



# **Senate Select Committee on Superannuation and Financial Services**

## **Main Inquiry Reference (b)**

### **Submission No. 1**

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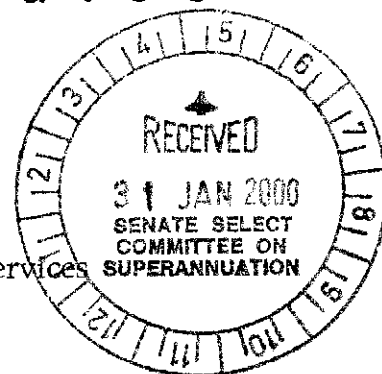
January 2000

O s b o r n e   A s s o c i a t e s

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21 January 2000

The Secretary  
Senate Select Committee On Superannuation & Financial Services  
Parliament House  
Canberra ACT 2600



Dear Secretary

## **Australia As A Global Financial Services Centre**

### **Introduction**

This Submission is provided by Osborne Associates with respect to the Reference to the Senate Select Committee on Superannuation & Financial Services on Australia's potential to become a Global Financial Services Centre.

### **Osborne Associates Submission**

Osborne Associates was not asked to provide this Submission and did not receive any remuneration.

### **Disclosure**

Since the beginning of 1999, Osborne Associates has acted as the Interim Secretariat for the Melbourne Financial Services Task Force. This private sector initiative (comprising representatives from leading financial services organizations, the City of Melbourne, Department of State and Regional Development and the Committee for Melbourne) continues to research and make representations to the Victorian and Commonwealth Government and Australian Centre for Global Finance on the capabilities and growth prospects of Melbourne's and Australia's financial services sector within the Asia Pacific financial services grid.

Details of 1999 Task Force activities are noted at Appendix 1. If desired, the various Research Reports and other Studies can be obtained from the National Library of Australia or otherwise made available for the Committee's consideration.

With the support of the Melbourne Financial Services, Osborne Associates conducted various Industry Surveys. This Submission incorporates various findings forming part of the Survey Reports.

This Osborne Associates Submission is not made in conjunction with the Melbourne Financial Services Task Force.

## In Sum

1. Aspiring to become a Global Financial Services centre is not an appropriate Policy goal. Policy should be directed instead towards achieving a stronger profile and financial services positioning within the Asia Pacific financial services grid.
2. Australia's financial services sector has tremendous opportunities to expand and become a leading Asia Pacific financial services centre.
3. Policy should be directed to gaining an understanding of the trends in global financial services, the growth opportunities and how they match Australia's competitive advantages and core competencies.
4. The implementation of a targeted development program can make a substantial impact on Australia's relative position within the Asia Pacific financial services grid with a five-year time frame.
5. Policy should be directed to the growth and development of niche growth areas where Australia's financial services sector can develop a strong regional presence.
6. Stronger linkages between the Australian and Japanese financial services sectors should be encouraged so as to facilitate stronger connectivity within the Asia Pacific financial services grid.
7. Research into Melbourne's financial services sector highlights regional opportunities for funds management, venture capital, financial services research and education within an Asia Pacific financial services grid.
8. Policy should be inclusive and recognize that Australia's financial service sector is geographically spread. Combined, Sydney and Melbourne's financial services sectors represent about (on an employment basis) 90% of Australia's industry.
9. Policy should be directed to removing competitive barriers and encouraging an open and transparent financial services sector.
10. The *4 Pillar Policy* should be rescinded as it represents a hidden impost and inflates the delivery cost of financial services. The Policy also broadcasts a negative signal to international financial services sector and clouds the Policy objective for open and transparent markets.
11. International benchmarking of the delivery cost of a range of financial services should be a Policy objective and provide a measure of competitiveness.
12. Policy should also encourage the marketing of Australia's multicultural skills (and Asian linguistic capabilities in particular) so as to enhance the financial services integration within the Asia Pacific financial services grid.

### **Financial Services Vs Financial Markets**

Policy should recognise that financial services are different from financial markets and consider growth opportunities within a wider paradigm.

Financial services are wider in scope than the traditional concept of financial markets involving the raising and investment of debt and equity and the trading of such products.

Market participants have traditionally been regulated as Banks, Stockbrokers, Merchant Banks and the Insurance sector. But today's global financial services sector provides a wider range of participants. Regulatory frameworks have been reformatted.

