

Where is the Australian Financial Services sector going?

Written by The Conversation

Andrew Robb, Minister for Trade and Investment, loves, and is very good at closing out, Free Trade Agreements (FTAs). He is especially [enthusiastic](#) about the economic opportunities for services, particularly financial services

The [FTA], with China, is set to deliver billions of dollars in additional revenue for industries throughout Australia and a quantum leap in our investment flows. The opportunities are spectacular - in health, in tourism, in hospitality, in education and training and in financial services to name a few.

But if the Prime Minister of Australia doesn't [support](#) the local Financial Services Industry, Mr Robb will have a hard job convincing overseas investors that they should instead.

The PM's argument for moving his investments offshore – to [avoid a conflict of interest](#) – not only raises questions for investors about potential conflicts in holding money in Australia but also implies that any former PMs, and even current cabinet colleagues, who did not shift their money to sunnier climes, may have some conflicts of interest that may not be obvious to the voters.

But the PM is not the only one to desert our local financial investment industry.

The latest [statistics](#) from the Australian Tax Office (ATO) shows that over 1 million Australian superannuants have chosen to be part of their own Self-Managed Superannuation Funds (SMSFs) rather than trust their money to retail or industry super funds. Together these absconders now manage a pot totalling over half a trillion dollars. The SMSF owners resemble the PM. They are well-to-do, with an average super balance about \$500,000 compared to the [national average](#) of around \$80,000 for men (less for women) and on the greyer side of middle age, with 82% over 45 years of age.

The reasons that these savvy, cashed-up investors have decided to do it themselves is that they reckon that after the not inconsiderable fees charged by the largest retail superannuation

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funds (owned by the largest banks) they can do a better job themselves. The retail funds have produced a reasonable return of just over 6% over the last 15 years but this is less than the returns produced by the industry super funds whose management by union bosses might find resonance with investors used to less democratic jurisdictions.

It's hard to think of a reason why international investors would consider such less than stellar performance worthy of a look, especially as there are competitors aplenty elsewhere.

In respect of financial services, Minister Robb must feel a little like a jilted lover. Just this week, Mr Robb's new BFF, Chinese President Xi Jinping, had a very successful trip to London. In the home of UK banking he talked about a [Golden Age](#) in relations between the two countries and the fact that London (not Sydney) will dominate the [investment banking market](#) in China.

Surely Mr Robb's other triumph, the Trans Pacific Partnership (TPP), will make up for London's muscling in on Australia's potential markets. Despite the government's and industry's attempts to [reclassify](#) the TPP and other FTAs as primarily 'export agreements' there is of course a very significant 'import' component, especially in financial services.

As an ex-partner of Goldman Sachs and chair of its Australian operations, the Prime Minister will be well aware of the reach and rapaciousness of 'The [Great Vampire Squid](#)' and other New York investment banks. Australia's banks will find it hard to compete with these [pirates](#) at home, never mind away.

Australian banks do not have a great record when venturing overseas, as NAB's acquisitions in the [USA](#) and the [UK](#) illustrate. But there again, Australian banks do not need to seek profits overseas, they do very well in their protected niche Down Under [thank you very much](#).

The concept of Australia being a financial hub has been [spruiked for many years](#) but it remains a [pipedream](#).

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And the China Free Trade and TPP agreements will make it even more of a fantasy.

But this is neither a disaster for the local financial sector nor for the concept of free trade.

The intuitions of the recent [Financial Services Inquiry](#) (FSI) were sound and the government is to be congratulated that it accepted almost all of its [recommendations](#)

. In particular, the FSI's insistence that Australian banks must be 'unquestionably strong' has been accepted as being the key to building a resilient economy going forward after the mining boom.

A robust banking system is also essential to gaining the benefits of the free trade agreements and to funding [all of the other twinkles](#) in the Prime Minister's eye.

Rather than gallop off on a wild goose chase trying to be a London Mini-Me in the southern hemisphere, the Australian financial services sector should look closer to home. If the financial system was geared towards supporting those areas where Australia does have a real comparative advantage in the FTAs, such as agriculture, tourism, education and energy, everyone would benefit.

There would be more than enough profits, dividends and bonuses for everybody and the financial system would be safer to boot. A win all around.

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