

Director Briefing with Douglas Bucknell – Tailored Superannuation Solutions

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*Managing
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Super



In this Director Briefing, Douglas discusses:

- **Flagship Product TTS. Automatically Optimises Superannuation Contributions for Disengaged Fund Members**
- **Key Strengths and Recent Projects**
- **Market Opportunities and Company Development**

Eden Exchange recently spoke with Douglas Bucknell, Managing Director of Tailored Superannuation Solutions Ltd. Tailored Superannuation Solutions Ltd (TSS) is a Fintech company that holds an exclusive licence to commercially exploit Trustee Tailored Super (TTS) in Australia – the next generation “Smart Default” for Australia’s 116 MySuper funds. TTS allows trustees to automatically place superannuation contributions for members who have not provided investment instructions into a tailored solution.

The product optimises projected retirement balances by boosting efficiency through mass personalisation to MySuper members rather than using a ‘one size fits all’ or age only approach. TTS

uses member's projected retirement balances, focuses on retirement prospects and is more flexible than current options.



Douglas discussed Tailored Superannuation Solutions, its strategic priorities, team and market position.

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Thanks for speaking with us, Douglas. Firstly, what brought you to the leadership position at Tailored Superannuation Solutions Ltd? Can you tell us a bit about your background and experience?

[Douglas Bucknell](#)

Until February 2016 I was the CEO of a \$110 million fund while also bootstrapping Tailored Superannuation Solutions Ltd. The industry was ripe for change and I took on the Managing Director role to give the product the exposure it deserves. In the 1990's I worked in the capital markets assessing treasury credit risk for clients and superannuation funds and in 2000 I worked with the Australia Prudential Regulation Authority (APRA). After that, I was a policy advisor for a major superannuation fund.

In these roles I was exposed to the superannuation 'default option' where, regardless of a member's age, income and projected retirement balance, the same default investment option was applied to members who hadn't provided investment instructions. I realised the administration required by trustees to tailor allocations based on the underlying needs of fund members was not as hard as previously assumed.

My 'eureka' moment was in 2008. The Global Financial Crisis convinced me that the current 'default option' was inefficient, predicted correlations between asset classes were inadequate and methodology could be improved significantly. I realised a better solution for improving retirement outcomes for the majority of Australians was available by combining the Human Capital, Nudge and Portfolio Design theories in an automated way.

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In simple terms, what is the Trustee Tailored Super product (TTS)? What is its application? How is it different to other products in the market and what are you plans to develop it further?

[Douglas Bucknell](#)

TTS fixes the problem of deciding which investment option to place unengaged MySuper members' monies into. It creates both higher average retirement balances and lower risk of loss as retirement approaches. There are no other known products in this marketplace. It is a practical, powerful system that recognises disengaged default members and automatically provides collectively for higher average expected retirement balances and lower risk of loss as retirement approaches.

It is a three step method and system which involves IP protected Fintech Software as a Service (SaaS) with implemented consulting. A trustee sets bands of dollar values for retirement balances. They then set a range of investment options over time, typically shifting from growth to defensive assets as members age. The trustee then estimates projected retirement balances. This process is re-calibrated annually.

Legislation is working in favour of TTS. In November 2016, the Superannuation (Objective) Bill 2016 was introduced, enshrining the objective of superannuation in legislation. The Productivity Commission is also reviewing the efficiency of MySuper. Funds have started placing retirement balances on members' statements, but aren't yet using that information to improve outcomes.

MySuper currently includes about 14.5 million member accounts or circa 80% of working Australians who are not engaging with their superfunds. These members do not select an investment option and, don't respond to phone calls or letters. Typically, trustees place them in a generic Balanced (Default) Investment Option. For example, two 25 year olds, one projected to retire with one million dollars, another projected to retire on the full age pension, will be invested in the same option. So will a 64 year old about to retire. There are a range of similar inefficiencies faced by trustees and members which can be improved by using TTS.

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How will you generate revenue?

[Douglas Bucknell](#)

We expect to generate revenue principally from sub-licensing fees from trustees using the TTS protected IP, TTS Application and post implementation services on an ongoing basis. We also expect to generate revenue through a percentage of funds under management model. It is an established industry practice for funds to pay a percentage of funds under management, calculated daily and paid monthly in accordance with usual industry unit pricing practices. TTS will also use the same methodology.

Many view this business royalty revenue stream as a long term annuity type proposition with significant potential for large excess cash flows, being returned on a yearly basis, compared to initial investment amounts. Additional versions of TTS are also envisaged once take up is successful. We expect further customisation by trustees will be desired, depending on changing market dynamics and the demographics of their underlying members.

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What are the next steps before you can scale the product substantially? How reliant is your business model on acceptance by a few key clients?

[Douglas Bucknell](#)

Adoption by a fund will be an extremely important event. Scale is not an issue. First client adoption is the major risk. In 2020, if we have only one fund on board, the potential revenue opportunity, discounted to a third of current market fees, is \$7.3 million per annum. If we have 20 funds on board, we could produce \$438.1 million per year, every year, growing at circa 17%. We believe once one fund adopts, many will promptly follow. Once a fund tailors using TTS they are unlikely to untailor.

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What markets does TSS focus on? Where do you expect the greatest demand for the product be from and how has the market response been like to date?

