



pillar
supporting your business

Superannuation Administration Corporation trading as

Pillar Administration

Annual Report 2006/07

31 October 2007

The Hon John Watkins, MP
Deputy Premier,
Minister for Transport,
Minister for Finance
Level 30, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Minister,

This is the eighth annual report of the Superannuation Administration Corporation, which trades as Pillar Administration. We have pleasure in submitting it to you for presentation to Parliament.

The report has been prepared in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984 (NSW)*, the *Public Finance and Audit Act 1983 (NSW)* and relevant Government policies.

As in previous years the Corporation's primary business of superannuation administration was conducted profitably within a competitive environment.

The priorities of the Board and management in 2006/07 were to:

- continue to be profitable;
- retain all clients whilst also winning new clients;
- focus on processes and productivity improvement;
- build Pillar's profile as a recognised player in the superannuation industry;
- maintain an experienced and skilled workforce; and
- maintain our strength in governance and control.

Generally, Pillar achieved all these objectives.

Yours sincerely,

Dr Col Gellatly
Chairman

Mr Peter Cormack
Chief Executive Officer

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Part A – The Business

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The Business in Brief

The Superannuation Administration Corporation trading as Pillar Administration:

- provides superannuation administration and related services in both the public and private sectors;
- is a New South Wales statutory State owned corporation established by the *Superannuation Administration Authority Corporatisation Act 1999 (NSW)*; and
- is governed by a Board of Directors that reports to Shareholding Ministers appointed under the *State Owned Corporations Act 1989 (NSW)*, and to a Portfolio Minister.

The statutory objectives under the *State Owned Corporations Act 1989 (NSW)* for each such corporation are:

- to be a successful business;
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;
- where its activities affect the environment, to conduct its operations in compliance with principles of ecologically sustainable development; and
- to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

The principal functions of Pillar Administration (ABN 80 976 223 967) under the *Superannuation Administration Authority Corporatisation Act 1999 (NSW)* are the development, promotion and conduct of its business of providing superannuation scheme administration and related services. Pillar Administration (Pillar) presently provides such services to

the trustees of superannuation funds. These funds include both defined benefit and accumulation funds for individuals who are in the workforce, in both the public and private sectors, and those who have retired. Pillar has an Australian Financial Services Licence (AFS Licence No. 245591) and is licensed to provide general product advice to members of the superannuation funds under its administration and to deal in superannuation products.

The services provided include:

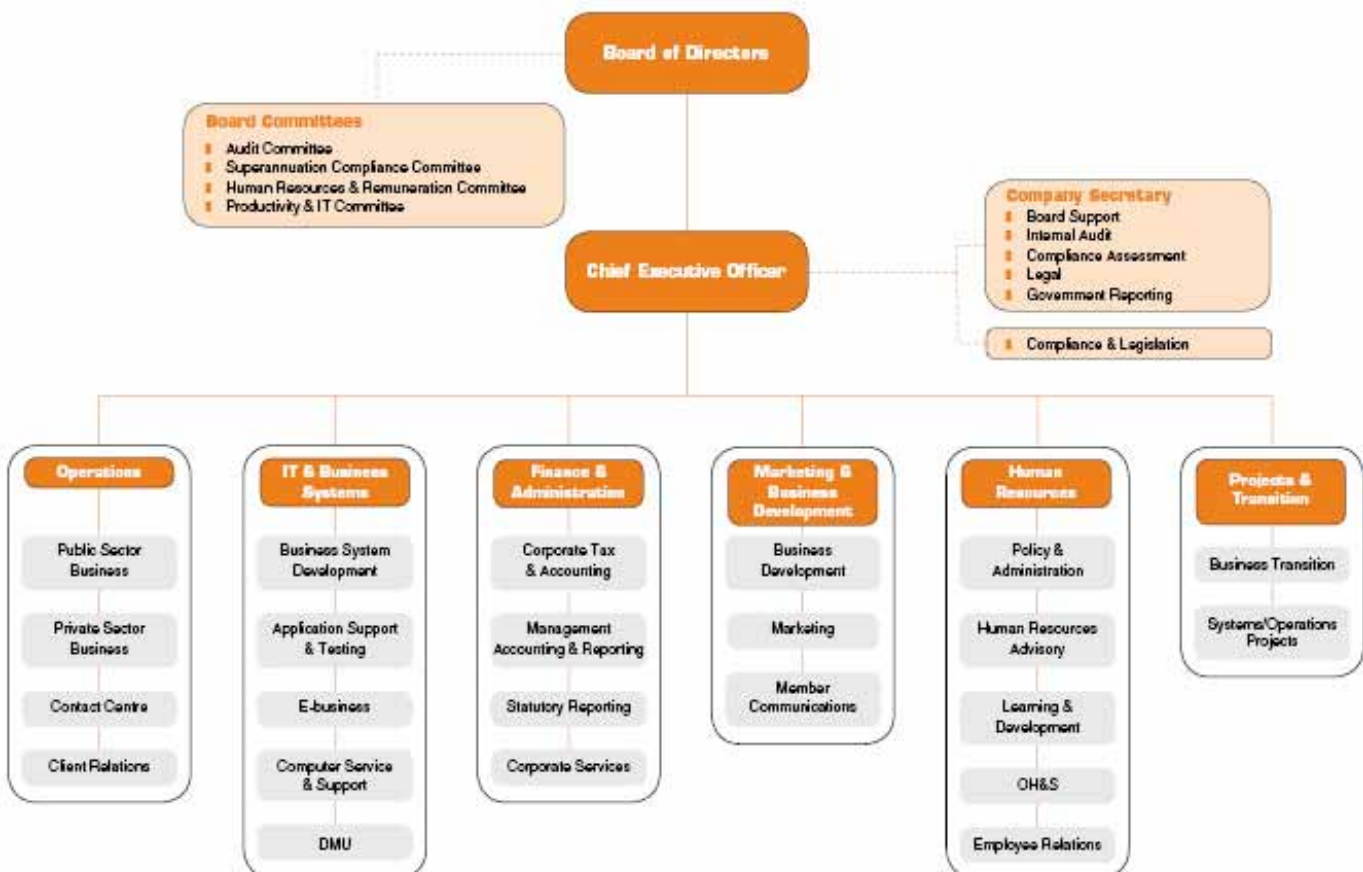
- collecting and processing member and employer contributions;
- maintaining member, accounting and other fund records;
- processing claims and paying benefits including pensions;
- processing investment elections;
- answering member and employer inquiries through a Contact Centre and a Member Interview service, in accordance with contractual and Licence obligations;
- managing and developing fund websites that provide 24 hour-a-day information on member accounts;
- issuing member statements and literature;
- assisting employers;
- keeping trustees informed of details of administration activities and performance;
- interacting with custodians and other service providers;
- superannuation consultancy services for trustees; and
- where required, corporate services and fund secretariat services.

