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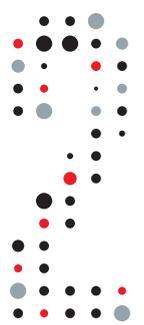


# A NEW ARCHITECTURE FOR SOCIAL GOOD

2017



NAB Catalyst  
Insights Series



# A NEW ARCHITECTURE FOR SOCIAL GOOD

NAB's Catalyst Insights Series brings together industry experts and leading thinkers to discuss the issues that are central to securing Australia's future prosperity. Its purpose is to take ideas beyond the boardroom, to help shift the national conversation in the direction of action and discover possible solutions to some of Australia's biggest social, economic and community challenges.

The series reflects NAB's strong commitment to working with industry, business and community stakeholders to support growth and opportunity in an inclusive Australian economy.

*A New Architecture for Social Good* is the second report in the Catalyst Insights Series. The report was developed following a roundtable focused on enabling the public and the private sector to work together to create better societal outcomes. NAB Chairman Ken Henry was joined by:

- Ms Simone Constant, Deputy Secretary, Financial Risk Management Transformation, NSW Treasury
- Mr David Crawford, Manager, Housing Unit in the Social Policy Unit, Federal Treasury
- Professor Ian Jacobs, Vice Chancellor, University of NSW
- Mr John Livanas, CEO, SAS Trustee Corporation
- Mr Rohan Mead, Group Managing Director, Australian Unity
- Mr Mike Baird, Chief Customer Officer, Corporate & Institutional Banking, NAB
- Mr Spiro Pappas, Executive General Manager, International Branches & Innovation, NAB

Dr John Hewson AM moderated the session.

## Contents

<b>Note from the Chairman</b>	<b>3</b>
<b>Key recommendations</b>	<b>4</b>
<b>The state of play: interlinking expertise</b>	<b>5</b>
<b>A business model for the future: for profit, for purpose</b>	<b>6</b>
<b>Capturing system-wide data through cross-sector partnerships</b>	<b>7</b>
<b>Measuring outcomes, not outputs</b>	<b>9</b>
<b>Shifting the mindset to the long-term</b>	<b>10</b>
<b>Connecting capital at scale</b>	<b>12</b>
<b>For more information</b>	<b>13</b>

# A NEW ARCHITECTURE FOR SOCIAL GOOD

Australia has long been considered one of the most liveable countries in the world. Australians tell us their country is a great place to live and to run a business. But there is fear about what the future holds. Will we continue to enjoy the same social and economic fortunes to which we've become accustomed?

Pressing issues facing Australia include the impacts of a growing and ageing population, which has ramifications for our infrastructure, our health and education systems, and the supply of affordable housing. And climate change threatens our environmental amenity.

While we might be willing to acknowledge these challenges, as a country we have largely proved unwilling to embrace optimal responses to them. Remarkably, we seem almost disinterested in making the most of the opportunities they present.

For some time now, Australia's governments and businesses have been talking past one another, or worse. It's time both committed to an informed, serious dialogue about the nation's future.

Banks, such as NAB, play a critical role in backing Australian businesses to expand and invest. Australia's banks also provide the link between the creation of new business and investment models, the testing of

their commercial benefit and the unlocking of the capital required to turn ideas into reality. Among a set of new investment models are those featuring concepts of shared value and impact investment. These direct capital into ventures that generate both financial returns and positive social or environmental outcomes.

Shared value and impact investment initiatives are designed to break down the barriers to effective collaboration across sectors and to replace a chronic focus on short-term investment returns with a genuine interest in long-term social value creation.

In recent years, NAB has had success in issuing green bonds. In March this year, we launched the first social bond to promote workplace gender equality, which was fully subscribed. These successes demonstrate that there's appetite for investment vehicles that help address social issues. The job now is to turn that appetite into meaningful momentum.

Many Australian businesses have the capacity to develop commercial solutions to the social problems that threaten the nation's prosperity. For NAB and our customers, the potential for progress is significant.

