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Customer stewardship and
the institutional investor

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A WORLD OF INSIGHT

CUSTOMER STEWARDSHIP AND THE INSTITUTIONAL INVESTOR

Global investors are increasingly allocating funds to infrastructure. According to the Official Monetary and Financial Institutional Forum, combined asset allocations to infrastructure by the 750 global public investors who manage \$36.2 trillion in assets grew by 165% between 2009 and 2017.

In Australia, whilst asset allocations to infrastructure by superannuation funds may seem relatively low at 5%¹, during the period 2013 to 2018 investment in international infrastructure multiplied by 5.5 times and investment in listed infrastructure tripled. This growth trend towards infrastructure investment by both public and private investors is expected to continue apace driven by factors such as urbanisation, population growth, shifting demographics, replacement of ageing assets and transitioning to a lower carbon economy.

However, it is not just economic returns that drive infrastructure investors. Investors are increasingly required to both understand and anticipate the wider stewardship responsibilities and expectations that go hand in hand with the provision of essential services to communities. That is, providing potable water and waste services, public transport, energy and telecommunications all goes to the heart of impacting our quality of life in both cities and regional areas.

The entire infrastructure sector is becoming increasingly sophisticated in terms of environmental, societal and governance accountability. These developments can be challenging but are a welcome opportunity as infrastructure owners and operators seek to build new and better sustainable long term relationships with customers, communities and investors. Many investors are implementing new methods and measures to both adapt to and lead this broadened stewardship mandate into infrastructure investment.

NAB has sponsored research by The Better Infrastructure Initiative at the John Grill Centre, University of Sydney which has connected the concept of stewardship specifically to the customer in the infrastructure asset class. Their most recent paper in this series, entitled “Customer Stewardship: Infrastructure’s Missing Link”, focusses on putting customer stewardship into practice across all infrastructure. The premise of the research is that if our infrastructure services are more vested in customer outcomes over the long term, wider social and economic benefits will result, including better returns, smarter use of capital and the rebuilding trust; outcomes which are also paramount to the infrastructure investor.

1. ASFA data on funds exceeding four members

During the period 2013 to 2018, investment by Australian super funds in international infrastructure multiplied by 5.5 times and investment in listed infrastructure tripled.

What is customer stewardship?

Customer stewardship is defined by the Better Infrastructure Initiative as “the collective management principles and practices that focus on long-term customer outcomes”. The purpose of these principles and practices is to guide infrastructure owners and operators to deliver services that adapt to what is needed and desired by their customers. Without it, the requisite discipline and purpose to efficiently allocate capital may not be present.

Stewardship in this case seeks to encourage greater dynamism, innovation and customer centricity in the way capital is allocated and managed in infrastructure. When customer stewardship is active, a number of outcomes are expected to emerge over time including more community and customer trust, more effective regulation, new investment pathways for institutional investors and ultimately higher enterprise value.



**Improves
community
and customer
trust**



**Provides
access to
institutional
investment**



**Opens up
new value
creation**




**Helps to
safeguard
against
disruption**



**Invites better
regulation**



**Lifts
enterprise
value**



“Responsible infrastructure investors are active in managing their assets to meet the shifting needs of customers with infrastructure that will adapt and perform to higher standards of service and innovation over time. The Customer Stewardship Blueprint can provide a framework to guide this process.”

Garry Bowditch, Executive Director, Better Infrastructure Initiative.

The customer stewardship blueprint – a practical framework

To assist the take-up of customer stewardship, a workable framework is required; a framework that can be applied across industry and be used to help owners and operators benchmark against best practice. This has been the focus of the work of the Customer Stewardship Expert Reference Group, a cross-sector industry working group represented by members across the transport, construction, energy, water and investor communities.

The Group informed the development of the Customer Stewardship Blueprint which comprises five pillars of practice together with the underlying bedrock values and principles. The Blueprint is intended to communicate to customers and communities the qualities, principles and values that they should expect of their infrastructure (see Appendix 1).

The five pillars of practice are underpinned by an organisational foundation that rests on the firm’s values and an enduring customer-centred culture. Human capital management, customer-centred design, sustainability management, privacy and data integrity are essential bedrock values and principles that infrastructure service operators should establish to enable best in class customer stewardship.

“Together with the inherent value of building trust, we expect the process to liberate the organic value in our assets.”

Ross Israel, Head of Global Infrastructure, Queensland Investment Corporation.

Customer stewardship: the value proposition for investors

It is not just best in class operators of infrastructure who are interested in customer stewardship as a framework to simultaneously deliver better customer outcomes, build trust and increase enterprise value. A number of Australia’s leading infrastructure investors have contributed to the exploration and development of the Better Infrastructure Initiative’s customer stewardship work including IFM Investors, the Plenary Group and Queensland Investment Corporation (QIC).