As at 30 June 2007 Pillar administered superannuation funds that had approximately 1.66 million members (including members receiving superannuation pensions) and total fund assets of over \$59 billion. The total number of members and fund assets under administration has increased by over almost 100% in the past 4 years.

Pillar has approximately 545 employees and operates from the following locations:

- Sydney:** at 83 Clarence St; and
Wollongong: at 5 Old Spring Hill Rd, Coniston (Pillar's National Service Centre) and at the Corporate Centre, Bridge Rd, Coniston.

Organisation Chart



The Directors

The Directors appointed to the Board of Pillar are listed below along with an outline of their professional backgrounds. Detailed information on corporate governance structures and arrangements is contained in Part B of this Annual Report.



Dr COL GELLATLY, BAgEc (Hons) UNE, MComm (Hons) UNSW, PhD NCSU, Chairman of the Board; is the former Director General of the NSW Premier's Department and was, prior to that, the Director General of the NSW Department of Land and Water Conservation and Director General of the NSW Department of Industrial Relations, Employment, Training and Further Education. He has extensive experience at executive management level and as chairman and member of numerous government committees and boards. He is currently also Chair of the Redfern Waterloo Authority, a member of State Water Corporation and a member of the University of New England Council. Col was appointed on 18 June 2007 and is an ex-officio member of all the Committees of the Board.



PETER CORMACK, Chief Executive Officer; has a background encompassing more than 30 years in the financial services industry. Peter's career has included the marketing and administration of industry funds, master trusts, corporate and public sector superannuation schemes, as well as group insurance. However the majority of his career in the industry has been spent in sales, product design, the management of product distribution channels and the running of consultancy operations. Prior to becoming CEO of Pillar, Peter was Pillar's General Manager of Operations, responsible for superannuation administration functions and customer service in the National Service Centre at Coniston.



EVE CRESTANI, Dip. Law (BAB), DPM, FAICD, Chairman of the Board's Human Resources & Remuneration Committee; is a professional director and business consultant with a background in law and management. She sits on various financial service boards and board committees including as Chairman of Mercer Investment Nominees Limited, as a member of the Disciplinary Tribunal of the Australian Securities Exchange; and as a member of the Compliance Committees of Invesco and NavraInvest.

Eve consults on strategically significant projects in Australia and Asia and is a professional mentor to senior executives. In the latter role she helps senior executives develop as leaders. Eve is also a member of the Superannuation Compliance Committee.



Noel Davis, LLB, AAll, Chairman of the Superannuation Compliance Committee; is a barrister practising in Sydney. He has had extensive experience in superannuation, life insurance and tax issues for more than 30 years. Noel is a part-time member of the Superannuation Complaints Tribunal. He is a director of Trust Company Superannuation Services Limited and is chairman of its Audit, Risk & Compliance Committee. He is also a director of Count Financial Limited, a public financial planning company and is chairman of its Risk and Compliance Committee. Noel is the author of "The Law of Superannuation in Australia", a loose leaf book and is the editor of the "Australian Superannuation Law Bulletin". Noel is also a member of the Audit Committee.



Glenys Roper, BA, LittB, FAICD, Chairman of the Marketing & Business Development Committee until its discontinuance; has top level experience in the public and private sectors. She was Chief Executive of the Office for Government Online, Executive Director in the federal Office of Asset Sales and Chief Executive of the Australian Mint. In 1996 her work at the Mint won her the Channel Nine/Louis Vuitton award for leadership and achievement. Glenys is Managing Director of Roex Management, providing advice and business development assistance in the IT and government sectors. She is a director on a number of boards and chairs a range of governance committees in the government sector. Glenys is also a member of the Audit Committee and the Human Resources & Remuneration Committee.



