



cutting through complexity

Banking on the future

The expectations of the
Gen Y professional

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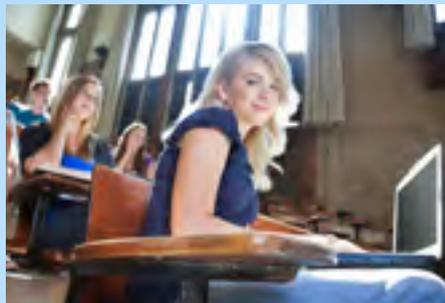


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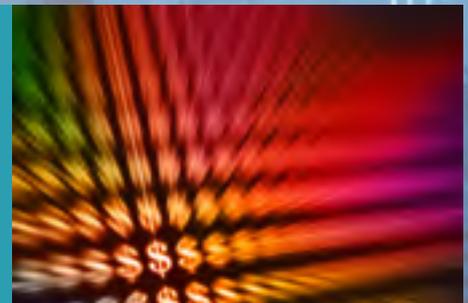
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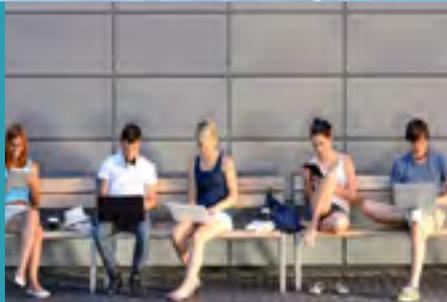
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Executive summary

Think of customer demographics as a pipeline of sorts - as people are moving into retirement at one end, a new cohort of young men and women is entering at the other, to embark on what (for most of them) will be a 40 to 50 year experience as workers, consumers, savers, borrowers and investors. This idea lends itself to two key points:

- Young professionals today will be significant drivers of retail banking revenues tomorrow.
- Understanding what this group wants will differentiate the winners from the losers in the race for the retail banking space.

In this context, KPMG set out to survey and hold focus groups with our Australian young professionals between the ages of 18 to 30. We see this group as particularly interesting as they are a strong representation of future premier and private banking customers.

Here's what we found out:

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Digital will remain king

Online and mobile banking dominate as the preferred channels for day to day banking. Gen Y has learnt to expect highly sophisticated digital capabilities and shows little interest in anything less than seamless. For this reason, it is paramount banks continue to invest in innovative digital solutions.

1

The Gen Y cohort is diverse and somewhat heterogeneous

While the group as a whole shared many preferences, we did notice more than a modest level of disparity of needs and attitudes. Making assumptions about an entire generation is imprecise at best, their priorities and preferences are distinctive – and will require personalisation and targeting at a micro level.

3

Understanding behaviour is necessary to drive adoption

Banks need to understand both the drivers and the necessary changes required to alter consumers' behaviour and grow broader adoption, particularly for tools and services designed to meet their needs.

4

Online research is the prevailing way that young professionals research and choose their financial products

This means that the prominence of a bank's digital presence is more important than ever. Investing in targeted search engine optimisation, search engine marketing and social media will become more important in driving discovery. Furthermore, delivering valuable content and strong user experience (UX) will be vital to growing engagement and conversion.

5

Leveraging social media in creative ways will give banks an edge

Seventy percent of Gen Y don't foresee themselves using social media channels to bank. While we agree that social media may not be widely adopted as an online banking platform within itself (in the short to medium term), we expect that social media will play a pivotal role through applications such as customer insight, marketing, and embedding social elements within the user experience (i.e. peer comparison, social leaderboards, etc.).

6

Gen Y wants to stay in control and be empowered with their own finances

The vast majority of young professionals surveyed do not want financial advice in its current form. However, over 65 percent would value financial coaching geared at providing them with the skills to manage their own finances. There is an opportunity for banks to design advice offers tailored to this type of 'do it yourself' approach.

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The rise of invisible security

Banks need to balance security with customer experience. Banks should be investing in invisible security to enhance risk management without compromising the customer experience (i.e. two factor authentication, biometrics and behavioural security).

8

Savings first, wealth later

Our findings show that young professionals do not believe they have enough starting capital to make it worthwhile to invest. Banks have a role to play here, to guide and educate this cohort on the benefits of investing to accelerate savings – ultimately to reach their lifestyle goals quicker (e.g. their first home).

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Young professionals are cost conscious

Digital and cost related benefits dominate the most valued attributes of a bank for this cohort. To penetrate the young professionals market, banks need to be designing competitive offers while reducing cost in order to grow profit in light of reduced market pricing.

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Not-so-sticky banks

Young professionals are slowly shifting towards holding financial products with more banks. This is both an opportunity and a risk for banks. Banks need to be considering what incentives they can put in place to lure customers across, while minimising exploitation of rewards.

Introduction

What will the bank of the future look like? How will customers manage their money in 20 or even 40 years' time? In this age of imminent change, is it even possible to guess?

Certainly many banking executives are struggling to decide where their business should be best placed only 12 months from now. It is understandable. The impact of digital technology has been vast and swift and entirely transformational.

Yet while banks try to keep up – and ahead – in the short to medium-term through the latest technological advances and innovative plays, they must also carve out a long-term strategy for themselves. It is about readying your business for who your customer will be tomorrow – whether that is next week or next decade.