For Brett Himbury, Chief Executive Officer of IFM Investors, successful infrastructure investment begins with the satisfied infrastructure customer. Earning and retaining their trust is a core focus. Moving from this customer centre, it is equally important to understand, respect and balance the needs of stakeholders involved in the broader infrastructure system including employees, governments and regulators. Brett notes “we invest for the long term and we know we will be successful if our infrastructure customers are happy. We also know we have a role to play in positively impacting society through our investments.”

Mr Paul Oppenheim, Chief Executive Officer, Asia Pacific of the Plenary Group sees customer stewardship and trust as central to Plenary’s vision of bringing infrastructure to life; a pre-requisite to providing innovative, sustainable solutions to communities. “The customer experience and our stewardship of customer outcomes is at the centre of what we do and informs how we adapt and innovate,” says Paul.

In addition, customer stewardship benchmarks and performance data have the potential to deliver substantive information to infrastructure investors because of its focus on owner and operator teams, providing insight into who is best placed to deliver superior, sustainable and responsible long-term investment outcomes. Ross Israel, Head of Global Infrastructure at QIC agrees: “having a common customer stewardship framework or rating system could help benchmark assets across portfolios and ultimately lead to a greater understanding of how to build best practice. Together with the inherent value of building trust, we expect the process to liberate the organic value in our assets.”

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CUSTOMER STEWARDSHIP

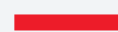
Stewardship and the link to ESG

Stewardship is grounded in taking a long term sustainable view. Whilst the notion of stewardship is very established, the narrative of investor stewardship has become more prominent in recent years. At its core, it is focussed on good governance, however, it is also linked to the incorporation of environmental and social factors, otherwise known as “ESG”.

Increasingly, ESG considerations have become a fundamental part of the investor mandate. This is sometimes couched in responsible investment terms and the weight of money is behind this shift. In Australia, research by the Responsible Investment Association of Australasia found that half of all professionally managed investments in Australia – \$866 billion – are now invested as responsible investments with environmental, social and governance considerations sitting alongside financial as critical components informing the investment decisions of the majority of Australia’s professional investors.

The driver for some ESG-aligned investors centres on managing risk as well as delivering sustainable economic returns. This often presents in the context of climate change where investors, as the stewards of assets on behalf of their clients, are bolstering their efforts to understand the resilience of their assets to climate-change impacts. However, the bigger opportunity extends to investors acting as a powerful force to help solve some of the world’s most pressing social and economic problems, thereby playing a role in delivering better outcomes for individuals, communities and even countries.

Customer stewardship is an important complement for ESG considerations. It can provide additional data to inform decision making through its empowerment of the community and customer voice, further evolving ESG processes.



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Guidance for the future

THE CUSTOMER STEWARDSHIP COMPASS

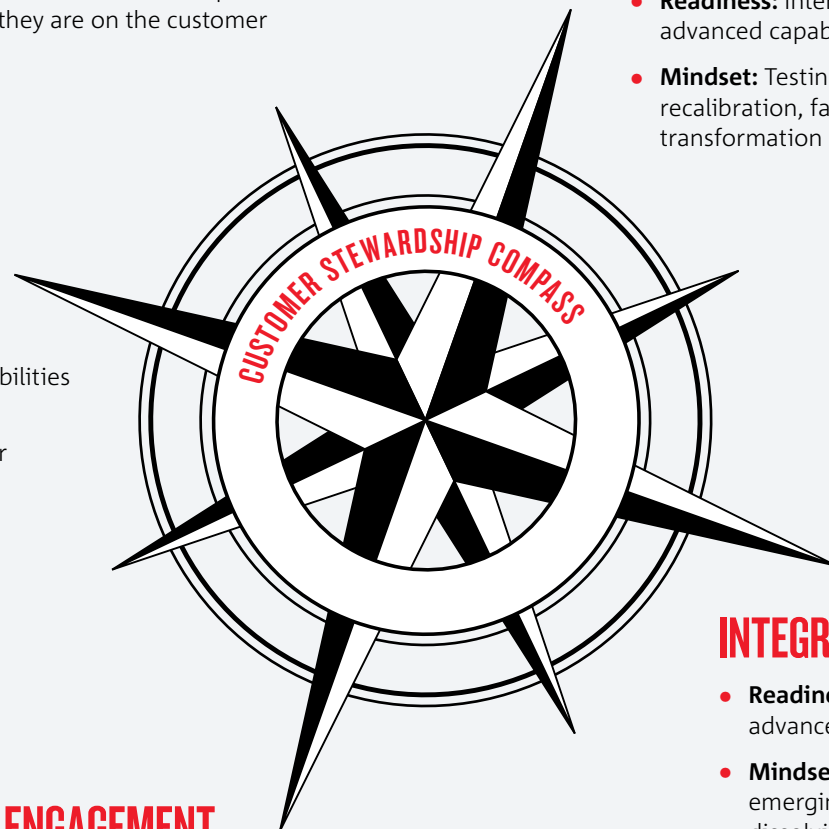
Infrastructure has a very long economic life and it is difficult to predict the operating conditions and requirements throughout the full term of its existence.

