

# **Willis Towers Watson PODfolio episode 11**

Horizons (part 2 - back to the future)

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REBECCA BANNAN: Change is the most inevitable thing. We know that things will look very different in 10 or 15 years time.

TIM MITCHELL: The key message there for our listeners is eyes and ears open and be on the lookout for these inflection points.

SPEAKER: Welcome to the PODfolio, Willis Towers Watson Investment Podcast series, where we'll give you an update on the latest developments across global markets and talk to expert guests on hot topics that matter to institutional investors and their portfolios.

LOK MA: Welcome back to the PODfolio. I'm your host, Lok Ma. This is part 2 of our discussion on managing different time horizons as an investment organization. My guests are Rebecca Bannan. She's a governance and organizational effectiveness expert in our Strategic Advisory business in Australia. So welcome back, Becka.

REBECCA BANNAN: Hello, great to be back.

LOK MA: And Tim Mitchell, who is Willis Towers Watson's global head of Governance Consulting. So, thanks for coming as well, Tim.

TIM MITCHELL: Hi, again, Lok.

LOK MA: So in part 1, we talked about how to allocate your attention, I guess, across the three different time horizons. We also talked about the sorts of things that could happen over the next 12 months, and then the sorts of things that could happen over the next five years. So that's the short-term and the medium-term.

So this is now I think where things get even more interesting and thought-provoking. We're going to really take a step back and look at the things that asset owners should think about over the long-term.

So let's start with you, Tim. I think, by definition, the long-term is about things that haven't happened yet and things that we don't necessarily know a lot of details about.

So are we trying to predict the future in some way? What about the unknown unknowns is I think Donald Rumsfeld first coined that phrase.

TIM MITCHELL: Sure, well, the military have a really helpful tune which we can apply to thinking about the long-term. And that term is VUCA or VUCA, V-U-C-A.

So V for volatile, meaning their environments can change rapidly and unexpectedly.

U for uncertain, meaning that there are limits to what we know. That's certainly true about the future.

C for complex. What we're dealing with is multiple parts with feedback loops and very much non-linear systems.

And A for ambiguous. That is, they're open to interpretation.

LOK MA: Right, I really like that-- VUCA. And then the four things, all of them mean slightly different things and all very poignant for me-- volatile, uncertain, complex, and ambiguous. I really like that.

Personally. I'd like to add VUCA to everyday language as much as possible as in, oh my life, is so VUCA right now. I wish people would do a bit more of that. Becka, any thoughts from you?

REBECCA BANNAN: Yeah, well, I mean, as you said, it's a great framework. It's really just captures all of those dimensions of uncertainty and not really knowing the pathways in front of us. And different situations are differently on the spectrum of all of those four elements.

So we use a framework where we try to bucket things almost by likelihood. So the first is those that we think are inevitable. So the trajectory seems pretty well-established and will roll on for years, if not decades, to come. But we don't know exactly what it looks like. But we know something with regards to, say, technology or something is going to change our lives.

And those that we can see coming that the dimensions of which aren't 100% clear. So I think AI is a great example of this. We know that AI is developing. We've all read the books and seen the articles about AI and how it's going to take all of our jobs. But at the moment we just don't know what it means. We don't know how it's going to change the way that we live out our lives.

And the final one is those can be plausibly imagined. But we don't know whether or not they're coming for definite or not. So this one's quite different to the first two, which is there's a really good chance that certain things could change. But actually there's a really good chance they stay the same.

So capitalism as we know it is replaced. That could very plausibly happen. But it could very possibly could not happen.

TIM MITCHELL: And then there is, as you mentioned at the beginning, [INAUDIBLE], there is that which we can't yet imagine. So Donald Rumsfeld's unknown unknowns. And Becka, you've got a great cultural reference here to perhaps match [INAUDIBLE] cultural reference to Frozen II and part I.

REBECCA BANNAN: So I roll this out at dinner parties, everywhere I go. It's my favorite example of this is Back to The Future. So again, who could forget that scene when Marty walks into his future home and is overwhelmed by the development of technology-- flying cars and skateboards, there's multiple televisions and fax machines in every room, self-lacing shoes, fuel made entirely of biodegradables.