Generations X and Y will dominate the financial space over the next couple of decades. Their share of financial assets, which sat at just 36 percent in 2010, is set to jump to 70 percent in 2030. For Gen Y-ers, it is only the beginning of what may prove to be a 40 to 50 year experience as workers, consumers, savers, borrowers and investors.

About the study

In this context, KPMG set out to analyse the views of 1400-plus KPMG employees across Australia, between the ages of 18 and 30 years old. This follows on from our original KPMG employee survey carried out in 2012. In addition to the survey, KPMG convened a number of focus groups to allow for further exploration of respondents' views.

The men and women we questioned are particularly interesting as they are all university educated, relatively well paid and are a strong representation of a group that are likely to contribute significantly to the retail banking revenue of tomorrow, specifically future premier and private banking customers. In addition, the cohort are not aligned to any particular bank and hence embody a broad range of experiences and preferences.

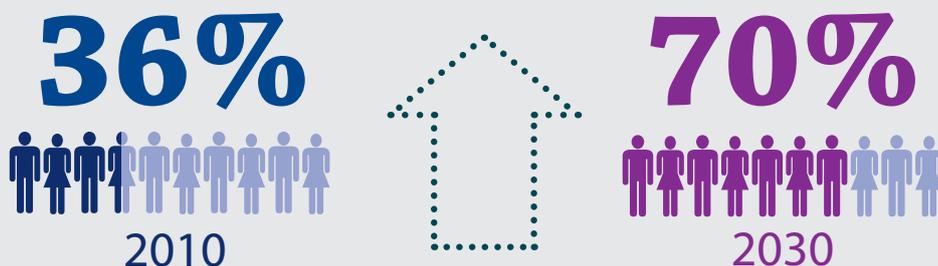
How can the banks best position themselves as this generation grows up and their needs evolve? How do the banks ensure they are this generation's trusted partner in that long-term economic journey?

Ultimately, they embody the new paradigm that puts customers at the very centre of any business proposition 24/7. "Yet while our findings unearthed certain generalities that may help to guide best business practice going forward, it is important to avoid treating this group as a singular entity," says KPMG Partner and Head of Financial Services Consulting, Daniel Knoll. "We often see this market treated with broad brush strokes. But you have to keep in mind that not all Gen Y-ers ride skateboards. In our survey, and our focus groups, we saw more than a modest level of disparity of needs and attitudes in this cohort."

Today's technology supports a more nuanced approach. Unlike traditional distribution mechanisms, digital allows you to be a lot more precise in how you deal with the diverse behavioural groups of this cohort. There is a capacity to personalise and tailor offerings to an extent we have not seen in the past. Yet there is another issue to consider here. Any response at a tactical level – through the provision of tools, mechanisms, services, and so forth – can risk missing the essential point going forward, which is: how can the banks best position themselves as this generation grows up and their needs evolve? How do the banks ensure they are this generation's trusted partner in that long-term economic journey?

Gen X & Y's share of financial assets

Today's young professionals will be significant drivers of retail banking revenues tomorrow



Channel preference

The importance of being switched on

When it comes to Gen Y, online and mobile banking are the preferred channels for almost all core banking transactions and services. Those surveyed rated them as two of the most valued attributes of a bank, while a very convincing 98 percent of respondents indicated they preferred online and mobile channels for day-to-day banking.

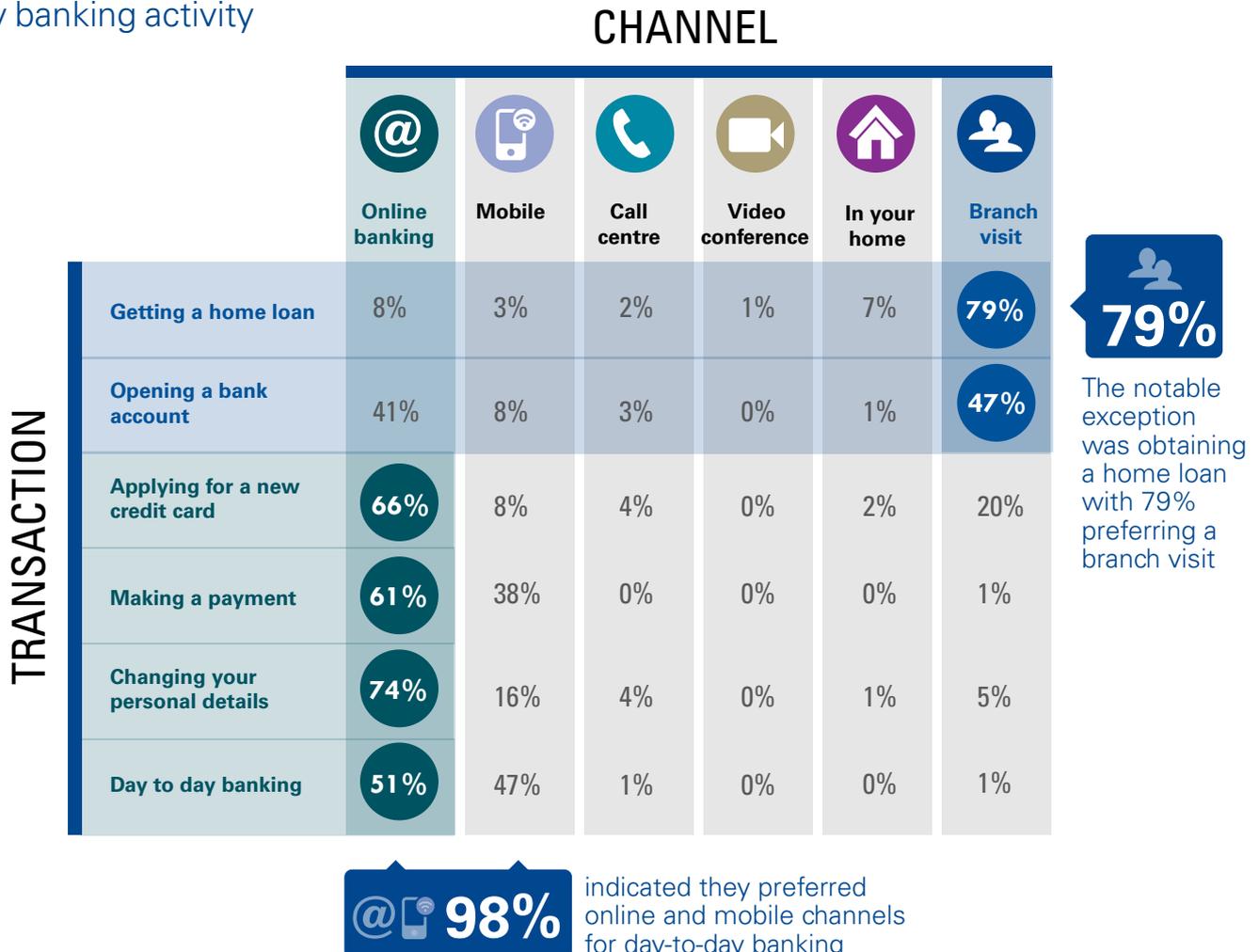
The rapid adoption of smart phones is a key element of changing consumer behaviour. It has given rise to mobile banking, where payments have become an important focus in the banking space.

