

Asia Pacific Pensions

What other countries do, what we could learn
and where we should act

17 September 2013



Building a better
working world

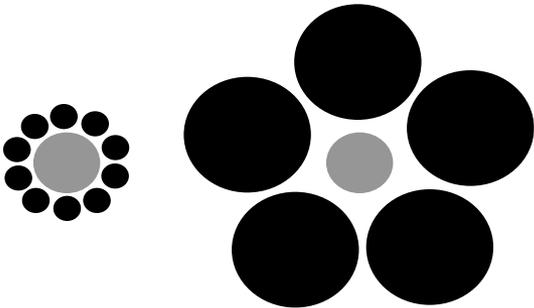
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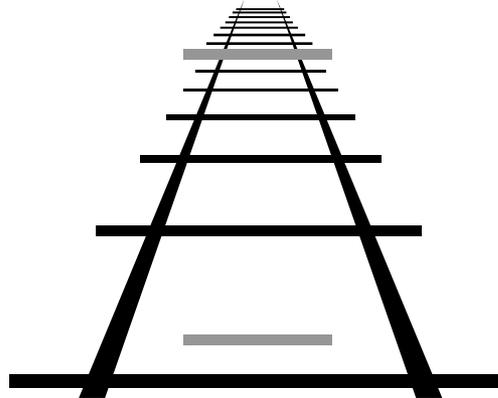
1	Share selected overseas insights Outline selected Pension insights from three Asian markets
2	Challenge your thinking Summarise five key observations from Asia and what they could mean for you
3	Encourage you to act Describe three key areas where you may consider acting now to improve

Seeing Is Not Believing

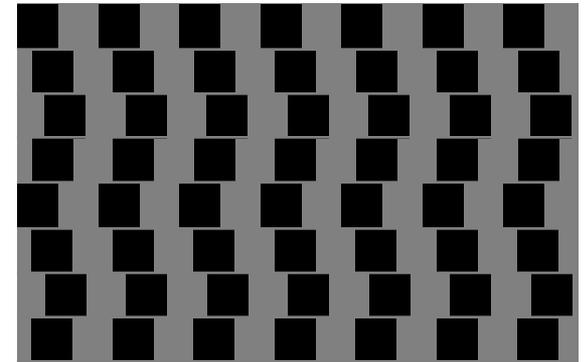
Which gray circle is bigger?



Which gray bar is longer?



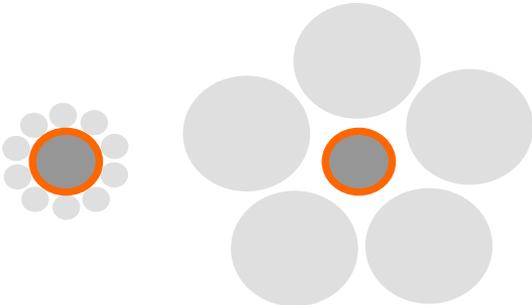
Are the gray horizontal lines parallel?