Philip Small, BEc (Syd), MSc (Lond), FCPA, Chairman of the Audit Committee; has been involved in the insurance and banking software industry since 1985 and has a detailed knowledge of the market in the Asia Pacific region. He has held a number of senior management positions as a technology executive and was, until 2001, President of Computer Science Corporation (CSC)'s Financial Services Group in Asia Pacific. Prior to CSC, Philip worked for Continuum and was responsible for their operations in Asia Pacific between 1993 and 1996. Prior to this, he worked for Paxus Corporation where he headed up their European division from 1988 to 1993 and led their expansion to become the leading provider of insurance software in Europe. Philip is a Director of FINEOS, an Irish software company and Empower Masterpay, a payroll and HR software company. He also advises a number of other software and technology companies. Philip is also a member of the Superannuation Compliance Committee.

During 2006/07, the following Directors left the Board:

- ❖ Prof. Bob Walker, a Professor of Accounting at the University of Sydney and adviser and consultant to governments and major corporations, resigned as Chairman and as a Director on 15 June 2007. Bob had been Chairman since the organisation was corporatised in 1999.
- ❖ The term of appointment to the Board of Mr Darryl Snow, a former State President of the NSW Fire Brigades Employees Union and holder of a variety of posts within the industrial and political wings of the labour movement, expired on 28 February 2007.

The Chairman's Overview

The past year has been characterised by significant changes in the superannuation industry, culminating with the implementation of the Federal Government's 'Simpler Super' changes effective 1 July 2007. The increased workload engendered by these changes, which has had a major impact on operations, has occurred in a superannuation environment that is increasingly competitive, both in terms of the costs of administering funds and the services offered by competitors. Pillar is responding to the increased demands in conjunction with its clients.

Pillar has continued to grow in this challenging environment. As evidence of this, during 2006/07 Pillar:

- maintained its existing client base and was appointed as administrator for two new clients;
- continued to provide a high standard of service to trustee clients and the members of the superannuation funds we administer;
- continued to focus on improving productivity through business process improvement and staff training; and
- achieved a modest profit.

In November 2006, Pillar was appointed as the administrator of an Eligible Rollover Fund (ERF) with 560,000 members. The transition of the administration of this fund to Pillar took place successfully in April 2007.

Then, January 2007 marked Pillar's entry into the retail sector of the superannuation market with the appointment as administrator of a superannuation master trust. The fund transition is scheduled for February 2008.

These appointments cement Pillar's position as the third largest superannuation administration service provider in Australia.

Pillar aims to be regarded as the benchmark administration service provider and, to this end, the Board maintains a very strong focus on:

- full compliance with increasingly complex legislation and regulations;
- the maintenance of strong internal controls; and
- the on-going upgrading of systems to enhance productivity, efficiency and the integrity of members' data.

The Board's Committee structure ensures that Pillar's Directors can contribute to the governance of Pillar on an on-going basis, particularly in areas of their specialist skills. In recognition of the momentum the organisation has gained over the last few years in generating new business, the Marketing & Business Development Committee was discontinued during the year, as was the IT Governance Committee. The latter committee was replaced by the Productivity & IT Committee. The Audit and the Superannuation Compliance Committees were active during the year ensuring that Pillar managed its risks in the complex superannuation environment.

2006/07 has seen continued investment by Pillar in information technology with the aim of enhancing the computer system facilities that we use in the administration of superannuation funds. The result is that both speed of transaction processes and ease of use continue to be amongst Pillar's strengths.

Pillar employs approximately 50 staff in Sydney and 500 staff in its National Service Centre in Coniston. The location of these jobs in the Illawarra region continues to be of great benefit both to Pillar and to the local community. Because staff turnover in Pillar's operational areas has been significantly lower than the targeted rate of 10%, workforce stability

has meant that knowledge and skills are maintained. Pillar also aims to be a good corporate citizen and supports the Illawarra region in a variety of ways including: sponsoring students and programs at the University of Wollongong and at local high schools; supporting local charities and fund-raising events; and providing surplus older computers to local schools.

Pillar prides itself on being environmentally responsible and is committed to reducing energy usage, extending re-cycling initiatives and investigating the use of other energy saving initiatives and rainwater collection.

In the 2007/08 year, the Board expects to see Pillar achieve further increases in productivity and to continue to win new superannuation business whilst

maintaining its existing client base, thus consolidating its position in the superannuation market.

Business expansion and productivity improvement can only be achieved with the active engagement of staff. On behalf of the Board, I would like to thank staff for all their efforts and hard work in the past year.

Dr Col Gellatly

Chairman



Pillar's National Service Centre in Coniston

Summary of Goals and Achievements

Goals

The focus for 2006/07, as set out in the Superannuation Administration Corporation's Statement of Corporate Intent, was on the following inter-related goals:

- ensure that all clients contribute to profitability;
- retain existing clients;
- maintain a growth focus and capacity to expand;
- have an obsessive focus on processes and productivity improvement;
- win new customers from industry funds and, in new markets, superannuation master trusts;
- ensure that people are our competitive advantage; and
- maintain our strength in governance and control.

Performance

The following section provides brief highlights of Pillar's performance against the above listed goals during the 2006/07 year. Elaboration on selected areas is contained in later sections. Financial information is contained elsewhere in this Annual Report at Part C - Audited Financial Statements.