Financial institutions such as retail funds managers are often more powerful influencers on markets than traditional financial institutions.

#### **Support Services**

Financial services also include supporting services, such as back office and management operations that form an integral part of the product delivery. Many of these services are being out-sourced or combined to achieve economies of scale. Such functions are often located so as to take advantage of geographic competitive advantages and core competencies.

#### **Consulting Financial Services**

Financial services consulting services are an integral part of a financial services centre. For example, Standard & Poor's, the rating agency (with its Australian headquarters in Melbourne and linked into the Asia Pacific region and globally) is an integral part of the financial services fabric.

W M Mercers, the financial services advisory firm providing a range of actuarial and consulting services to the superannuation and funds management sector, is another example of a financial services organization. W M Mercers is also headquartered in Melbourne, with a national headcount in excess of 1000 personnel and linked globally.

A wide range of other consulting services also form part of the financial services sector including accounting, tax, legal, management consulting, education and research. E-commerce and Internet delivery consulting services are another example of financial services.

### Analyse Global Trends

A broad understanding of what constitutes financial services is urgently needed. This work needs to be supplemented by an appreciation of the global trends in financial services.

The growing financial services sector need to be analysed to understand the key competitive advantages and how Australia's financial services sector can add value and sensibly develop.

For example, the growth prospects for expensive dealing rooms are limited with static headcounts.

There are however burgeoning employment growth prospects for funds managers and venture capitalists and financial services trainers and educators. These growth areas also represent opportunities for Melbourne's financial services sector with demonstrated core competencies and competitive advantages.

### Global Financial Services Centre

London is often cited as an example of a Global Financial Services Centre and centre of excellence that Australia should strive to emulate.

The City is undoubtedly the predominant European finance centre. This is despite the British banking and finance sector no longer having scale and recognised global scale and presence. The German economy is the largest in Europe and the German financial sector (eg: Deutsche Bank Group) having a much more substantial international presence.

It is questionable if the City's growth prospects will facilitate its future development in the broader financial services sector.

Osborne Associates asserts that the City's growth and development must be seen within a European context. In this geographic framework, London's financial services sector is already adopting a niche profile.

Zurich, Paris, Milan and Frankfurt (amongst other centres) are also major European financial services centres and linked to London and within the European financial services grid.

### **Capital Markets & Trading – Declining Growth Prospects?**

The Age recently (19 December 1999) reported an article from *The Guardian* that inter alia explored if "Wall Street Can Survive".

The article quotes Mr Al Berkeley, President of NASDAQ, the US technology driven stock exchange, saying "the Wall Street that matters will be electronic. It will exist as virtual rather than a geographic entity."

Towers Group recently estimated that 37% of US Bonds will be traded electronically in less than two years time – up from 0.6% in 1995 and 5% last year.

The impact of technology on markets and exchanges is becoming a serious strategic business issue and driving consolidation and international linkages.

Such figures suggest that capital markets and trading activities are likely to relatively decline and are unlikely to provide strong financial services growth and employment opportunities. For Australia, an undue focus on such activities to spur strong sectoral growth should be questioned.

### **Size and Scale**

In the Asia Pacific region, the financial services sector is (and for the foreseeable future) dominated by the size and scale of the Japanese financial services sector.

Recent events in Japan have further enlarged the size and scale of the major financial services organizations.

In the past year, there have been huge mergers of financial institutions that in and of themselves were already large. One example is the merger of DKB, IBJ, Fuji Banks and their existing tie-ups with Nomura Securities and Dai Ichi Mutual Life Insurance.

This conglomerate will have some 32% of all listed Japanese companies as customers. The Bank will be the biggest underwriter of traded and OTC bonds. It will also command 1/3 of the market in traded securities on the Tokyo Stock Exchange (TSE) and the Osaka Securities Exchange (OSE).

Another conglomerate has also arisen with the merger of Sakura, Sumitomo and Daiwa Securities with similar statistics.

Apart from the mega bank mergers, there are broader financial services changes afoot in Japan. For example the TSE, the world's second largest Bourse by market capitalisation, has announced plans to list itself within eighteen months. The float proceeds are intended to fund a new computer system to speed up the exchange's decision-making processes and enhance the internationalisation of the Bourse.

The US based National Association of Securities Dealers (NASDAQ) is stepping up its fight with Japanese competitors for hot IPOs. The NASDAQ has recently announced an agreement with the OSE that will allow the NASD's venture known as NASDAQ Japan to launch itself within the next six months.

