,”
- “Data scientists,”
- “Futurists,” and
- “Expansion of the financial planning role to include estate planning, wealth management etc.”

It is therefore not surprising that the business areas where asset owners believe they will need to recruit new people directly correlate to these skills.

Conversely, the areas where respondents anticipate will require decreasing staff numbers by 2025 are expected to include:

- Fund operations,
- Back office,
- Administration, and
- Call centres.

Our survey also asked the industry what areas they felt their boards could add the most value to their fund in 2025. Ideas from respondents such as “a board that reflects the changing face of society” could see ethnic and gender diversity being a requirement of boards in a decade.

Another strong theme was a “board that focusses on ESG issues”, including “responsible investing and environmental considerations”.

Interestingly, only 11% of respondents believed that they will have international directors on their boards by 2025, with 20% saying they are uncertain. As funds increase their need and appetite for overseas investment products, international board members would also seem like a natural progression.

Changes to Insurance

One respondent suggested that ‘divorcing the investment process from the requirement to provide insurance’ would have the greatest positive impact on the industry.

Even so, 64% of those surveyed believe automatic acceptance of cover for new members will still be a viable benefit in 2025.

Further, 62% believe their fund will offer lump sum disability insurance payments in a decade.

Dealing with the future: how to develop credible options – custodians to become more valued partners

Asset managers and owners will be increasingly required by governments and regulators to ensure the safety of assets so that members’ retirement income streams are governed and protected under the fiduciary responsibilities that trustees are charged with, which will place increased importance on custodians.

This will see increasing partnerships between custodians and asset owners and asset managers. Integrating a custody account with that of a prime broker enables collateral to be automatically moved back and forth more cost effectively and ensures the protection provided by the custody relationship.
The combination of custody and front, middle and back office services is also expected to become more attractive. Some asset owners and managers recognise that they can be more efficient in terms of cost and liquidity to use an outsourced dealing service instead of maintaining their own dealing desks. Cost, risk management and regulatory pressures, combined with the possibility of achieving better returns for portfolios, will increasingly challenge the conventional approach to in-house dealing and can improve dealing outcomes and reduce costs. In-house dealing is often not reflected in fees and, according to research by industry consultant Investit, each dealing station (data, systems, salary and overheads) costs around $550,000 a year. In contrast, outsourced dealing provides scale benefits with access to highly skilled dealing operation as well as improved connectivity – to a wider range of markets and venues as well as settlement services reduced operational risk and cost of errors.

When asked where else service providers could add value to a fund by 2025, respondents suggested:

- “Adaptive, modern platforms / data quality and analytics”
- Service providers need to be more proactive in working with Funds and understanding the end user. Value will only be added when there is a real benefit to the end user.
- “Intelligent and automatic reporting on holdings at the member level that can be depicted as risk exposures (e.g. interest rate risk across asset classes, exposure to resource companies across asset classes). Online, flexible attribution of return (i.e. dynamic selection of time period) at the member level.
- “Product development ideas from fund managers.”
- “Improving our communication with members”.

32. Dealing with the future of dealing desks – BNP Paribas Securities Services & Investit 2015
Future gazing – industry crystal ball predictions

We asked the industry the question: If you had a crystal ball, what predictions do you have for the industry by 2025. The answers were as varied as they were innovative. We wanted to document some of the most thought-provoking responses as a final word. Let’s see if they come to fruition.