Ensure each client contributes to profitability

- ❖ Pillar achieved a pre-tax profit of \$2.041 million for the financial year 2006/07. We have remained profitable over the past few years even as Pillar has undertaken the time-consuming and initially

expensive task of taking on new clients, in addition to implementing legislative changes to superannuation.

- ❖ During 2006/07, payment of the fourth successive dividend to the shareholders (for the 2005/06 year) was made, and the dividend for the 2006/07 year has recently been declared, for payment to shareholders during 2007/08.
- ❖ Profitability targets are a key part of Pillar's business planning. Pillar's planning incorporates continued expansion of business and ensuring that the acquisition of each new client contributes to increased profitability.
- ❖ Pillar has participated in bi-annual international benchmarking analysis for defined benefit schemes, which shows that Pillar's cost structure, even whilst administering schemes that are the most complex in Australia, is trending down.

Retain existing clients

- ❖ Pillar renewed the administration contract (for a 5 year extension) with the trustee of the one of our existing superannuation funds during 2006/07. This is one of the largest funds that we administer and Pillar has provided significant assistance to the fund's trustee during the fund's recent transition to 'public offer' status.
- ❖ Salary sacrifice system functionality and administration processes for some of Pillar's NSW public sector fund clients were successfully implemented during the past year.

- ❖ Pillar has assisted some of its industry fund trustee clients over the past year with the implementation of changes to, amongst other things, member investment options, insurance arrangements, on-line services for members and unitisation arrangements. We also assist some of our industry fund clients by hosting various trustee board and committee meetings.
- ❖ Pillar has assisted one of its industry fund clients who have recently formed some strategic partnerships which they hope will be of great benefit to their Australia-wide membership. We play an important administrative role in these partnerships, providing web links and on-line services, sharing data and transferring phone calls. Pillar also hosted the official launch of a change of name and image for this industry fund client in August 2006 in our Coniston offices.
- ❖ The implementation of the 'Simpler Super' legislative changes was delivered for all of Pillar's superannuation fund clients, culminating in the rollout of the extensive system changes required from 1 July 2007 onwards.
- ❖ Pillar increased its systems capacity in the past year through the upgrading of servers, the upgrading of workflow applications and the re-organisation of online system databases. Improvements continued to be made to network operations, internet connections and storage facilities.
- ❖ Pillar implemented improved electronic contribution remittance facilities for a number of funds. This functionality provides employers with an easy and efficient mechanism for remitting contributions to the applicable superannuation funds.
- ❖ The rollout and use of new Customer Relationship Management (CRM) technology to Pillar's Contact Centre continued during 2006/07, offering increased flexibility, capacity and reporting capabilities, both for customers and management.
- ❖ The maintenance by Pillar of its Australian Financial Services Licence, along with the focus on its areas of strength, means that Pillar is well positioned to capitalise on growth opportunities by winning new business.

Maintain a growth focus and capacity to expand

- ❖ The number of staff employed by Pillar increased from around 475 to approximately 545 over the course of the year, as new trustee clients came on board and the number of members of funds under our administration increased.

Have an obsessive focus on processes and productivity improvement

- ❖ Establishment of the Board's Productivity & IT Committee.
- ❖ Pillar continues to work towards the simplification and standardisation, where possible, of processes and procedures across all its superannuation funds.

- ❖ Productivity measurement was formalised for major operational processes, which assisted with the identification of the overall trend of increasing activity levels.
- ❖ Contact Centre productivity was improved by the introduction of sophisticated reports on activity from a new customer relationship management information system implemented during the year.
- ❖ Document scanning hardware was upgraded during the year which allows faster and simpler processing of incoming documents received.

Win new customers from industry funds and, in new markets: superannuation master trusts

- ❖ During 2006/07, Pillar was appointed as the administrator of an Eligible Rollover Fund (ERF) with 560,000 members. The transition of the administration of this fund to Pillar took place successfully in April 2007.
- ❖ Pillar entered into the retail sector of the superannuation market when we were appointed administrator of a superannuation master trust in January 2007. The initial contract is for 5 years with the fund transition scheduled for February 2008.
- ❖ Pillar receives an increasing number of invitations to participate in new business tenders and expressions of interest, across all superannuation market segments (industry, retail, corporate and public sector funds). We also regularly host visits by industry consultants and potential clients to our National

Service Centre at Coniston as the market's recognition of Pillar's capability and capacity continues to grow.

- ❖ Pillar continues to be one of four sponsors of the monthly Association of Superannuation Funds of Australia (ASFA) Melbourne luncheons and we were again the exclusive sponsor of the annual ASFA Melbourne Trivia Night. These events are a great opportunity for Pillar to host our Melbourne based clients, and to promote our services.
- ❖ Pillar was also a sponsor at the following conferences during the year:
 - Investment and Financial Services Association (IFSA) conference in August 2006 which attracted over 800 delegates;
 - ASFA national conference in November 2006 with over 1,000 delegates; and
 - Conference of Major Superannuation Funds (CMSF) in March 2007, where Pillar was again the exclusive sponsor of the after dinner function.

Ensure that people are our competitive advantage

- ❖ Pillar aims to be an employer of choice and its success in this aim is indicated by the fact that staff turnover is significantly less than the targeted rate of 10% in our operational areas.