The deal will thus allow Japanese IPOs and US companies with Japanese subsidiaries to list on NASDAQ Japan as soon as June. Next year, United States companies without Japanese subsidiaries will be able to list on the new Bourse.

The new Bourse will be a direct competitor for the TSE's so called Mother Board that was recently established to promote the Japanese IPO market.

### **Making Sense for Australia**

Despite the changes in Japan, the financial services sector is predominantly domestic in focus and with outmoded and uncompetitive cost structures.

There are many similarities between the Japanese and Australian financial services sectors.

1. Both operate on the fringes of the Asia Pacific financial services industry.
2. Neither is recognized in the region as having the desire to play a demonstrable and active role.
3. Cultural and historical linkages are not in the Asia Pacific region.
4. For different reasons, both sectors do not provide world competitive cost delivery of financial products to consumers.
5. Sophisticated financial instruments are provided in both markets.
6. Similar structural features stifle competition from new domestic or international competitors.
7. There is little connection between both countries financial services sectors. Japanese financial services organisations do not have ownership or influence of Australian financial services organisations and vice versa.

Within the Asia Pacific financial services context, this lack of connectivity between sophisticated financial services sectors in Asia Pacific limits the potential for an effective integration into the regional grid.

Policy should recognise the benefits of enhanced linkages between the Australian and Japanese financial services sectors and encourage stronger interaction within the Asia Pacific grid.



### **Asian Financial Services Centres**

Excluding centres in Japan and Australia and operating within the same time zone, there is a range of sophisticated Asian financial services centres that claim substantial financial services capabilities.

In terms of sophistication of product service and delivery, these centres can be pigeon holed into:

TIER 1	Hong Kong Singapore Taipei
TIER 2	Seoul Shanghai Kuala Lumpur Bangkok Manilla Jakarta

Each centre has its own competitive advantages in financial services, act as local distribution points and aspire to develop leadership positions in the Asia Pacific region.

With such competitive intensity, it is unlikely that any one centre can become the predominant regional financial services centre in Asia Pacific.

### **Implications for Australia's Financial Services Sector**

Osborne Associates suggests that the likely scenario be the development of an Asia Pacific financial services grid. Within this context, Australia's financial services sector should strive to play a key role.

If Australia is to aspire to become a so-called Global Financial Services Centre, the first goal must be achieve Asia Pacific Financial Services Centre status and to be broadly recognised as a regional leader.

### **Sydney & Melbourne**

The development of Australia within the Asia Pacific financial services grid must recognize that the financial services sector is predominantly located in Sydney and Melbourne.

A national approach is required and building on the complementary core competencies and competitive advantages.

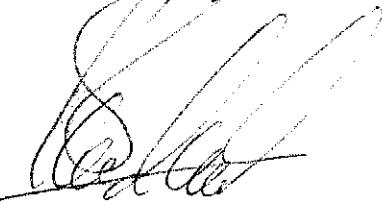
### Melbourne Advantage

The Melbourne Financial Services Task Force research and other activities have already highlighted the opportunities for the growth and development in the local funds management, venture capital and research and education segments of the regional financial services grid.

Policy directed to expanding these financial market segments – as regional niche growth prospects and consistent with core competencies and competitive advantages makes sense from the National perspective.

Osborne Associates would be pleased to assist the Committee with any questions on the Firm's Submission.

Yours sincerely



Bradley Treadwell  
Managing Director

Appendix 1

**Melbourne Financial Services Task Force  
1999 Activities**

1. Melbourne Financial Services – Charting the Future Survey.
13. Melbourne Financial Services Symposium.
8. Formation of Melbourne Financial Services Teams:

Funds Management  
Venture Capital  
Research & Education  
Tax  
Competitive Advantage  
Structure & Strategy  
Government Submissions

- Melbourne Financial Services – Clustering & Business Development Surveys:

Funds Management  
Venture Capital

- Documenting Melbourne's tertiary sector's skill base in financial services.
- Australian Tax Priorities in Financial Services – A Melbourne Perspective.
- Melbourne's Competitive Advantages in Financial Services Survey.
- Melbourne's Funds Management and Venture Capital Directories.
- Melbourne Financial Services Monthly e-mail Newsletter.
- Representations and submissions to the Victorian and Commonwealth Government Ministers and the Australian Centre for Global Finance.