But what's so interesting about that is that we saw them taking what hardly existed and making it better and more advanced. What the movie couldn't predict was the rise of the

unknowns-- the game changer technology that is now completely shaping our economy and the way that we live.

So we didn't see the rise of digital and screening. We didn't see mobile devices. We didn't even really see the internet. There's no way that movie could have anticipated how our consumer preferences would shift to large and many to small and thin and few. And how we shift the way that we operate from ownership to access.

There's just so many things that they didn't see coming. They couldn't see around the corners.

LOK MA: And if you can't see around the corners-- I mean, we are talking about things are almost definitely hard and almost impossible to predict. So I mean, are we being the makers of Back to the Future and then just extrapolating from what we know. Why should we bother trying to think about the unknown unknowns?

REBECCA BANNAN: Well, I think it is exactly what you just said. We don't really want to be the people in Back to the Future. Because if we're the people in Back to the Future, and there's someone else who has tried to see around the corners, then we've really going to get left behind.

Change is the most inevitable thing. We know that things will look very different in 10 or 15 years time. And a great book I read recently called Seeing Around Corners, they use the concept of an inflection point.

These inflection points can create incredible opportunities if you see it in advance, and if anything can spark brand new business ideas and complete re-haul of innovation. But it can also mean the end for companies. And these inflection points in our industry could be small over the next 10 to 15 years. But they could also be foundational.

They could completely change the role of these organizations in the future. And we aren't suggesting you only think about the long-term, as interesting as it is, but actually to get that healthy blend between thinking about short and medium-term and the long-term elements to ensure that you continue to be a viable organization and start to spot and understand these emerging trends as they develop.

TIM MITCHELL: And look, I would add to that these inflection points can come from many different directions. So we've already talked about technology. We know that inflection points will come from technology.

We've seen inflection points over the last years coming from regulatory change. And also starting to come from shifts in societal thinking. And so how we think about talked about externalities in the first episode of this. So how we think about externalities and the impact that our portfolios have.

To a large degree, that thinking is driven by changes in societal expectations. So where it for those inflection points come from that's really critical, as Becka mentioned, that we're not blind to them because others will be looking for them and in trying to get ahead of them.

So the key message there for our listeners is to eyes and ears open and be on the lookout for these inflection points.

LOK MA: So I get this idea of seeing these inflection points meet maybe in a more organized and systematic way compared to your fellow investors out there in the competitive world. But isn't this still a bit of a danger of this getting a bit philosophical rather than resulting in concrete, actionable actions, I guess? So how do you make sense of these long-term trends better?

TIM MITCHELL: So look here, sure, that's a challenge. And when we're thinking about this VUCA-type environment, default behavioral response tends to be one of two things. Either we suppress uncertainty by just focusing on one possible vision of the future rather than thinking about the myriad of possibilities and path dependencies that entails. We just stick with the one that sounds best to us or resonates best to us.

And the other default behavior is that all of these choices just paralyze us so we default to the status quo. We default to, this is the way that things have always happened. So that's the way it will continue to happen.

And either of those approaches is going to leave us somewhat short when we're dealing with the future. Now a really helpful way to navigate our way between these undesirable states, if you like, is to think in terms of scenarios and what we would do in scenario leaning.

And the basis for that is that human brains prefer narratives to probabilities. We're not very good in dealing in probabilistic terms. But we are good at dealing with stories.

And stories give us a much more intuitive understanding of why things happen and how they connect to each other. And so this scenario learning can create a really good psychological safe zone for different members of the team, whether that's the board or executive or between the board and the executive, to challenge the house view, if you like, to challenge the official future and to come up with alternative ways of looking at the future.

REBECCA BANNAN: And I also think it's really important to note here that it's OK for not all of these conversations to lead to decisive action. This is really a learning and a mindset exercise and ensuring about how you can invent an element of dynamic thinking into thinking about the way that your organization functions and, as Tim says, really bringing that conversation and challenge and exploring multiple pathways to the forefront of discussions that you have in your organization.