**Dr Ken Henry**  
Chairman, National Australia Bank

“There's appetite for investment vehicles that help address social issues. The job now is to turn that appetite into meaningful momentum.”

**Dr Ken Henry**, AC, NAB Chairman

# A NEW ARCHITECTURE FOR SOCIAL GOOD

## Key recommendations

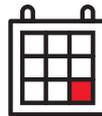
To build a new architecture for social good, the private and public sectors should work together to:



**Use cross-sector partnerships** to connect and capture data that underpins system-wide problem solving.



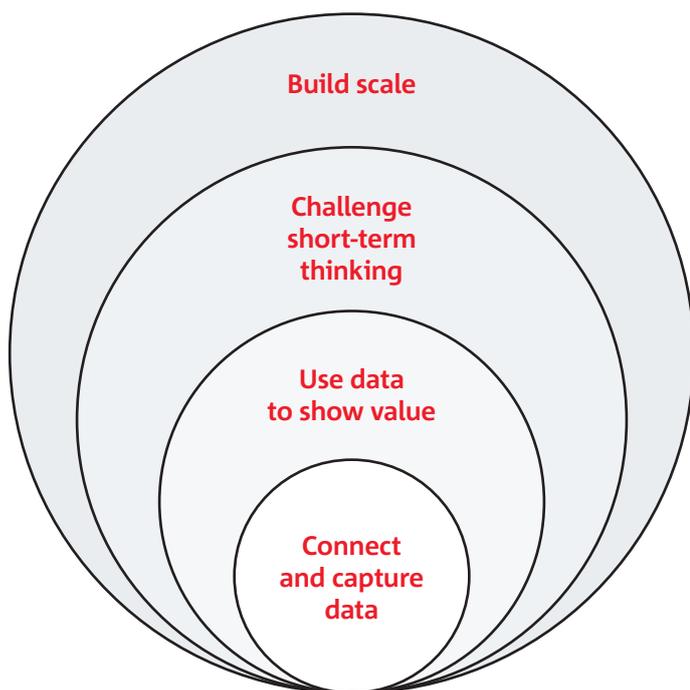
**Leverage the evidence to validate outcomes-based funding models** and demonstrate true business value.



**Challenge decision-making based on short-term rewards** and champion strategies focused on long-term value and evidence-based narratives.



**Build scale in Australia's social and environmental markets** by providing more diversified and liquid investment opportunities.



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## The state of play: interlinking expertise

Countries around the world are dealing with unprecedented challenges, including large scale demographic shifts, the provision of affordable high quality healthcare, education and housing, non-traditional threats to national security, climate change, and energy security.

Against this backdrop, there's the opportunity to unlock considerable value in the combined expertise of government, business, academia and not-for-profit sectors to create strong social, environmental and economic outcomes – now and into the future.

Working together, these sectors have the scale, influence, acumen and access to capital to achieve real and lasting benefit.

A picture of where expertise lies is the starting point from which sustainable solutions to the nation's most serious long-term issues can be built.

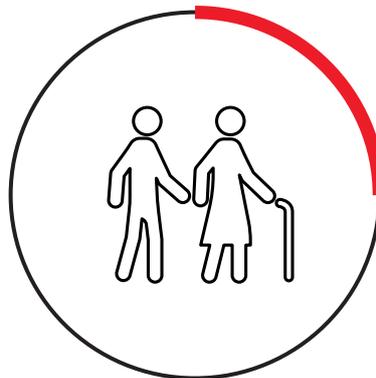
### What can each sector bring to the table?

- **Private sector** – Business has the means to unlock capital and bring sector-specific expertise to help assess and develop solutions to solve a broad range of problems. The challenge is to ensure this capital and expertise is used to benefit society and, at the same time, deliver attractive returns on investment.
- **Public sector** – Governments have the social licence to solve Australia's biggest challenges and the ability to marshal the expertise needed to quantify and articulate the long-term impact of those challenges. Although constrained by fiscal challenges and political cycles, the public sector also has the capacity to convene and facilitate collaborative discussions with many stakeholders.
- **Not-for-profits and academia** – Backed by extensive research, community service expertise and a trusted position in society, these sectors provide a rich understanding of the issues facing Australia and a forum to incubate game changing ideas. The challenge is to give these ideas a national voice, assemble the key stakeholders and connect with required capital.

