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Peering into the future

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Paul Scully, finance author and long-time industry professional, outlined his views on the shape of the industry over the next decade, predicting bigger problems for platforms, some types of multi-manager strategies and some super funds.

Scully, who now heads his own consulting business, Decision Horizons, said platforms will need to do more to prove their value for money.

"Platforms are deeper reservoirs of evil than the advisers are, so I actually think that at some stage there is going to be more onus on platforms to show that they deliver value," he said.

Scully also said that he did not believe that the multi-manager approach, the dominant paradigm of Australian super funds, could continue, foreseeing a "second wave" in the near future.

"There must be some level of differentiation," he said, identifying the alpha-beta (and some cases omega) separation adopted by some funds as an example.

Meanwhile, a major challenge identified by Scully for the industry was a shift from the "accumulation" phase to a "retirement income" phase, as the baby boomer generation becomes further entrenched in retirement.

As a result, many pension funds will have more pensioners than contributors, putting pressure on the reliability of cashflows and testing the mutual models of industry super funds.

"History has shown that mutual models run out of gas sooner or later," he said, citing AMP and the NRMA (both demutualised) as examples.

"At some point, they don't capture value for their members in the appropriate ways and they find it difficult to actually get capital to finance new activities."

Scully said some investment committees had explored the idea of amplifying or even taking contrarian bets against consensus opinions within the ranks of their managers.

Scenario planning was an area that Scully predicts would become increasingly important and one that needed to be improved on.

His views, particularly on platforms, are likely to earn the ire of many in the investment community.

Commenting on the platform sector in general, Investment Trends' Mark Johnston pointed out that, as of October 2009, financial advisers are directing more than 8 out of 10 client dollars through them. He said the value proposition of platforms had always been to benefit the advisers, either through cost or admin efficiencies, while staying cost-neutral to end-investors.

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