- ❖ Over 130 different training courses and briefing sessions were delivered to staff in 2006/07 by Pillar's Training team. These courses and sessions range from topics such as specific superannuation legislative requirements, computer programming and communication skills.
 - ❖ Superannuation industry (ASFA) qualifications have been achieved by over 160 staff, including all staff in the Contact Centre and other staff who deal directly with members.
 - ❖ More than 35% of Pillar's Finance staff have achieved Certified Practising Accountant (CPA) qualifications.
 - ❖ Pillar provides specific leadership development training to staff who manage teams to help them develop their people management skills.
 - ❖ All of the training and staff development that Pillar undertakes is focused on maintaining an experienced, skilled and satisfied workforce that will help to ensure our long term competitiveness and growth.
- independent audits, clarity of responsibilities and delegated authority, manual and computer process controls and human resource controls including due diligence checks on new staff.
- ❖ Our risk management policy and procedures are designed to be consistent with the AUS/NZ Risk Management Standard 4360:2004.
 - ❖ Pillar has a strong and frequently audited framework of internal controls, reflecting our prudential approach to meeting our responsibilities to clients and other stakeholders.
 - ❖ Information security is rigorously maintained through tight controls and safeguards, the latter including a business continuity plan and twice yearly tests of disaster recovery arrangements.
 - ❖ Pillar has a comprehensive Compliance Program that sets out the basis by which we ensure compliance with the full range of superannuation and taxation legislation and contractual matters required to be undertaken in the administration of superannuation funds.
 - ❖ Pillar has a specific policy on the prevention of fraud and corruption. This policy is part of a framework that aims at both fostering a positive corporate culture focusing on service delivery, ethical behaviour, and pride in commercial success, and ensuring that staff work within an effective management and control framework.

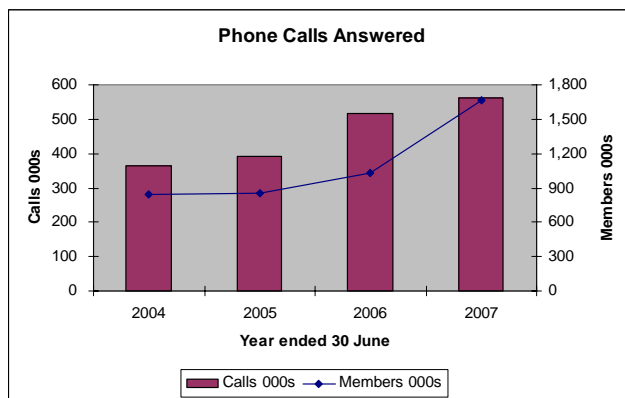
Maintain our strength in governance and control

- ❖ Pillar's management and control arrangements are designed to ensure proper, efficient and effective processes and protect both our interests and those of our clients. These arrangements include oversight by the Board and Board Committees, frequent

Administration Snapshot

The following graphs indicate the steady increase in transaction volumes that have resulted from Pillar taking on additional superannuation fund clients, the recent significant changes in the superannuation industry and increased public interest in superannuation generally.

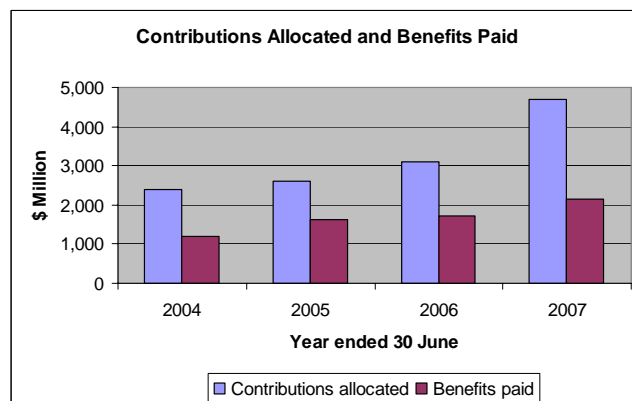
Phone calls answered



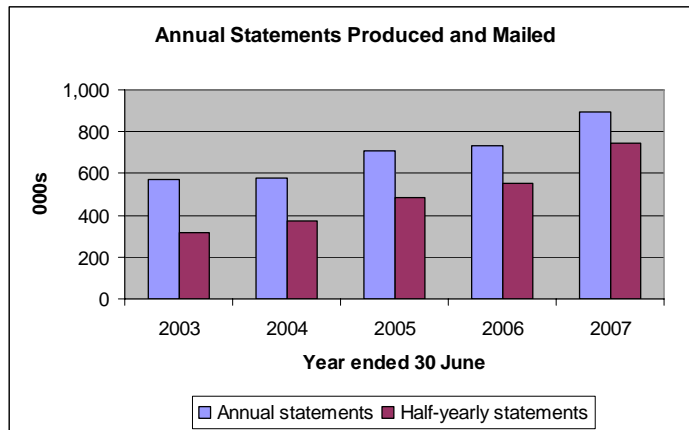
The volume of phone calls from fund members received by Pillar has increased by over 50% in the last 3 years. The number of members whose superannuation funds are administered by Pillar continues to increase and with recent legislative changes resulting in increased levels of public interest in superannuation, it is likely that the volume of calls will continue to increase.

Contributions allocated and lump sum benefits paid

As the number of members whose superannuation funds are administered by Pillar increases, consequently the amounts of contributions allocated to and benefits paid from the funds also increases. In particular, as Pillar wins more industry fund business, the workload involved in processing contributions increases significantly. Industry funds have many small employers contributing to the funds, as opposed to public sector schemes that have fewer (and larger) employers making contributions. In 2006/07, there was a disproportionate increase in the amount of contributions received by Pillar's funds – due to fund members having a 'window of opportunity' that ended on 30 June 2007 to make contribution to superannuation funds of up to \$1 million each.