By 2055, **Australia's population** is expected to grow to



with **a quarter** of the population likely to be **above the age of 65<sup>2</sup>**



The percentage of Australians **aged 65+** is rising



The median age has jumped from 34 to **38 YEARS OLD<sup>2</sup>**

<sup>1</sup> Source: The Commonwealth of Australia, Intergenerational Report 2015, 'Australia in 2055'  
<sup>2</sup> Source: Australian Bureau of Statistics, 2016 Census

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## A business model for the future: for profit, for purpose

Australian businesses, including banks, can address social problems by adopting strategies focused on creating both measurable social benefits and financial value. This is known as shared value and it rests on the concept of linking business success to social progress.

Businesses can identify unmet needs in the market by assessing and addressing some of the challenges facing society. These include initiatives that tackle water management, soil health, energy generation, gender diversity, financial resilience, waste disposal, mental health, social housing shortages and healthcare.

Shared value can be a source of competitive advantage for the businesses that develop it as a core capability, as part of their culture. Importantly, it can positively impact the economy and multiple communities.

### NAB Assist

When NAB's personal banking customers face financial difficulties, the bank's hardship assistance program – NAB Assist – can step in to help. In 2013, the team adopted a shared value approach including:

- **Changing the question** – Working with customers to understand the underlying cause impacting their ability to repay their loans and to find a sustainable solution to return them to regular, contractual repayments.
- **Establishing the Kildonan Uniting Care partnership** – Linking customers who require assistance with their underlying causes of financial instability such as mental health, family violence and addiction, to relevant referral support services through Kildonan's CareRing program.
- **Ensuring employees are upskilled and trained** – To have respectful conversations to identify customers who may require additional assistance on top of their financial needs.
- **Creating stronger hardship solutions** – Including flexible repayment options and the We Care Kit, which is a directory of free services including financial advisers, legal aid providers, welfare and mental health services – a collaborative effort with government and the not-for-profit sector.

In 2016, NAB Assist helped more than 25,000 personal customers in financial hardship and worked with approximately 2.1 million customers who missed a payment. These efforts also resulted in more than \$70 million in savings due to reduction in loan defaults and operational efficiencies.

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“Great ideas belong everywhere, so whether an idea is from the private sector or the public sector, we should share it.”

**Mr Spiro Pappas**, Executive General Manager, International and Innovation, Corporate & Institutional Banking, NAB

“Collaboration can realise massive economic opportunities. It can generate economic growth and reduce expenditure.”

**Professor Ian Jacobs**, Vice Chancellor, University of NSW



## Capturing system-wide data through cross-sector partnerships

Big data and new technologies improve the potential to capture real-time information and in turn demonstrate the true value of collaboration and ‘for profit, for purpose’ approaches to business.

Big data unlocks the ability to better understand complex problems and then design models that can tackle problems in a more purposeful and efficient way.

In addition, there’s the opportunity to join the dots of rich data sets, such as medical records, agribusiness performance and social service usage rates.

To leverage these opportunities, business, government, academia and not-for-profits need to collaborate. That requires working together to design models, frameworks and solutions through co-creation, systems thinking and innovative problem solving.

We need to build partnerships where co-operation creates innovation and forward thinking.

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“So much insight lives in data. Governments often can’t unlock these insights but the private sector can. For example, the health care system is episodic – it deals with the issue, not the underlying patient. Someone might have three, low-trauma fractures but no-one will connect the dots to diagnose osteoporosis. With early treatment, that person could be much better off and the savings to the health care system would be considerable. The data lives in medical records.”