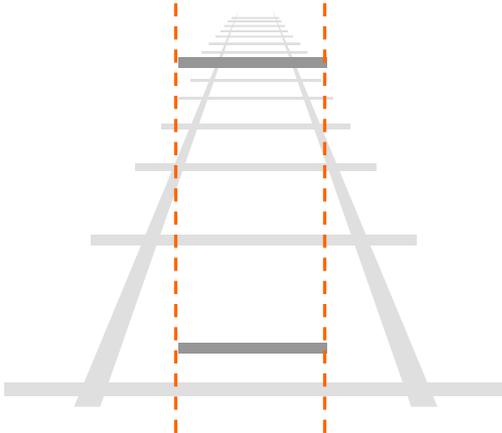
Rational Minds Can Act Irrationally

Pension industries in the region may have more to offer than we often think

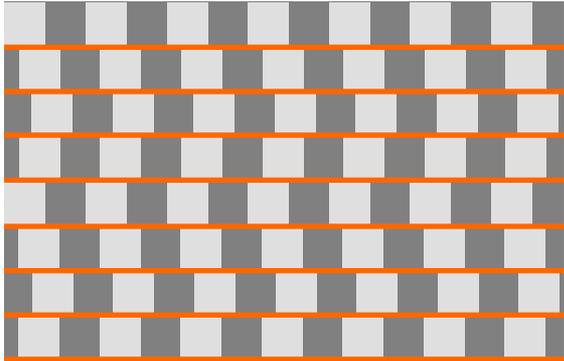
They are the same size



They are the same size

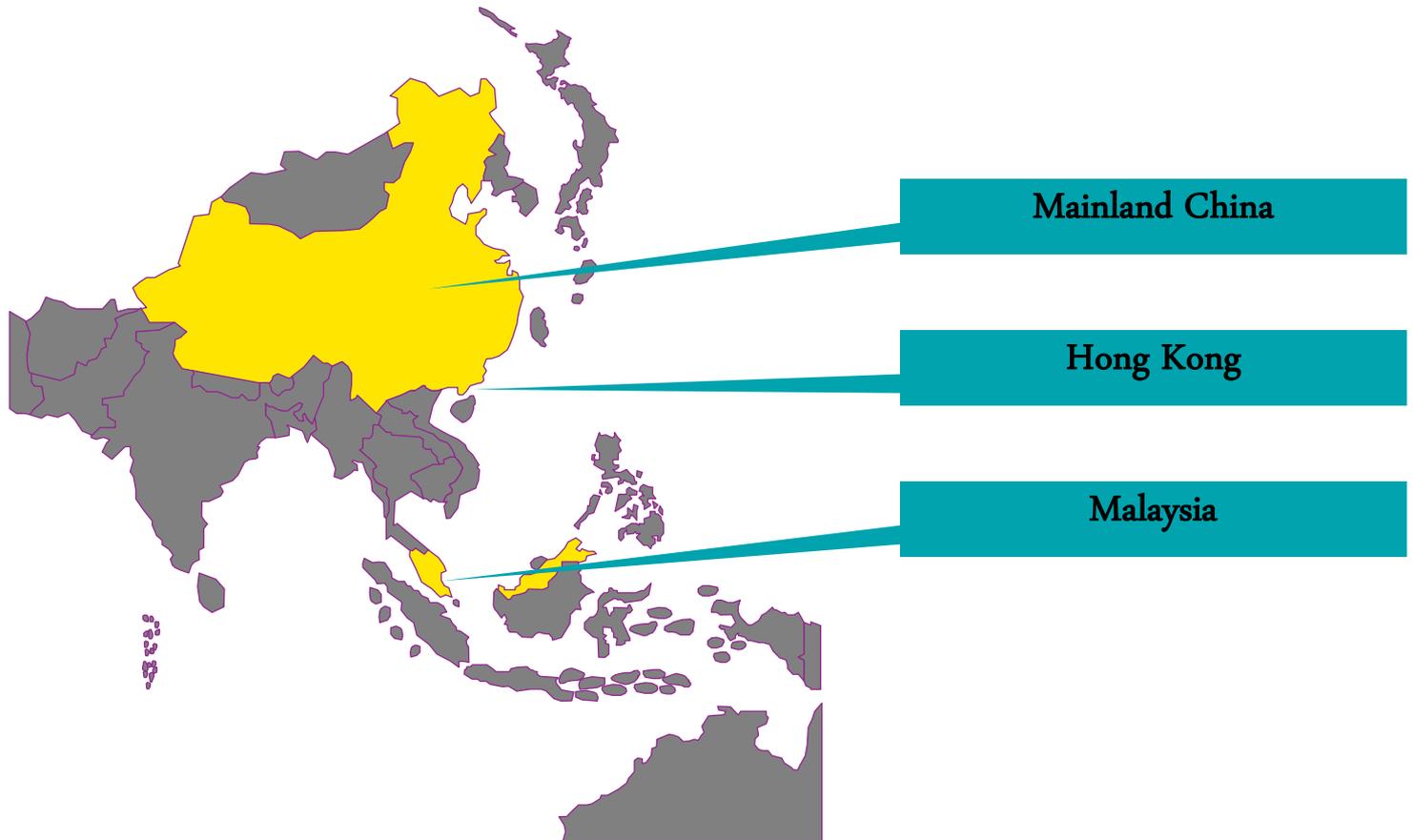


The horizontal lines are parallel



We find several Pension aspects abroad, which could add value to pension providers and investors

Selected Pension insights from three jurisdictions in Asia



Five selected pension insights from Mainland China

Pension aspects

500 million customers in the rural pension system

200 million customers in the urban pension system

Enterprise annuities is yet small, but fast growing

USD 50 tr AUM if China would replicate Australia's per capita pension assets

Traditional life products for Pillar III are dying, but Pensions can act as catalyst to transition from "insurer" to asset gather