Notes KPMG Associate Director, Kristina Craig, herself a Gen Y-er: "We use online and mobile banking as our primary channels, although when forced into traditional channels our expectations are largely unmet."

This was an attitude reflected in our focus groups. Said one participant: "I just applied for my first personal loan. It was my first time going through the call centre and branches and it was actually quite frustrating."

With such an overwhelming focus on all things digital, it is clear banks should be embracing the very latest advances in technology to distinguish their online and mobile channels. Certainly, in this fintech enabled age, there are many options to pursue. There are also many providers with whom banks can integrate to help deliver cutting-edge solutions.

Gen Y's preferred channel by banking activity



The mortgage exception

The notable exception with regard to online banking is obtaining a home loan. Almost 80 percent of our young professionals chose to head to a bank branch or mortgage broker for this important occasion. In contrast, home and video conferencing proved to be very unpopular channels, the latter attracting just 1 percent of respondents' vote.

We do not believe these findings should necessarily encourage banks to further develop the branch experience for home loans. Nor should it mean that video conferencing solutions have to be abandoned.

Rather we would view this from a behavioural perspective – a way of trying to understand both the drivers and the necessary changes required to alter consumers' behaviour and drive broader adoption.

For example, it may be a matter of considering how banks can simplify complex transactions to better enable digital customer experiences. It may also be a matter of looking at how to drive adoption of new channels or technologies.

Ultimately, banks have still to decide whether home loans will continue to require a face-to-face approach as opposed to a fully digital experience. "Handholding might always be required," says Knoll. "Then again, the well utilised, fully digitised end-to-end mortgage process might be an innovation waiting to happen. Something we end up using frequently despite the fact we never put our hand up for it."

This is not something customers are going to solve for the banks however. "It is unlikely to originate from traditional customer research," says Knoll. "Instead it will need to be designed with and around clients and ultimately, it will take certain leaps of faith if the banks are going to get it right."