**Mr Rohan Mead**, Group Managing Director,  
Australian Unity

## The value of our environment

The commercial opportunities available to agribusinesses are closely linked to the quality of their natural capital – the stock of living organisms and biological, physical and chemical systems that support them. In surveys of NAB’s agribusiness customers, more than 80 per cent say soil health, water scarcity and energy costs are significant business risks.

The services provided by our environment aren’t necessarily traded on a market or captured in accounting standards. But Australia needs to have some measure of natural capital if we’re to manage our natural resources well for the future.

In partnership with CSIRO, NAB is investigating the linkages between natural capital and on-farm financial risk and productivity. This work aims to identify the key metrics that can be used to identify good natural capital management, how these metrics might be tracked cost-effectively and how material they are to farm performance.

This will bring transparency to the market and enable landholders who manage their land well to attract competitive risk-based prices on their debt, premium prices for their land and communicate to high value markets that their produce is sustainable.

It will also build natural capital management into NAB’s credit-rating systems when assessing lending to Australia’s agricultural sector, alongside traditional financial information, to help farmers make sustainable decisions.

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“We can create a budget system and policies that empower us to drive real outcomes and to assess our services and make sure they match to the best client outcomes.”

**Ms Simone Constant**, Deputy Secretary, Financial Risk Management Transformation, NSW Treasury

“In simple terms, you’d love to have an overarching cost-benefit analysis that took account of economic benefits, social benefits, environmental benefits, and then measure them to make a rational judgement.”

**Dr John Hewson**, AM



## Measuring outcomes, not outputs

The foundation of a system where positive societal outcomes can be achieved sustainably is a robust, best-practice performance framework that emphasises both commerciality and benefit to society.

Outcomes-based funding is an example of a business approach that emphasises measurement and performance tracking, and funnels funds to service providers who can demonstrate tangible outcomes. Benefit to society is the core component of the funding approach, a significant departure from decisions based simply on outputs or cost efficient delivery.

A key mechanism to ensure best practice is contestability; asking which services are best provided by the public sector and which services are best delivered by the private and not-for-profit sectors. Contestability is well suited to an outcomes-based context.

The opportunity for business, governments, academia and not-for-profits lies in assembling the evidence that validates outcomes-based funding models; measuring outcomes, rather than outputs, and demonstrating to stakeholders the true validity, value and sustainability of this approach.

### Contestability in action

For NSW Treasury, applying a contestability approach meant determining that another party could better provide home care for aged and disabled Australians. Consequently, in 2016, the NSW government transferred its Home Care service to Australian Unity – an Australian mutual company that delivers aged care, health and community services.

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“Shifting thought processes of investors beyond the yield and the return that you need, to how that investment can also generate the return for the next generation – that’s what seems to me to be the most important thing.”

**Professor Ian Jacobs**, Vice Chancellor, University of NSW

“There’s a lack of patience. People may be aware of the benefits in the long term, but it’s human nature to defer pain for as long as possible.”

**Mr David Crawford**, Manager, Housing Unit in the Social Policy Unit, Federal Treasury.



## Shifting the mindset to the long term

Australia needs to replace current short-term decision making with genuine long-term thinking to put human progress back on a sustainable trajectory. The trend towards short-termism is intensifying due to factors including:

- **Investor pressure for greater returns** – As shareholders chase a swift return on investment, long-term thinking by publicly-listed companies can be discouraged.
- **Political cycles** – Programs often span multiple political cycles, which can cause difficulties in launching, sustaining and funding programs that produce real and lasting change.
- **A tendency to reward short-term business performance** – Quarterly performance cycles can hinder development of multi-year business goals and long-term investment.

A narrative anchored in evidence of the social and business value of long-term strategies is needed to reframe thinking around investments, political decision making and performance; to challenge decisions based on short-term rewards.

This narrative needs to highlight data on the performance of socially responsible programs. Importantly, it must highlight the social cost of inaction on the quality of life and the structure of our communities.

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In May 2017, The Australian Centre of Financial Studies found that, on balance, socially responsible investments do not come at a detriment to financial returns.