LOK MA: Yeah, very much so. I really agree with that. Imagine if there is an organization that did some of these scenario analysis based on a pandemic scenario, I mean, they would be in a very different place in the last few months.

And so you've talked about scenario analysis and learning, thinking about possible future versions of the world. Where are you getting your, I guess, your source material from? Where do these ideas come from? And I think we'll start with Becka first.

REBECCA BANNAN: So there's no shortage of sources here. Everyone likes to talk about these things because know you can argue it's so interesting. You can have your authors, you have organizations, such as ourselves, think tanks that spend a lot of time thinking about this.

So a couple that we've already referenced in just this podcast has been *The Inevitable* by Kevin Kelly, which is a really interesting book that thinks about the technological forces

affecting our economy. And *Seeing Around Corners* by Rita McGrath, who really coined this inflection point thinking.

But really, it's just about building a list that resonates with you, making sure that you're not going to just one or two sources and just hearing what best practice organizations really have to say on this topic.

TIM MITCHELL: And look, however, if I can give a shameless self-plug here, there is our own Thinking Ahead Institute. And the name really says it all-- Thinking Ahead.

And that's an institute that is underwritten by Willis Towers Watson. But it's really a coalition of asset owners and asset managers that care deeply about long-term issues. And so the Institute is doing some really deep dives into quite challenging issues like sustainability and how organizations should think about sustainability, and like culture and how they should think about culture. So that's as good a place as any to start, I think.

LOK MA: And I think in this instance, I think a shout out is allowed because I think that's literally what the Thinking Ahead Institute are set out to do.

So listen, this is the really interesting part of our discussion, I think. I would really like to get into some of these examples of future versions of the world. So can I please ask both of you to give us a few examples of future scenarios. Becka?

REBECCA BANNAN: So one of my favorite things to ponder on this is actually what the future role of superannuation is. When we think about superannuation, we default to thinking about asset owners. But actually a lot of people play in this space and play in this market.

And across the globe, we've already seen mass consolidation within individual markets. And it's happening in Australia. It's been a trend in the Netherlands, a trend in other regions.

But what if we start to see complete global mobility of capital. So I don't have to invest with the Australian provider. I can go to Canada or I can go somewhere else.

And how will new entrants affect the market? Will there be changes to how people participate within the value chain? What is expected of organizations who play in this space? And how will their role potentially foundationally shift as the rules of the game change, if they ever change?

And I think, really, a link to this is how will the products that investment organizations offer to clients and the market change. So will we see a rise of a whole of wealth, whole of life-type product, rather than these separate pots of assets that we see at the moment?

You've got your investment into your family home that you mortgage. You have a current account. You maybe have a savings account. If you're really jazzy, maybe you have a stocks and shares ISA. You have a pension.

What if actually all of that's wrapped up and you just think about it holistically? If that happens, how do wealth managers, asset managers, and asset owners all work in what now becomes the same part of the value chain?

LOK MA: And Tim, do you want to give us an example as well?

TIM MITCHELL: Sure. So I'll come from a slightly different perspective and start with people. So we've talked quite a bit on this podcast about the rise of technology and artificial intelligence and so on. And that certainly does seem to be some feeling of inevitability around that.

But so how will your organization, how will it augment its human capabilities with contributions from automation and from technology? And what will that mean for the skill sets that are required in your workforce and the development opportunities you offer your workforce so that you have people who are constantly evolving their skill sets to keep pace with and complement the constantly evolving technology that is sitting alongside them and, in some cases, supplanting them.

We take that a step further and for those that are listening that are thinking around the board table and saying, doesn't affect me around the board table because we'll still be here to make the decisions at that strategic level. And sure-- but at some point will artificial intelligence take a seat at the board table?

Certainly seems very plausible that it could, given the massive advances, I should say, in artificial intelligence just in the last few years. And if it does, how will that change the way that boards work together? Will they be able to understand the way an artificial intelligence thinks?

And if they can understand it, will they be able to oversee and challenge it. So some really, really complex issues to get heads around there. And it's not as though we can solve them, but it's just starting to understand what questions we should be asking now.

LOK MA: So I absolutely love this stuff. I find it really fascinating. So I want to do more examples. This time, I want to go around you two again.