Discovery

How young professionals find what they want

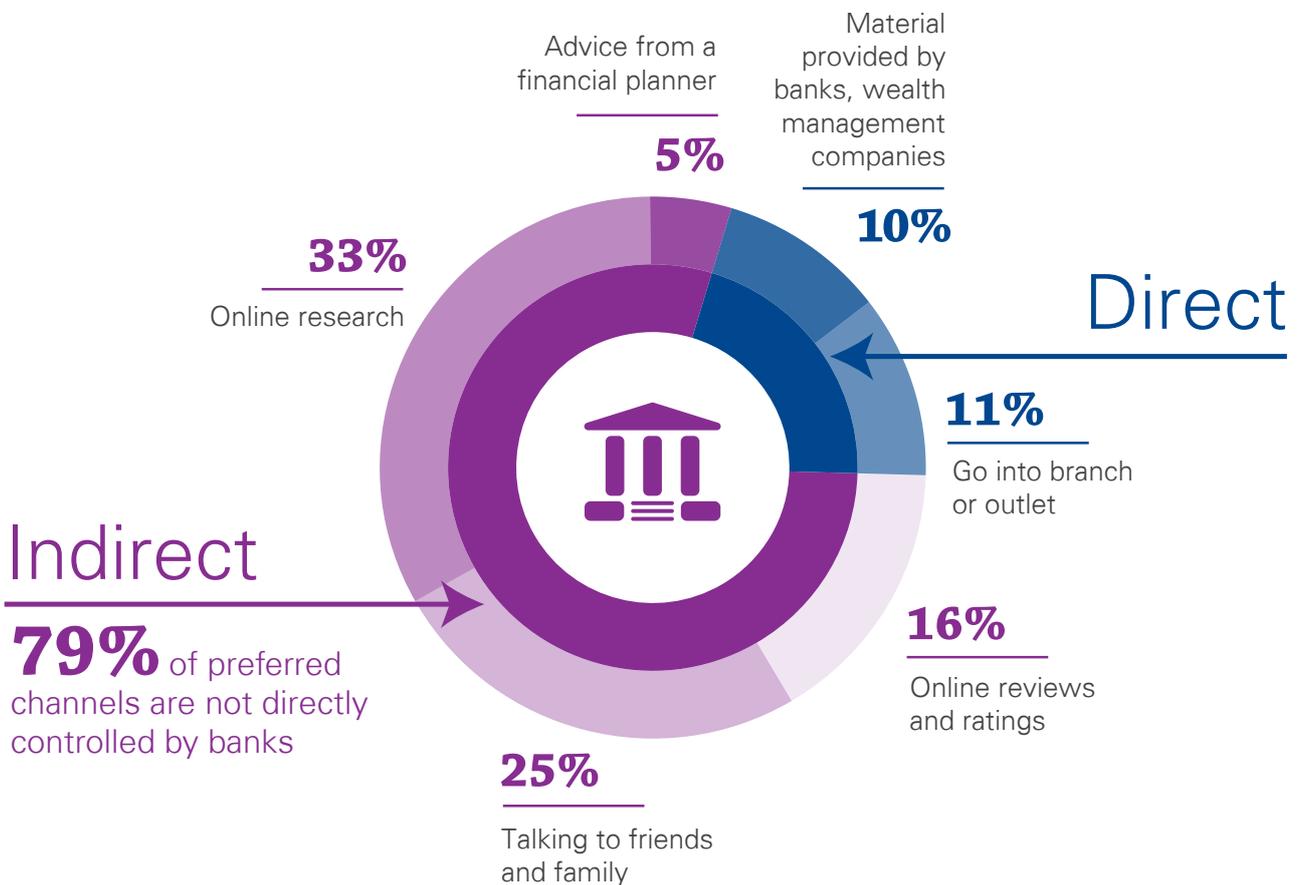
According to our findings, online research is the prevailing way that young professionals research and choose their financial products. This is especially noteworthy when you consider that three-quarters of preferred channels are not directly controlled by banks. This means that the importance of a bank's digital presence is more important than ever. Investing in targeted search engine optimisation, search engine marketing and social media will become more important in driving discovery. The question is: are banks doing enough of it and are they doing it well?

Our focus groups provided a little more insight here. It became clear that independent comparison websites were very popular information sources while money magazines were also cited.

This reflects a generation that grew up with search engines at their fingertips. Accordingly, it is important for banks to take an active role in shaping these sources of information in order to influence customer engagement and conversion.

This may include investing in user experience design and the quality of online content and tools such as product finders, feature comparison and social reviews. While at the same time, responding to, or engaging with, relevant magazines to ensure their services get noticed for all the right reasons.

Primary channels used by young professionals to research and choose financial products



Investment and Advice

Savings first, wealth later

A desire for a different advice model

The type of financial advice young professionals seek differs considerably from previous generations. Our study found that 95 percent of respondents did not have a financial planner. Meanwhile, 84 percent indicated they did not feel they needed financial advice.

There appears to be considerable disparity between how young professionals see themselves building financial security and how they perceive the current delivery model for advice which is very traditional, face-to-face, expensive and potentially lacking objectivity.

Financial coaching

What resonated with this demographic instead was the idea of financial coaching and management. This could potentially be delivered as general advice over digital channels. A significant 65 percent of respondents confirmed they would value financial coaching that focused on education to help them manage their money better and make smarter investment decisions.

In keeping with these answers, most of our respondents also indicated that they were not willing to pay for financial coaching. This means banks need to find innovative ways of delivering value to the organisation, says Knoll – perhaps by building client loyalty or a depth of relationship, as opposed

to some unit cost. Keeping in mind their cost base, they have to consider the different ways that financial coaching can be delivered, whether that is face to face or digitally.

One of the participants from our focus groups noted as much: "I'd rather do my own research and learn from my own mistakes than pay an adviser \$200 to invest \$1000."

Thus, what many may seek instead, is a way to collaborate with their bank as an information source. They may also view them as a source of discipline to help them attain their financial objectives. "They are looking for dieticians, not gastric surgeons, to keep them on track with their goals," says Knoll.

Not wealthy enough to be an investor

Our findings show that young professionals do not believe they have enough starting capital to make it worthwhile to invest. Notions of a suitable entry capital varied considerably from \$1,000 to \$30,000. There was a conception that with anything less they would not be taken seriously by financial advisers nor the banks.

Interestingly, there was a decoupling of savings from investment: many Gen Y-ers wished to save first prior to investing. Said one focus group participant, "Right now I simply want to save a pile of cash for our wedding. We are not at the stage of our lives where we have that kind of

A financial coach **is different** to a financial planner. Financial coaching focuses **on your education, growth and decision making process** as well as overcoming the obstacles that are keeping you from reaching your financial goals. It is a light touch and preventative avenue where you remain in control by learning how to manage your money smarter and make better informed decisions, while also being held to account.

capital to invest.” It is interesting to note that many did not think of investing as an avenue to accelerate their savings – instead opting to save through online savings accounts.