[Douglas Bucknell](#)

TTS is focused on Australia's 116 MySuper Trustees (as at 30 June 2016). They collectively hold in excess of \$452 billion in assets growing at around 17% p.a., including 9.5% compulsory contributions from the majority of working Australians. TTS is a tool for their Investment Strategy Committees. We

are beta testing with a number of funds and progressing through our 18 month implementation blueprint that was prepared by a major international consulting firm.

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What stage of development is the business in? How has this evolved since you first launched TSS?

Douglas Bucknell

The business is fully implementation ready. TTS consists of the TTS Application and TTS Services. TTS Application modules include a Prototype Mode, Beta Client Mode and Live Mode. TTS Services modules include Implementation, Analysis and General Support.

Beta Client Mode is being run for clients using their actual member and investment option data. Beta client information is confidential and subject to strict nondisclosure agreements. Results will vary depending on a fund's member demographic and other factors, however the prototype mode results are broadly consistent with beta client results and prior TTS research. On average a 35+% improvement in retirement balances can be achieved by TTS.

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Tailored Superannuation Solutions Ltd has installed an experienced board and management team. How important have these appointments been? What opportunities do they create for the Company?

Douglas Bucknell

The directors are extremely experienced. They have come on board, in part, because of the substantial national benefits achievable by using TTS, a potential lift of 35% in the majority of working Australian retirement lifestyles.



During 2015/16, the current board acted as an Advisory Board. They then invested and became directors in a new public company. The board was established in July 2016, in part to facilitate the new tax incentives for early stage investors. Our directors have vast business experience and a history of nation changing implementation. This is important as the super industry is slow to change. We want to impress on Government, Treasury, APRA and the Productivity Commission the significant national benefits achievable through TTS.

Once initial adoption occurs, we expect a waterfall effect and TTS to be a category killer for the current one-size-fits-all default option. We have strong governance and a strong board, so not only investors but the industry and individual funds can have confidence particularly when contracting with TTS sublicenses.

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What major industry trends in your sector do you need to be aware of? How will Tailored Superannuation Solutions capitalise on these trends? Why this a good time to be servicing the superannuation industry?

[Douglas Bucknell](#)

We are concentrating on relatively smaller funds (sub \$4 Billion), who are under pressure to prove they are acting in member's best interests. Research by consulting firm Third Horizon shows that 22 funds had declining market share of assets and members, as well as net contribution outflows. Funds need new strategies to counter these trends and are likely to use tools like TTS to optimise membership demographics and create attractive retention plans. Using a fund's demographics to provide improved retirement balances helps drive member engagement over time.

APRA has started applying the 'member outcomes assessment', or the 'Scale Test'. Secondly, the 'retirement objective', rather than 'annual performance', will be legislated by parliament. Thirdly, recent Productivity Commission recommendations have focused on long term net returns.

With TTS, funds can prove the better member retirement outcomes compared to current practice, without merging. While industry mergers claim to reduce fees from circa \$550 p.a. to say \$350 p.a. (for each \$50,000), TTS can increase net returns by circa \$500 p.a. (per \$50,000 balance), a major difference of 35+% over a working lifetime. For example Transport Super recently merged with MyLife MySuper. Following its acquisition of Pillar Administration in November, Mercer announced it would also take over Virgin Super. Other funds like NESS Super and Legal Super are now pushing back on mergers.

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What are some of the key achievements you are proud of at Tailored Superannuation? On the other side, what challenges have you faced to get the business where it is today?

[Douglas Bucknell](#)

Achievements range from the patent grant in 2010, conference presentations and interview by finance industry body FINSIA, the ACT Government grant in 2013, the TTS Trademark received and the completion of the implementation blueprint by a major international consulting group.

Other achievements include positive client meetings and initial beta client results, updated modules released, development of the application prototype, converting the Advisory Board to a Board of Directors and incorporating TSS as a public company with strong governance and external investors.

Key submissions we've completed included the Government's Cooper Review "Stronger Super", and lobbying successfully for MySuper regulations allowing TTS to use life-cycling factors beyond just age. We've also made successful submissions to Treasury on the "Objective of Superannuation" as well as submissions to the Productivity Commission review into the efficiency and competitiveness of the superannuation system. Waiting and building pressure for the current regulatory changes has been a big challenge.

Proving the concept involved effort, expense and time. It included processing patents, establishing an equity structure, product licensing and liaising with regulatory bodies and fund executives.

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Where do you see the business in 3 months and a year from now? What are your strategic priorities?

[Douglas Bucknell](#)

We are currently working on an increased number of beta clients, more customised reports for current beta clients and we will continue to influence the debate on industry mergers, scale and APRA's 'member outcomes assessment'.

We anticipate to have our first clients agreeing to implementation and have funds providing their preferred bands and options. Within 18 months we expect to introduce TTS into the market via a first adopter fund, issue the first sub-licence and receive first revenue.

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Thanks for your time Douglas

About Tailored Superannuation Solutions Ltd

Tailored Superannuation Solutions Ltd (TSS) is marketing a new product Trustee Tailored Super (TTS) – the next generation “Smart Default” for Australia’s 116 MySuper funds. TTS is a specialised FinTech application which optimises projected retirement balances to members of MySuper funds by significantly boosting efficiency through tailoring to lifestyle prospects.

For further information or to register your interest in Tailored Superannuation Solutions Ltd contact the team at Funding Strategies on [+61 7 3160 2840](tel:+61731602840) who are providing corporate advice to Tailored Superannuation Solutions Ltd. To find out more about Tailored Superannuation Solutions click [here](#).

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