From 2014 to 2016, **socially responsible assets** grew

**247%** 

in Australia/New Zealand, with **one out of every \$2 under professional management** subject to a responsible investment strategy.<sup>4</sup>

**Responsible investment constituted \$633.2 [Billion]**

of **assets under management** in Australia as of 31 December 2015.<sup>5</sup>

## THE REAL VALUE OF IMPACT INVESTING<sup>3</sup>

Of 92 Australian impact investments analysed in the past five years, **financial returns for the assets were positive** and reported to be tracking within expected return ranges, with an actual return range of **3.25%-17%** for debt instruments.

In aggregate, **the investments have benefited:**



**60,000+** Australians, including



**126** schools helped



**319** jobs created



**4,493** tons of e-waste diverted



**1,072** people with disabilities supported



**11,501** MWh renewable energy generated



**3.9** tons of CO<sub>2</sub>e avoided



**669** mental health sessions delivered.

<sup>3</sup>. Source: Impact Investing Australia, 'Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016'

<sup>4</sup>. Source: Global Sustainable Investment Alliance, 'Global Sustainable Investment Review 2016'

<sup>5</sup>. Source: The Responsible Investment Association Australasia

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“We have a direct relationship with 11 million people in the super industry. It’s up to us in the super funds industry to link it all – the idea of social benefit and good financial return – and communicate the outcomes clearly.”

**Mr John Livanas**, CEO, SAS Trustee Corporation

“The challenge when you are investing in an alternatives-based portfolio is the liquidity. If you could create liquidity, and leverage the social opportunity and responsibility that super funds have with respect to raising and managing capital, that would be really interesting.”

**Ms Simone Constant**, Deputy Secretary, Financial Risk Management Transformation, NSW Treasury



## Connecting capital at scale

Traditionally, many impact investments have been bespoke and small in size, with the average size of a social impact bond in Australia around \$7 million, thereby limiting opportunities for institutional investors to participate. An important step is to create impact investments at scale which are attractive to the wholesale market. There are a number of green bonds (and now NAB’s social bond) which fall into this category.

Investors have, in recent years, shown a keen appetite for the broader socially responsible investment market. However, more evidence is needed to prove the financial benefits. This information must be underpinned by the relative performance of socially responsible investments within the portfolio.

The key to building scale in Australia’s social and environmental markets is to make investment opportunities more palatable to institutional investors and attractive to the wholesale markets. This can be done by:

- establishing benchmarks and building a reliable set of performance data
- shifting the conversation away from short-term yields to value creation for future generations
- providing more diversified and liquid investment opportunities.

**NAB is currently developing platforms which will enable investors to gain exposure to portfolios of green investments through tradeable units.**

### World’s first gender diversity bond

In March 2017, NAB launched the first social bond to specifically promote workplace gender equality.

The bond enables institutional investors to invest in supporting Australian organisations that champion women and equality in a positive way, and have been named Employers of Choice for Gender Equality (EOCGE) by the Workplace Gender Equality Agency (WGEA).

Organisations included in the initial NAB Social Bond (Gender Equality) portfolio were Lend Lease, Mirvac, Stockland, Monash University, Australian Catholic University, PwC, KPMG Australia, King & Wood Mallesons (Australia), Clayton Utz, Gilbert + Tobin, Minter Ellison, Corrs Chambers Westgarth, Ashurst Australia and Henry Davis York.

The result? Superannuation funds and groups based in Australia, the United Kingdom, Hong Kong, Singapore, Switzerland, Korea and Taiwan that focus on socially responsible assets put AUD\$500 million into the bond.

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## For more information

At NAB, we believe we have a responsibility to help secure a prosperous and comfortable future for our customers, communities and economy. We want to be as good with people and the whole community as we are with money, so people can secure better lives.

That's why NAB is talking to experts and our customers about how we can work together to solve some of the nation's challenges – whether that's connecting capital with good ideas or helping develop new and innovative forms of financing.

We encourage customers to get in contact with the NAB team to find out more:

### Cathryn Carver

Member of the Corporate & Institutional Banking Leadership Team

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