Throughout the conversations there was a strong sense that our respondents were focused on the short to medium-term future. The digital tools that resonated most with our focus groups were those that addressed the issue of saving rather than building wealth (i.e. budgeting and spend analysis). Reasons for this varied but the majority of respondents voiced the belief that they were not wealthy enough to be an investor.

The art of engagement

The focus groups also unearthed deep levels of apathy amongst young professionals. Through the discussions, it became clear just how little banks have succeeded in engaging their younger customers. “There was almost zero awareness of what their banks could do for them,” says Knoll.

While the groups were clear about the tools they wanted to use (e.g. budgeting, planning, and spend analysis), it was concerning that many did not know these tools already

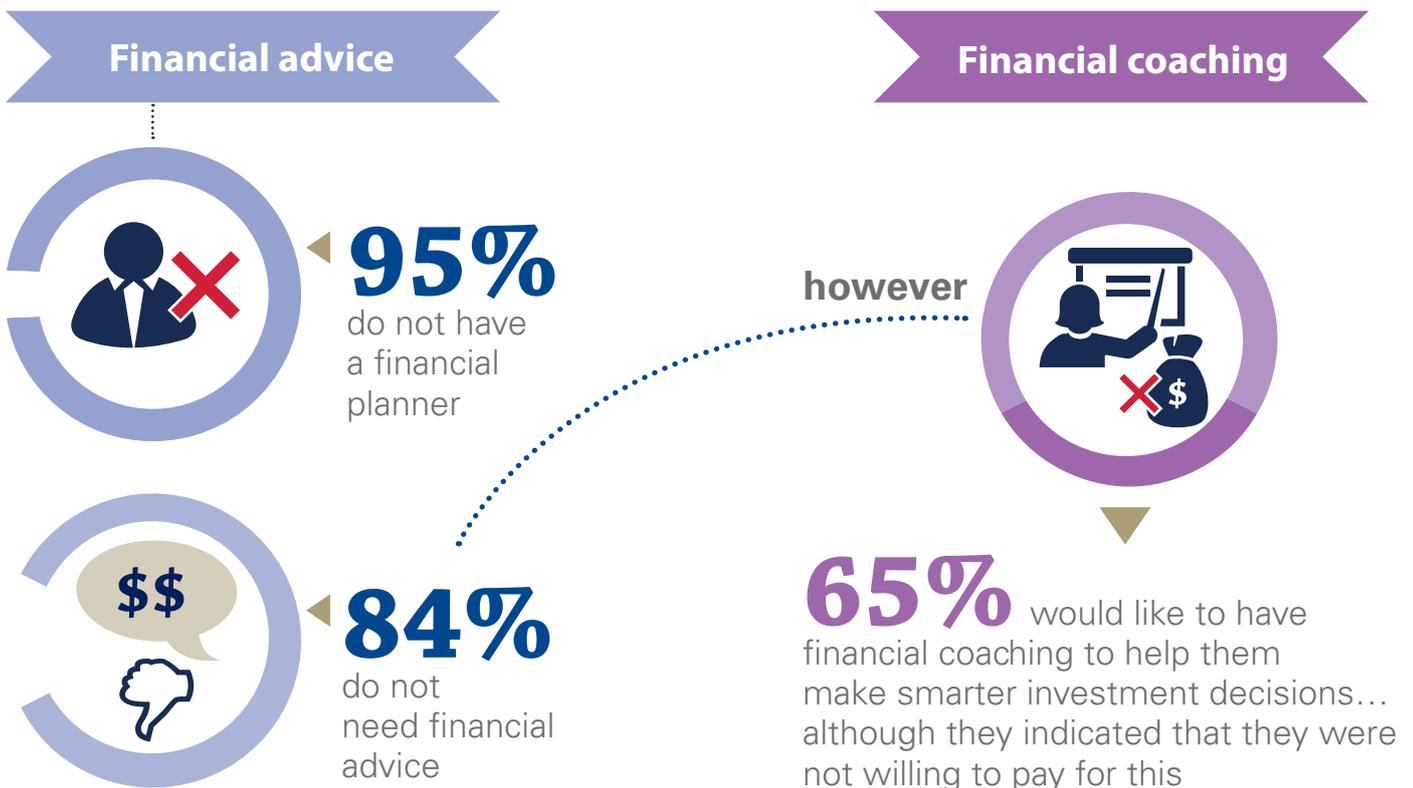
“Banks need to invest time and energy on exploring the behavioural drivers and usage catalysts that need to be in place so that not only are the tools built right, but customers will engage with them.”

Daniel Knoll, KPMG Partner

existed in some form already within their own banks. And among those who were aware of the available tools, there was almost no usage of them.

“The way banks are getting their message out around their tools is just not working,” says Knoll. “The problem is not simply a matter of researching what people want and building it.”