The purpose of customer stewardship is to help enable an organisation to adapt a principles-based management culture so that assets and services can better flex and adapt to the uncertainties and opportunities of the future. Different organisations will be at different stages of customer stewardship maturity and for this reason the Customer Stewardship Compass was developed.

The Compass presents navigational themes to help organisations identify where they are on the customer stewardship journey.

TRANSFORMATIVE

- **Readiness:** Advanced capabilities
- **Mindset:** Game-changer attitude, extreme customer loyalty, nimble/adaptive approach to changing circumstances



ENGAGEMENT

- **Readiness:** Early-stage capabilities
- **Mindset:** Unconstrained by usual business, embedding pillars, continuous learning embarkation, competency leading to 'iterative'

ITERATIVE

- **Readiness:** Intermediate to advanced capabilities
- **Mindset:** Testing assumptions, recalibration, faster change/transformation

INTEGRATIVE

- **Readiness:** Intermediate to advanced capabilities
- **Mindset:** Evolving maturity, emerging partnerships, dissolving boundaries, embedded pillars

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Customer stewardship recommendations

“Customer Stewardship: Infrastructure’s Missing Link” concludes with five recommendations to help embed a customer stewardship ethos into every aspect of the infrastructure lifecycle. They are:

- 1. Embed customer stewardship in all major decisions:** Governments should address customer stewardship in infrastructure governance with enhanced focus and accountability to customers and the function of markets.
- 2. Enable customers to always shape infrastructure:** Public and private sector organisations can embrace and practice customer stewardship values and principles in their project selection and governance processes that enable customers to shape all aspects of the asset life cycle for infrastructure.
- 3. Reward customer stewardship practices:** Investors as owners of infrastructure should allow operators of infrastructure latitude and motivation to use customer stewardship practices, including engaging with and maintaining high standards of customer trust and integrity of assets and services.
- 4. Motivate a reporting and transparency ethos:** Asset recycling programs and other infrastructure divestment and investment processes should embed a customer stewardship ethos of accountability together with mechanisms for reporting to ensure all decisions will accrete to customer outcomes and benefit the infrastructure system as a whole.
- 5. Better communicate genuine achievements:** Owners and operators should communicate their customer stewardship achievements, (using case studies, data with their stakeholders) to redress misconceptions and build trust and understanding about the quality of planning and management capabilities in preparing for the future.



The customer stewardship rating system

The next stage of the customer stewardship work is the development of a customer stewardship rating and accreditation system.

This system would focus on equipping owners and operators with key customer stewardship information and benchmarks that would help enhance the performance and sophistication of asset management teams to be successful, not only with investors, but also with regulators, policymakers and most importantly the customer and communities these assets and networks serve.

Source: The University of Sydney, [Customer stewardship: infrastructure’s missing link](#).

Appendix 1

Customer stewardship: The five pillars of practice

- **Connectedness:** Customer stewardship requires infrastructure to work as a coherent system that is connected and integrated, functioning as part of a seamless, interdependent network. Connectedness is important because infrastructure customers, communities and the economy rely more than ever on highly functional interdependent networks to support economic and social well-being over the long term. Connectedness must bridge both the physical and technology dimensions of infrastructure assets and service provision.
- **Informed Choice:** Customer stewardship requires infrastructure that ensures informed choice for customers and stakeholders. Informed choice is important because it equips customers and stakeholders with the necessary information to choose wisely and with an understanding of the consequences of their decision. For owners and operators this is valuable in informing the allocation of capital and other resources efficiently and effectively today and in planning for the future.
- **Adapting:** Adaptable infrastructure is important because these asset and service networks must be dynamic parts of our society. Customer stewardship requires infrastructure that can change, be repurposed, and made more resilient to meet long-term economic, social and environmental challenges and opportunities of the future.
- **Transparency:** Transparency is important so infrastructure can be an agent of change pursuing continuous improvement, rather than being a static asset. It can help identify under and exemplary performance and inform follow up actions with investors, operators, market disruptors, regulators and customers. Customer stewardship requires infrastructure that is accountable to long term goals throughout its life cycle; where operational performance and governance of data and payment systems are open to regular review.
- **Serving all:** Lifting economic and social inclusion, along with enhanced environmental outcomes should be done through open and contestable mechanisms. Serving all in society is important because infrastructure must continue to demonstrate that it can address economic, social and environmental challenges for all, not just those that can afford to pay for it.

Get in touch

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