But can you please give me another example of something that you think is really significant, either in terms of being almost inevitable to happen or something that's so big that it's going to affect the way that we all live? So, Becka?

REBECCA BANNAN: Yes. So I probably gave the game away when I introduced this concept. But for me it really has to be technology. I just think that we can't hide from the fact that it will probably impact every area of how we think and operate in some way in the future.

You can really see a world, but it will completely change the way that we engage with each other, the way we engage with our clients. It will change our roles. It will change about how we add value, how we even think about the concept of adding value.

It can completely shift the realms of the possible from an investing and operating perspective. I mean, I think we can agree, we know it will change the way we work. We just don't know how it will change the way we work yet.

TIM MITCHELL: I'd challenge that. I think while technology is undoubtedly a significant driver and critically important, I think that we [INAUDIBLE] to see or we really have to see a paradigm shift in how we think about what our role is as managers of money.

And we've had this absolute focus on risk and return. And as I mentioned earlier, there is this third dimension of impact. And so I think that what we're going to see in a world that is under pressure from climate change, from loss of species, from degrading water quality, et cetera, et cetera, is this shift in societal expectations for investing institutions to move away from a sole focus on the primacy of returns to one that prioritizes sustainability, and sustainability of planetary systems. That's what I'd put first.

REBECCA BANNAN: Tim, I agree that's really important. I do. Not saying that I don't. Because if you don't have a planet, what does technology matter?

But I think technology will be what allows that change to occur. If we're thinking about this through the lens of what is most inevitable, of what we're going to feel more, I think it has to be technology. Because we're going to feel that on a much shorter time frame, because it has the potential to change and improve our lives.

With sustainability, I mean, maybe I think about this through a narrow lens, but I thought that we've done a good job if things don't change. If they don't get worse, we've done a good job. And we've done a great job if things get better.

But this planetary impact will play out over an even longer time horizon than even potentially our lives. So we won't necessarily see the fruits of our labor and the improvements on a planetary level until maybe 50 years plus.

TIM MITCHELL: They're good points. That's why I love these debates.

LOK MA: So we're technology versus sustainability, and possibly interactions between them. And I'm not surprised that you guys have picked out these two as, I guess, your personal choices of the big themes that are going to run through over the long-term.

So just to wrap up now, I think the lesson learned from all that is to try to look beyond the near and medium-term, try to look around corners and use maybe some of that scenario thinking to give that meaning. So if people are receptive to that argument, what other things that they could do next beyond the usual answer of come and talk to your friendly investment consultant? What are the things that they could put into effect?

Let's start with you, Tim.

TIM MITCHELL: Sure, look, I think there's a really easy first step. And the first step is to create some space on the agenda to talk about this stuff. And maybe that's about 20% of a board's time. That would be a good amount of time there to do it.

And then to start to build a list of topics that resonate within the organization, and that's a forum. Whereas Becka mentioned earlier, there's an opportunity to hear lots of voices in there. And so within the organization, there are techniques you can do to make sure that those voices are heard through anonymous polling, et cetera, and pretty quickly get a sense of what's people starting with. So that's a really good place to start with.

REBECCA BANNAN: It's really important to get your list right. But it's actually also really important to challenge it outside of your organization. This is a great topic to engage with peers or your managers or outsource providers or other strategic partners that you might have around you. What do they think is coming around the corner?

And in particular, I think this is really important when we're thinking about some issues, such as sustainability. I think we've all agreed that this is inevitable. But it's such a large problem. Can each organization really solve it on their own?

I mean, we're all in this together. And as a collective, we can probably have a lot more impact than we can as individuals.

LOK MA: Thank you very much, Becka and Tim, for your time.

REBECCA BANNAN: Thanks very much [INAUDIBLE].

TIM MITCHELL: Thank you, [INAUDIBLE]. It's been a real pleasure.

LOK MA: So this future gazing I think is naturally very fascinating. But you two really talked about things that would change how investors would alter their own behavior and thinking process as well. So that's been really, really great.

And to our listeners at home, please help me make VUCA a thing in everyday language. And thank you for listening.

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