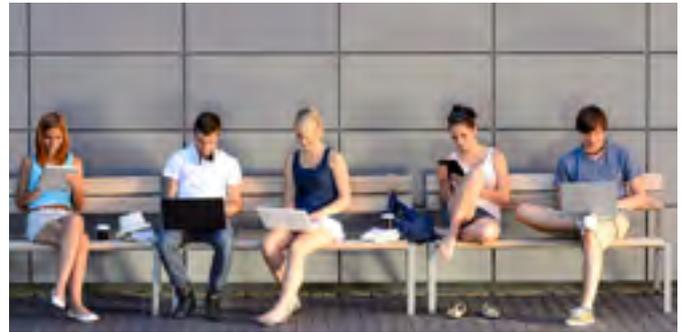
Young professionals want to stay in control of their own finances



Social Media

The perceived role in banking

Exploiting the popularity of social media is on the banking horizon. In our survey, 70 percent of respondents did not see themselves using social media channels to bank. While we agree that social media may not be widely adopted as a channel for day to day banking in the short to medium-term future we do believe that social will play a significant role through other applications such as customer insight, marketing and education. An overriding challenge, therefore, is to ensure social channels are leveraged to their full potential. Key applications for social media in banking are outlined below.



Applications of social media in banking



70% do not foresee themselves using social media channels to bank

While we agree that social media may not be widely adopted as a banking platform in itself, we believe it will play a significant role through indirect applications

Customer Servicing

Social log-in: Enable social log-in integration

Customer servicing: Respond to customer enquiries and facilitate the sales process

Complaints management: Resolve issues and complaints through social media

Customer Insight

Customer segmentation: Leverage social media to better understand your customers by profiling their personal qualities, hobbies, likes, dislikes and attitudes

Complaint profiling: Listen and develop complaints profiling across you and your competitors



Education

Education: Position your bank as an educator and develop trust with customers



Crisis Communication

Crisis management: Communicate issues and disruptions to your service

Social Media Applications

Product Development

Crowdsourcing: Use crowdsourcing and co-creation to identify, evaluate and enhance product and service offerings

Social product design: Develop social-based products i.e. peer-to-peerlending and social trading

Payments: Enable integration with social contacts and mobile functionality to facilitate payments



Corporate Sustainability

Corporate Citizenship: Promote your bank's citizenship program and community image

Marketing and Sales

Traffic generation: Improve exposure directly through social media traffic, and indirectly through social indicators and increasing your bank's share of voice

Narrowcasting: Target specific individuals /communities through aiming media messages at specific segments of the public

Embed social mechanics: Enable your customers to evaluate and rate products, services, and experiences and share opinions on your digital presence (i.e. ratings, likes, leaderboards)

Shifting concerns

Security measures are a bore

In our 2012 survey, **data privacy and fraud** were primary concerns. These issues seem to be of **lesser importance today**, with the majority of young professionals **instead showing concern about too much security.**



data privacy



fraud



security

In our 2012 survey, data privacy and fraud were primary concerns. These issues seem to be of lesser importance today, however, the majority of young professionals instead showing concern about too much security.

In our study respondents went so far as to describe it as annoying, pointing to instances where they had forgotten their passwords and were unable to access their online banking.

This disregard for security is driven by a couple of factors, says Knoll. On the one hand, there has been a huge increase in different payment mechanisms. On the other, there is a perception that losses are covered by the banks: to date people have not publically seen their cost of risk go up.

Certainly our focus groups indicated as much. One participant noted: "I've had my account done twice – but I still trust [the bank] because both incidents were handled really well."

Banks have to weigh this more casual attitude against what they know of cyber security threats. There is no doubt that factors such as increasing third-party usage, greater uptake of digital and cloud-based solutions, and the continuing burden of legacy systems are creating greater risk exposure for banks.

"Banks should explore ways to enhance risk management while improving the customer experience, an example being the concept of invisible security."

Kristina Craig, Associate Director, KPMG

As a result, banks need to adopt an equally sophisticated and proactive approach to cyber security.

Craig notes that there are fintech partners that are already being used by global banks in the biometrics and behavioural profiling fields such as eyeverify and behaviosec.

Ultimately, those organisations that do cyber security well will have the advantage.

Not-so-sticky banks

Bank loyalty is declining

Compared to 2012, young professionals are more likely to hold financial products at multiple banks. Indeed, the proportion of those holding products at four or more banks has tripled over this period of time.

However, they do not seem overly keen to switch their primary banking from one bank to another. According to our cohort, the main reason for staying with a bank is because it is too much trouble to change. One respondent’s proposal to overcome this was to be able to redirect any direct debits and deposits to their new bank, a number of other suggestions amounted to some kind of financial incentive, including cash back, waived fees and gift vouchers.

“We believe this should be viewed as a call to streamline the switching and new account opening processes,” says Knoll. In addition, banks need to be considering what incentives they can put in place to lure customers across, while minimising exploitation of rewards. Again, however,

it is not a matter of simply offering the cheapest prices on the market.

There is also the looming threat of disruption from non-traditional banks. The Millennial Disruption Index* showed that 73 percent of this cohort believe that banking is the industry most at risk of disruption. Furthermore nearly half are expecting technology giants and fintech startups to overhaul and spark innovation in banking - with 73 percent indicating they would be more excited by a new financial services offering from Google, Amazon or Apple than their current bank.

Ian Pollari, KPMG Partner and National Banking Sector Lead says “If fintech providers become better at engaging people, then banking incumbents run the risk of becoming completely dis-intermediated.”

*Source: <http://www.millennialdisruptionindex.com/>

Young professionals are shifting towards holding financial products with more banks



The bottom line

Young professionals want it all... at no cost

Banking features important to young professionals

An important aspect of Gen-Y is that they want their banks to fulfil their multiple needs at a minimal, or even no, cost. In addition to digital, cost and fee related benefits dominate the most valued attributes of a bank for the cohort.