Key considerations

- ▶ Significant delivery achievement given the country's diversity
- ▶ Leading policy thinking, but still room for policy improvements

- ▶ Significant room for cross selling as Chinese "middle class" is expected to increase from 16% in 2002 to 50% in 2020

- ▶ Small industry with fee caps and mis-aligned REM structure
- ▶ Significant growth expected
- ▶ "Thirst" to learn leading practices

- ▶ Significant growth expected from Government tax incentives for retirement savings

- ▶ "Industry" transformation expected similar to Oz 20 years ago
- ▶ Chinese version of Solvency II (C-ROSS) accelerates change

Aspects to consider

China Pension may secure the "Land of Opportunity" status soon

Five selected pension insights from Hong Kong

Pension aspects

Economies of scale in Pensions

Loss of public confidence

Pressure on fees

Choice of investment / member inertia

Choice of fund

Key considerations

Aspects to consider

- ▶ \$ administration cost are at Oz level, but with only 25% of our member base
- ▶ Investment fees are at Oz level, but with only 5% of our AUM
- ▶ GFC led to less than satisfactory returns
- ▶ “Public revolution” in the media created substantial reform pressure on Government and providers
- ▶ Poor returns led to extraordinary pressure on administration, asset management and trustee fees
- ▶ Government is driving down fees
- ▶ About 90% of members “chose” their investments
- ▶ About 90% of manage investment switches online
- ▶ Only a small proportion exercised Choice of fund since Nov 2012
- ▶ The lack of “personal advice” led many members to chose “cash options as “save heaven”

Hong Kong is a good example of public response to Pension industry inertia

Selected pension insights from Malaysia

Pension aspects

Employee Provident Fund

***Private Retirements Scheme (PRS)
since Nov 2012***

8 private sector providers

Private Pension Administrator as “central industry utility” to maximise efficiency

Employer and employee inertia

Key considerations

- ▶ A visionary mandatory Pension solution 20 years ago for most Malaysians (11.4m members; EE: 11%+ ER12%+optional up to 19%)
- ▶ Run by a government entity; today one of Asia’s leading investors

- ▶ Voluntary Pillar II / III Pension system with modest tax incentives
- ▶ Objective to “diversify” the country’s retirement solutions

- ▶ 8 providers were awarded a PRS license
- ▶ Where are the Australians?

- ▶ “Central” solution for public PR, informed decisions and literacy
- ▶ “Central utility” for contribution collection, rollovers and reporting

- ▶ Employers and employees have Pension “Choice” for the first time
- ▶ Very slow take-up of employers and employees

Aspects to consider

Malaysia highlights the power of mandating / nudging

Selected pension insights from across Asia

Pension aspects

Asset management fees

True competition in Pensions

Learning from overseas

International regulator cooperation

Government action

Key considerations

Aspects to consider

- ▶ A large AUM pool delivers significant benefits from economies of scale
- ▶ Many domestic providers still see Pensions as a local business, but Global Leaders see the similarities
- ▶ Increasing global attention to Asia may increase competition in Oz
- ▶ Most Asian countries / providers actively seek learning from overseas, sending their Executives to experience themselves
- ▶ We may need to be open to keep up with leading practices
- ▶ International cooperation appears more obvious and is heavily influenced by the great work APRA is doing abroad
- ▶ Asia appears more attuned to intern. regulatory Pension pipeline
- ▶ Decisive Government action can be an opportunity and challenge
- ▶ Pension is a form of social security that is “outsourced” to private sector, but with additional responsibilities for all stakeholders

Learning from abroad can help a) appreciate your achievements, b) improve your business, and c) enhance member outcomes

Three key areas where you may consider to act

\$50 tr in AUM in China

- ▶ What is it worth to access a market that offers more than 30 times the AUM pool of Australia?
- ▶ What are you doing about it to secure your fair share?

The power of mandating

- ▶ China achieved almost 100% participation within a decade in their rural pension space; 401k are at about 50% after three decades?
- ▶ Recent experience in Malaysia and the enterprise annuity space in China demonstrate the challenge of “voluntary” solutions

Learning from overseas

- ▶ What can you / your business learn from overseas?
- ▶ What are you doing about it to improve your business and member outcomes?

Simple questions that may require urgent attention

Thank You

Josef Pilger
josef.pilger@au.ey.com
+61 419 70 60 58

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