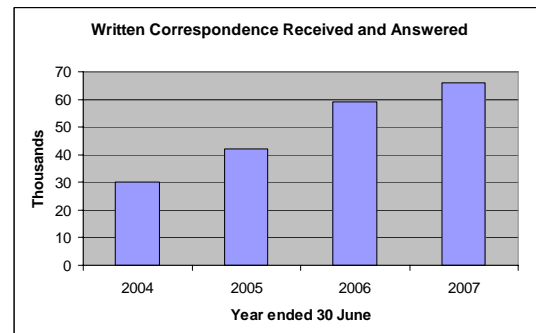
Annual statements produced and mailed



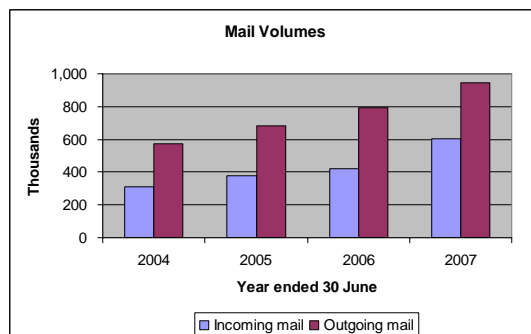
It is a legislative requirement that all members of superannuation funds have to be sent an Annual Statement each year (apart from those members who are classed as "lost" because we do not have a current address for them). Half-yearly statements are not legislatively required but a growing number of funds provide them to members.

Written correspondence received and answered

Written correspondence includes both letters and emails sent by superannuation fund members requesting information and/or asking questions and requiring a written response.



Mail volumes



This graph shows the increasing volumes of mail that is handled by Pillar's Document Management Unit. Items of incoming mail include letters and superannuation forms sent by fund members as well as contribution cheques and supporting documentation. Items of outgoing mail include welcome letters to new members, benefit payments and supporting documentation and correspondence to employers.

Our People and our Community

Developing our People

Pillar's National Service Centre is located in Coniston and at 30 June 2007 had a staff complement of approximately 500 full time and part time staff. An additional 45 staff, from divisions including Finance, Member Communications, Marketing, Information Technology, Secretariat and Customer Service are located within our Sydney office.



One of Pillar's most experienced employees, Les Howe (second from right), accompanied by Pillar CEO Peter Cormack (right) and two of Les' family members at the ceremony where Les was presented with a 40 year service (in the NSW public sector) medallion.

A key focus for the business is the on-going training and development of our people, with particular focus on superannuation industry and leadership training. Superannuation training enables staff to keep abreast of regulatory and legislative changes that affect the superannuation industry. Training is also provided to maintain compliance with requirements of the *Corporations Act 2001 (Cth)* that are relevant to Pillar's Australian Financial Services (AFS) Licence.

Over 160 staff have obtained Association of Superannuation Funds of Australia (ASFA) qualifications, many of these achieved with Distinction grades.

These qualifications are required, under our AFS Licence, for Contact Centre staff and others who have direct contact with fund members, but many other staff have also obtained these qualifications.

An on-going commitment to improve Pillar's performance in customer service is a vital part of our ethos. The focus of the training for Pillar's Contact Centre staff is on the management of both technically complex calls and customers with diverse needs. The training entails active communication skills, problem resolution and effective questioning techniques.

In 2006/07 a Pillar staff member from the Contact Centre, Ivy Gueco, won the NSW and national awards for Tele-Professional of the Year (part of the Australian Teleservices Association awards). This was a tremendous accolade, both for Ivy and for the Contact Centre as a whole.

The leadership development programs that Pillar provides for staff with responsibilities for other staff focus on the key leadership attributes to enhance and develop future business leaders. Managing performance, coaching, time management, conflict resolution, and working as part of a team all form an integral part of the leadership programs. All employees are provided with open and timely communication through briefings, regular newsletters and more formally through the Joint Consultative Committee made up of management, employee representatives and the Public Service Association.

Pillar held its first Health & Safety Week for all staff in 2006/07. This health and wellbeing initiative included activities such as Red Cross Blood Bank donations, free health checks, massages, stretching classes, and the provision of healthy lunches. The event was so successful and well received by staff that it will now become an annual event.



Pillar staff during Health and Safety week

Pillar believes that our people are our competitive advantage and help to ensure our long-term competitiveness and growth. Maintaining an experienced and skilled workforce and developing our people contribute to Pillar's strong performance culture and positive employee relations.

Support for our Community

Pillar seeks to be a good corporate citizen and, given the location of its National Service Centre in Coniston, aims to actively support the Illawarra region.

Pillar continues to strengthen its relationship with the University of Wollongong and through the University promotes its graduate, scholarship and work experience programs. 2 final year students are supported through the University 'Work Integrated Learning' scholarship program. In addition 2 University of Wollongong Information Technology graduates were employed on a full time basis during the past year. Pillar staff also had the opportunity to introduce University of Wollongong students to Pillar as part of two career programs held at the University.

In February 2007 Pillar was host to 2 teams of students from the University of Wollongong

as part of its Univariate Illawarra program. The students were given 3 weeks to create an innovative solution to a business issue, culminating in a presentation and business report to Pillar management.