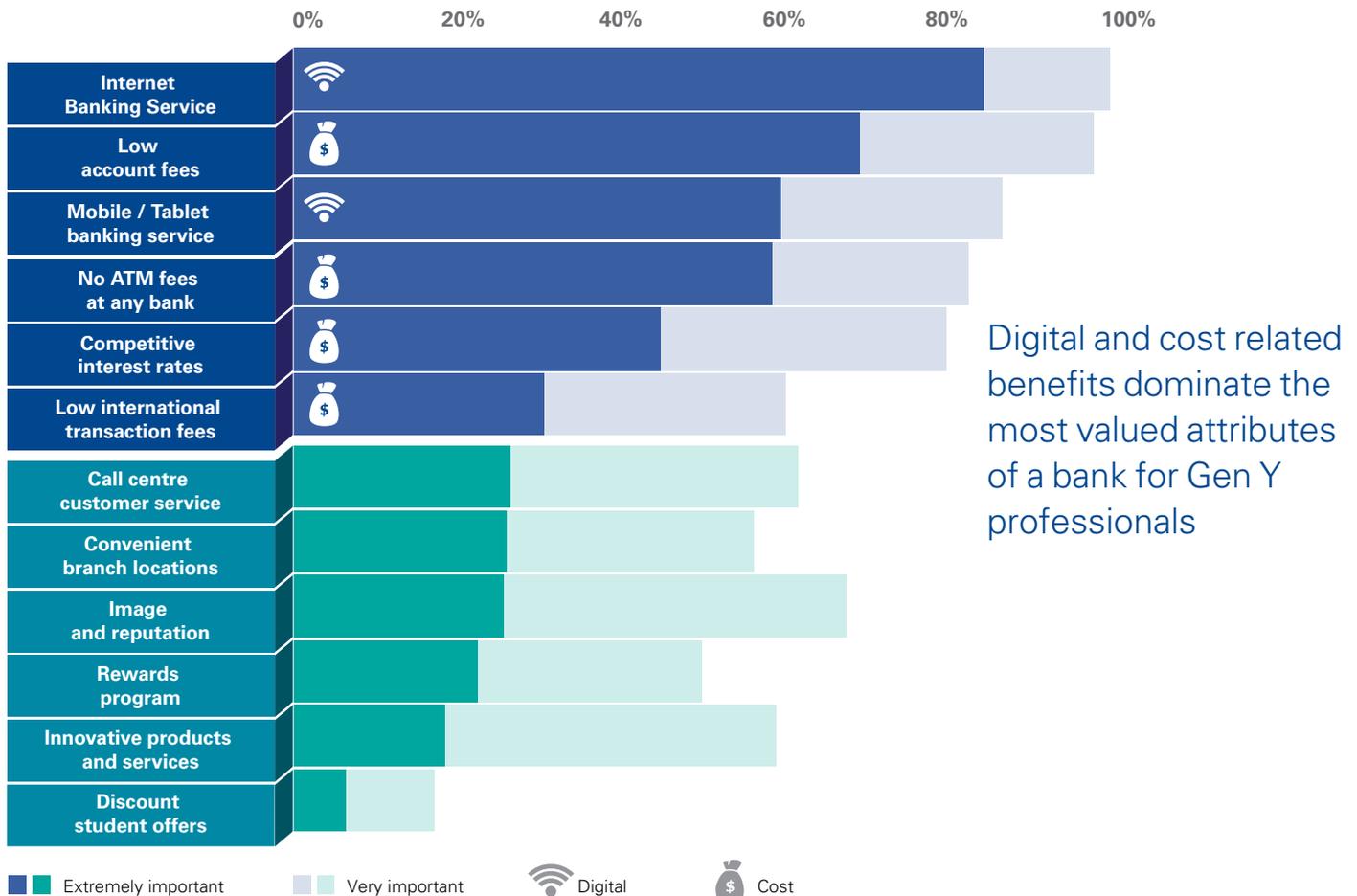
Furthermore almost 50 percent of young professionals stay with their banks on the basis of low account fees and free ATM withdrawals. This is consistent with other responses that suggested this demographic is particularly value conscious.

Perceived customer value has long been understood to be a function of benefits relative to cost. This cohort heavily capitalises on this concept. When asked what they wanted in their bank of the future, replies included:

- “Credit cards with zero international transaction fees, complimentary travel insurance and no annual fees.”
- “A low-touch, low-cost product with fees and interest rates aligned to how much interaction I want (none) and the type of service I actually need (digital only).”

“None of this should be about chasing the other banks to the bottom,” warns Knoll. “Rather it should be about making every product a competitive one while ensuring they work well together as an integrated set.”

Nevertheless, banks will be under considerable pressure to further reduce their cost base while at the same time improving their customer experience. Therefore leveraging digital channels effectively is a must.





Conclusion

We acknowledge there is no single route to success. Yet banks cannot ignore the demands of the next generation and the underlying foundations required to support this. The young professionals of today will be a

significant revenue driver for retail banking in the future. Their priorities and preferences are distinctive – and will require careful consideration by banks as they shape their business models for the future.

There were four clear characteristics that were unearthed around what young professionals want in their ‘bank of the future’. Ultimately customer centricity and innovation were placed at the heart of the business.