- “Retail funds will be more like industry funds and vice versa. The mutual aspect of industry funds appears to be breaking down and commercial dynamics will come to the fore.”
- “At $5-$6 trillion funds under management, the Australian system will be the second largest on the globe. We will need to manage the inevitable pressure to de-mutualise industry funds, as the system we already have established has been a world-class one. The tension between industry funds and the deposit taking ‘for profit’ institutions like the privileged four banks will become much more intense as the arguments about capital formation (traditionally the preserve of banks through lending and the stock exchange through issuance of equity capital) will spill over into the superannuation arena. Investment management fees will finally be based primarily on effort achieved rather than on a simple FUM formula.”
- “Super will be portable internationally.”
- “Less than 50 Funds, substantially reduced competition.”
- “I am really worried we are going down the route that the mutual life companies did a number of years ago, with catastrophic impacts for our members.”
- “Nationalised insurance removed from superannuation. Deferred annuities Superannuation Social Infrastructure Bonds.”
- “Significant (but not dominant) market share will be captured by a player that is largely invisible or nonexistent today.”
- “Consolidation will go too far and expensive monopolies will start. Will be high turnover of Trustees on boards.”
- “Much more concentrated than it is now. Much more bespoke service.”
- “Super funds will be allowed to be used proactively for major Australian infrastructure such as water, roads, green energy technology.”
- “Individual needs and preferences will rule supreme so tailoring products will be the norm.”
- “For many people super will be fully integrated with all their financial requirements both day-to-day and across the stages of their life.”
- “The retirement phase will be 50% of FUM which will change investment strategies, default investments with the ability of individuals to choose different retirement investments and pension products.”
- “Members will choose to commute a percentage of their lump sum to annuity products at ages 70, 80, 90 when they reach 65, 75 and 85. This will be underwritten by the age pension so that a guaranteed minimum amount is provided and a guaranteed supplement is added based on the lump sum available. Lump sum withdrawals over $100,000 each five years won’t be possible (extreme hardship provisions remain).”
- “Technological improvements may allow some players not currently in the market to suddenly take market share.”
- “Looking to the future: I see a smaller number of funds with distinct profiles. Client loyalty is key, members rarely switch. I would like to see a Facebook style experience for members that incorporate their data in health, wellbeing and financial advice tailored to their life expectancy and lifestyle by tapping into online data and survey information to continually engage the members.”
- “I think there will be a smaller number of funds. Most funds will have such a diverse membership that industry alignment will be non-existent. Differentiation between funds will be negligible. People may find comfort in size (large funds) however I think customisation will win the day.”
- “The one big fund will cover all aspects of the financial life of the Australian citizen and will dominate all other players in the financial world.”
- “Possibility of Industry being administered by the ATO and all funds invested through the Future Fund.”
“As with most things, the pendulum swings from one extreme to the other. We might find there to be less regulation, better benefits at the contribution stage, as well as enhanced entitlement for self-funded retirees.”

“Less funds, larger funds, funds directly investing more e.g. infrastructure the industry fund model may have had its time and could disappear Industry funds owning one of the big 4 banks and insurance companies members driving their investments by daily activity.”

“Industry fund numbers will reduce by 20%. One association for the super industry. Tax at 25%. 22 million member accounts.”

These trends outlined in the preceding pages are expected to shape our collective and your individual future. We hope it is a constructive one for us all.

If you would like more detailed discussion about a particular aspect of this report please contact brand.communications@au.bnpparibas.com.
About this outlook

This research project was undertaken by AIST and BNP Paribas Securities Services in February 2015. Some 13% of respondents to the research survey held Chief Executive Officer positions at a superannuation fund. Chief Operating Officers, Chief Investment Officers and Chief Financial Officers represented a further 11% of respondents. Other senior managers accounted for 29% of answers and the remaining 47% came from Trustees of Superannuation Funds.

A total of 12% of respondents represented funds of less than A$1 billion. The majority of respondents came from funds worth $1 billion to $10 billion at 47%. This was followed by 27% of respondents who are at funds worth over $20 billion. 13% of respondents’ funds have less than $1 billion and the remaining 14% of responses came from funds sized $10 billion to $20 billion.

All responses were provided anonymously.

Verbatim responses and data generated by the research project are highlighted throughout this whitepaper in purple text. Verbatim responses are also italicised.

What are your institution’s total assets under management?

![Bar chart showing the distribution of assets under management by size categories: Less than A$1bn, A$1bn to $10bn, A$10bn to A$20bn, Over AUD $20 billion.]

Source: BNP Paribas Securities Services and Australian Institute of Superannuation Trustees as at February 2015

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