Pillar Human Resources staff members Kristy Duffy (back left) and Anna Weir (back right) with some of the Univariate Illawarra students

During 2006/07 Pillar developed a National Indigenous Cadetship Program with a view to providing indigenous people with career opportunities within the organisation. The first recipient of this Cadetship, Nyssa Murray, started at Pillar in June 2007. Nyssa is studying a Bachelor of Commerce full time at the University of Wollongong University and will complete a 12 week work placement for each year of her degree.



Nyssa Murray – the recipient of a National Indigenous Cadetship with Pillar

Pillar continued its support for the Employment Experience programs of both the University of Wollongong and local high schools. 6 University of Wollongong students spent a 4-week semester break during 2006/07 at Pillar gaining work experience relevant to their fields of study.

Local Illawarra students taking part in the Young Achievement Australia business program experienced first-hand Pillar's community support when members of our senior management attended a workshop during the year to provide students with valuable business advice.

In 2006/07 Pillar maintained its involvement with local charities and fund-raising events. Some examples of this support include:

- A team of 45 dedicated walkers from Pillar again participated in the NSW Cancer Council's annual Relay for Life, taking turns to walk around Beaton Park in Wollongong. We raised over \$9,000 for the NSW Cancer Council and took out this year's prize for highest fundraiser in the Illawarra region.
- Pillar, together with one of our trustee clients and one of our major superannuation systems suppliers, sponsored a team of 20 riders from Coniston, Sydney and Melbourne to enter the 25th Multiple Sclerosis Sydney to the 'Gong bike ride. This annual event is held to raise money and awareness of those people who suffer from multiple sclerosis.

- Pillar staff raised \$1,200 at a "Shop Till You Drop" shopping event and this amount was matched by Pillar, bring the total to \$2,400. This amount was donated to the Wollongong Hospital children's ward and resulted in the installation of 8 new television sets, mounted above beds and cots, in the ward.



Pillar staff taking part in the NSW Cancer Council Relay for Life

Pillar's Web Services team provided support to Coniston Public School by helping in the re-design and development of the School's web-site. Surplus computers (which were no longer in use) were donated to local public primary schools (Lindsay Park, Figtree, Mount Pleasant, and Kemblawarra). Further support was provided by Pillar to Warrawong High School's Computer Lab throughout the year.

Ensuring Our Capacity to Meet Client Needs

Our Systems

Pillar operates within a business sphere of low margins with high volume transaction processing which requires stable, robust, secure and sophisticated administration systems to meet the demands of its clients. In the past year, Pillar continued to invest in information technology to enhance the computer system facilities that are used in the administration of superannuation funds.

Pillar enhanced its systems performance capacity through the upgrading of servers and continued to improve network capability, internet connections and access security. This has resulted in Pillar having upgraded, more secure system facilities for clients and our staff and more effective deployment of software across the organization. This has led to more network availability and a greater ability to continue to take on new business as it is won.

The past year also saw the upgrading of key workflow and scanning capability software, allowing more real-time 'straight through processing', reducing manual overheads and improving data quality. This helped to ensure that ease of use and speed of transaction process continues as an administration strength for Pillar. The 'straight through' processing system has been re-designed for increased usage by Pillar's member and employer user base, with increased use of automated end-to-end administration transactions throughput, exceeding 95% for some funds. An additional feature of the increased use of 'straight through' processing realized during the year was the enhanced integration of all of Pillar's administration and business support systems. This allowed the business support staff to provide more effective systems support.

The use of 'straight through' processing and systems integration allows Pillar to

achieve high levels of customer and member satisfaction as employers and members are able to complete their enquiries or data transfers in minimum time while ensuring better provision of service and the highest levels of security.

Pillar continues to focus on achieving the highest levels of security across all of its networks and systems. The Infrastructure team (part of the Information Technology division) is ISO 9001 accredited and is currently aligning its information security processes with the AUS/NZ 27001:2005 information security standard.

During 2006/07, Pillar upgraded 3 of its key technologies used in the Contact Centre. Since 2004, call activity to the Contact Centre has increased by 60% requiring upgrades to both the interactive voice response (IVR) unit and the call recording technology. Additionally both upgrades offered greater flexibility for any future changes in requirements as well as enhanced reporting and quality control tools.

New Customer Relationship Management (CRM) functionality was also implemented in the Contact Centre in the past year. The new functionality is essentially a database that enables all contacts between members and Pillar's Contact Centre to be recorded and hence analysed and reported. Statistics such as member interactions with a fund, grouped by age, employer, postcode, or account balance are becoming crucial to member retention and growth strategies for superannuation funds. Pillar's ability to report this information to trustees is important to our strategy for growth.

Pillar's information technology facilities and its enhanced systems performance capability has enabled it to successfully implement a number of substantial changes that, because of either legislative requirements or trustee requests, had to

be made to the superannuation administration systems we use. Early in the 2006/07 year significant changes were made, as required by legislation, in relation to the information that Pillar provided to all superannuation fund members in annual statements. Then, during the year, Pillar successfully implemented salary sacrifice functionality for some of the NSW public sector funds that Pillar administers.

Finally, the implementation of the 'Simpler Super' legislative changes was delivered for all of Pillar's superannuation fund clients, culminating in the rollout of the extensive system changes from 1 July 2007 onwards. These system changes involved up to 9 months of planning, documenting of specifications, programming, updating and testing and the successful outcome indicates that Pillar's system facilities and capabilities are stable, robust, secure and sophisticated.