Characteristics of the bank of the future



Intuitive

Pre-empting customers’ needs and providing them with a holistic and personalised service to manage their finances and future.



Convenient

Provides easy access to products, information and support along with the ability to effortlessly access and transfer funds.



Progressive

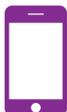
The pace of social and technological advancement will continue, and there is a strong upside awaiting those banks willing to embrace innovation.



Results oriented

Do more with less. Fulfil the primary purpose of individuals who bank – to manage and make money for their customers.

Key findings and implications



Digital will remain king

Online and mobile banking dominate as the preferred channels for day to day banking. Gen Y has learnt to expect highly sophisticated digital capabilities and shows little interest in anything less than seamless. For this reason, it is paramount banks continue to invest in innovative digital solutions.



Not-so-sticky banks

Young professionals are slowly shifting towards holding financial products with more banks. This is both an opportunity and a risk for banks. Banks need to be considering what incentives they can put in place to lure customers across, while minimising exploitation of rewards.



Understanding behaviour is necessary to drive adoption

Banks need to understand both the drivers and the necessary changes required to alter consumers' behaviour and grow broader adoption, particularly for tools and services designed to meet their needs.

The rise of invisible security



Banks need to balance security with customer experience.

Banks should be investing in invisible security to enhance risk management without compromising the customer experience (i.e. two factor authentication, biometrics and behavioural security).



Online research is the prevailing way that young professionals research and choose their financial products

This means that the prominence of a bank's digital presence is more important than ever. Investing in targeted search engine optimisation, search engine marketing and social media will become more important in driving discovery. Furthermore, delivering valuable content and strong user experience (UX) will be vital to growing engagement and conversion.

GENER



Recommendations: We have set out a number of recommendations for you to consider

Customer insight

Understand Gen Y

Gain an understanding of Generation Y to better respond to them. Leveraging techniques such as customer ethnography.

Leverage behavioural economics

It is not a case of build it and they will come – this technique can be used to understand both the drivers and the necessary changes required to alter consumers' behaviour and drive broader adoption.

Marketing

Drive discovery through digital marketing

Invest in targeted search engine optimisation, search engine marketing and social media to drive discovery. Perform a user experience (UX) review on key landing pages, explore opportunities to personalise the experience.

Develop targeted Gen Y campaigns and micro-sites

Based on your understanding, develop targeted campaigns coupled with product and offer designs to enhance your bank's ability to gain market share in this cohort.

Security

Rise of invisible security

Invest in invisible security to maintain risk management without reducing the customer experience (i.e. two factor authentication, biometrics and behavioural security).

GENERATION



Gen Y wants to stay in control and be empowered with their own finances

The vast majority of young professionals surveyed do not want financial advice in its current form. However over 65 percent would value financial coaching geared at providing them with the skills to manage their own finances. There is an opportunity for banks to design advice offers tailored to this type of 'do it yourself' approach.



Young professionals are cost conscious

Cost and fee related benefits dominate the most valued attributes of a bank for this cohort. To penetrate the young professionals market, banks need to be designing competitive offers while reducing cost in order to grow profit in light of reduced market pricing.



The Gen Y cohort is diverse and somewhat heterogeneous

While the group as a whole shared many preferences, we did notice more than a modest level of disparity of needs and attitudes. Making assumptions about an entire generation is imprecise at best, their priorities and preferences are distinctive – and will require personalisation and targeting at a micro level.



Leveraging social media in creative ways will give banks an edge

Seventy percent of Gen Y don't foresee themselves using social media channels to bank. While social media may not be widely adopted as an online banking platform within itself (in the short-medium term), we expect that social media will play a pivotal role through applications such as customer insight, marketing, and embedding social elements within the user experience (i.e. peer comparison, social leader boards, etc.).



Savings first, wealth later

Our findings show that young professionals do not believe they have enough starting capital to make it worthwhile to invest. Banks have a role to play here, to guide and educate this cohort on the benefits of investing to accelerate savings – ultimately to reach their lifestyle goals quicker (e.g. their first home).

on how you and your business may need to respond

Product

Grow the appetite for investment early

Explore opportunities to launch campaigns that educate and encourage Gen Y to invest earlier in order to accelerate their savings and reach their goals earlier (e.g. home deposit). Innovative product or service design could also lead to an advantage in this space.

Create a switching game plan

Simplify the switching process and new account opening process. Consider incentives to lure Gen Y customers across, while minimising exploitation of rewards.

Organisation

Review your organisational design

Consider whether your bank's design:

1. Reinforces the customer-centric approach
2. Supports agility
3. Enables omnichannel servicing
4. Ensures accountability for strategic initiatives, and
5. Supports a third party partnership ecosystem.

Emerging disciplines

Ensure emerging disciplines have critical mass. Common domains lacking in this space include customer and channel strategy, data science, and user-experience design.

Partnering with or acquiring fintech disruptors can also provide a unique advantage.

Innovation

Create an innovation ecosystem

Collaborate with your employees, customers, partners and third parties for the purposes of research, design, development and/or bundling. Leverage techniques such as crowdsourcing, hackathons, open innovation and co-creation and partnering.

Expand your social horizons

Using the applications of social media in banking table as a starting point, identify and prioritise additional social media use cases that can be piloted within your business.

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March 2015. VICN12642MKT.