



21 July 2006

To Committee Secretary  
Standing Committee on Economics, Finance and Public Administration  
House of Representatives  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600

By e-mail to [efpa.reps@aph.gov.au](mailto:efpa.reps@aph.gov.au)

Dear Sir

**IFSA response – Inquiry into the current and future directions of Australia’s service industries**

I refer to the House Economics Committee’s current inquiry into Australia’s services sector. IFSA welcomes the inquiry into opportunities to expand service exports. As the representative a significant segment of the financial services industry, we support strongly any government initiative that aims at expanding the economic potential of our services sector globally.

IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries. We have over 130 full and supporting members who are responsible for investing \$1 trillion dollars on behalf of more than nine million Australians.

We have recently commenced exploring further trade opportunities within the Asian region. Because Australia enjoys a number of comparative advantages, we believe there is enormous potential for Australia to increase the export of financial service capability to other countries. These advantages include:

- (a) A sophisticated, diverse and innovative industry – IFSA represents just under 90 providers of financial services, offering products and solutions that include managed investments, superannuation and life insurance in both the retail and wholesale environment. Many Australian based companies are already extremely successful and profitable in providing financial solutions, and are expanding their capabilities into other economies.
- (b) Stable and responsive government; and a growing stable economy.
- (c) Close proximity and similar time zone to markets that are growing and in need

of capital, capabilities and expertise. Australia's proximity places us in a favourable position to the US, UK and Europe in a sector that is somewhat time-zone dependent.

- (d) A readily accessible pool of highly skilled and experienced labour force in the finance and services sector. According to Axiss Australia, 15.2% of the Australian workforce has careers in Finance, Insurance, Real Estate or Business Services. Furthermore, according to Axiss, some 854,000 Australians speak an Asian language.
- (e) Australia is well regarded as being at the 'cutting edge' in terms of managed investment, superannuation and financial services market structure. We are viewed as having competent regulators, and a transparent and effective regulatory system.

Australia also runs a significant trade imbalance on capital flows. Some 27% of Australia's funds under management are invested off shore, whereas, as best we can estimate, we only attract around 2% of our investment pool from other countries. This obviously limits our investment in Australian industry and infrastructure. The off shore investment figure has continued to grow from around 13% prior to the introduction of the Superannuation Guarantee.

While we appreciate your inquiry is focussing on tourism and education, we urge that financial services should also be considered a priority. Finance and insurance remain one of the largest industry sectors in the Australian economy. The third largest according to Axiss benchmark report in 2005.

Two aspects of your inquiry we wish to specifically address in brief are the future global opportunities for Australian service exports, and possible policies for realising the opportunities.

#### **A. Future global opportunities for Australian service exports**

The Asian region is one of the fastest growing and most dynamic regions in the world today. We believe the growth and development in many parts of the region have meant that financial products are now starting to become more viable and attractive due to the need for capital for development and the growing financial systems in terms of pensions and managed investments. Also, many of the countries in our region are undergoing impressive regulatory reform. The skills and expertise of Australia's financial service providers place us in a good position to cater to these markets.

Australian companies, and Australian based global companies, have also been successful in accessing and operating in the economies of Europe and North America. Many of our members have been very successful in creating profitable niche markets in some of the more mature markets in these economies.

We believe that there are plenty of opportunities that can be further explored. Some of these are listed below:

- Retirement income products and services.
- Asset management and service capability, investment research and strategy, asset allocation and investment product development such as infrastructure, private equity and alternative investments.
- Life risk insurance.
- Securitisation of property and infrastructure developments.
- IT and software development.

## **B. Policies for realising the opportunities**

There are a number of areas in which government may assist our industry. Two of the main barriers facing financial services businesses in Australia are *access* and *intelligence*. Government can, for instance:

- Include financial services as a priority in bilateral and multilateral trade negotiations, both within the WTO and free trade negotiation framework. Every effort should be made to encourage the further development of trade in financial services.
- Help remove trade barriers by promoting Australia's reputation as a well regulated and efficient industry, and by proactively supporting the harmonisation of our regulatory regime with other acceptable jurisdictions.
- Enhance business connections by leveraging Australia's good relations with our neighbours, which could mean facilitating more business delegations, in Australia and off-shore, to meet with influential foreign dignitaries and organisations.
- Pursuing infrastructure policies and a tax regime that will enhance our competitive advantages. Whilst there have been some efficiency improvements made in international tax arrangements, more could be done to ensure competitiveness with those countries which have more attractive and simpler international tax regimes.

We believe government leadership as well as industry initiative must go hand in hand in developing Australia's growing financial services industry.

Please do not hesitate to contact us if you have any questions.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Gilbert', is written over a thin vertical red line.

Richard Gilbert  
Chief Executive Officer