Compliance with Superannuation Law and Contractual Requirements

Superannuation in Australia is highly regulated and subject to an extensive legislation and policy framework. This framework has undergone consistent and substantial change over a number of years.

Pillar has a comprehensive Compliance Program that sets out the basis by which Pillar ensures compliance with the full range of superannuation legislative and contractual matters required to be undertaken in the administration of superannuation funds. The overriding objectives set out in the Compliance Program are:

1. The correct and timely performance of all superannuation processes, in accordance with the relevant Commonwealth, State and trustee requirements.

2. The undertaking of all acts required under the conditions of its Australian Financial Services Licence.
3. The promotion of a culture of compliance within the organisation.
4. The maintenance of existing business and the winning of new business, by demonstrating the strength of the organisation's commitment to achieving compliance.

The Compliance Program is overseen by the Board's Superannuation Compliance Committee. The Committee is provided with a range of reports on compliance matters and holds regular meetings to discuss the reports and current and upcoming superannuation compliance matters.

As part of its Compliance Program, Pillar has a dedicated Compliance unit that is responsible for:

- Determining the mechanisms, procedures and processes by which superannuation related compliance is to be achieved;
- Monitoring the superannuation compliance environment to ensure that Pillar has the complete and timely information necessary to meet the compliance requirements for the superannuation schemes that it administers;
- Detailing requirements with which Pillar must comply;
- Determining the issues that need to be communicated to Pillar staff and the method of that communication;
- The provision of advice concerning the application of superannuation legislation within Pillar;

- Ensuring that all system specifications, procedures, standard letters, forms, scheme literature, on-line reference material and training guides are in line with superannuation rules and policies;
- Reporting breaches of requirements to Pillar's Chief Executive Officer and also to the Board's Superannuation Compliance Committee;
- Ensuring that action is taken to resolve breaches and monitoring the progress of the required action.

However, the Compliance Program is not limited to the Compliance unit. It includes measures to ensure that all levels of staff, irrespective of their role and/or seniority, are aware of and complete their compliance responsibilities in their day to day duties. All staff have a role to play as part of the Program.

The effectiveness of the Compliance Program can be demonstrated by the implementation of the Federal Government's Simpler Super legislative changes into Pillar's systems, processes and procedures. The Simpler Super initiatives represented comprehensive changes to the Australian superannuation environment. The new legislation, which in the main became effective on 1 July 2007, impacted on every area and every role in Pillar's operations. To cater for the changes all new and changed compliance requirements had to be determined, specified, and then implemented into administration systems, processes and procedures for all staff. All staff were fully trained on the new requirements. The implementation occurred on time and was seen as a success by our trustee clients.

Pillar has continued to meet the conditions of its Australian Financial Service Licence and successfully maintained its certification to the ISO 9001:2000 quality management standard in relation to the

provision of superannuation administration services.

Risk Management

A wide range of risks is inherent in superannuation administration with the primary focus on administering member accounts.

During 2006/07 Pillar further strengthened its risk management framework with the assistance of its contracted internal auditors and the use of the fraud health check process designed by the NSW Audit Office.

A review of Pillar's risk management policy and processes was included by the Board's Audit Committee in the 2006/07 Internal Audit program and the review resulted in a number of recommendations for improvement, including a strengthening of Pillar's risk management policy to ensure its consistency with the most recent AUS/NZ Risk Management Standard 4360:2004. Subsequently the policy and processes were updated, and this was accompanied by additional emphasis on testing awareness of risk management amongst managers and staff.

Application of the NSW Audit Office's Fraud Control Health Check was part of this awareness testing, and this showed a generally high level of understanding of fraud control. For example, there was a high level of awareness that Pillar's fraud control policy and procedures explain how to deal effectively with fraud risks and that staff in most respondents' locations were aware of their responsibilities for minimising fraud in the workplace. However the check also revealed several locations where awareness will be improved in the coming year.

Pillar's risk profile is periodically reviewed by all levels of management, each with a different focus from strategic to operational detail:

- the Executive Committee, under the Board's direction, is responsible for business risk management from a high level perspective;
- the CEO assisted by the Company Secretary is responsible for ensuring risk management throughout the organisation is effective and complies with Pillar's policy; and
- individual General Managers, their direct reports and others as required have responsibilities at greater levels of detail covering the divisional, sub-divisional or other component level.

This coverage includes discrete operations throughout the organisation and cross organisational functions and activities such as:

- finance and accounting;
- human resources;
- information security;
- fraud and corruption prevention;
- new business take-ons;
- new system migrations; and
- business continuity planning.

Pillar has a comprehensive Business Continuity and Disaster Recovery Plan which is regularly tested and includes arrangements for an alternative computer systems and processing site for maintenance of the main business functions in the event of a disaster.

Particular foci for all managers are changing circumstances which can occur at section, divisional, whole-of-organisation, industry, governmental, environmental, or other levels and which expose Pillar or its clients to new risks or make redundant previously identified areas of concern. For example, during 2006-07 Pillar analysed the requirements of the Australian Government's Simpler Super initiative as part of action to implement the new regime on behalf of Pillar's clients. This brought many new operational and risk issues to address while making some long standing processes redundant.