



"Massive potential" to export super powers

By Glenda Korporaal

Australia's financial services industry has the potential to become a significant export earner if the federal government could back changes such as a reform of withholding tax and accelerate the implementation of the Asia Region Funds Passport, says Financial Services Council chief executive Sally Loane.

"There is a massive potential for financial services exports from Australia," Ms Loane told The Australian.

"Australia has developed world-class expertise in funds management because of our \$2 trillion superannuation system.

"Asia is a very good market for our funds management products. It has a growing middle class where everyone is living longer.

"It has a big pension fund business which is growing and needs new products and investment expertise.

"We see really good potential for the export of our funds management products and expertise," she said.
"But at the moment the government is still working through the agenda to remove the barriers."

Ms Loane says Australia's financial services industry would have benefited from the Trans-Pacific Partnership, which would have allowed financial service products from one country to be recognised in the other 11 nations.
But its future is now uncertain given this week's move by Donald Trump to scrap the US commitment to the agreement.

She said financial services had been included in recent trade deals signed with Japan, China and South Korea but more needed to be done to remove Australian impediments to financial exports including reforming withholding tax arrangements, allowing for a broader range of collective investment vehicles, removing state taxes and levies on insurance and removing regulatory barriers to Islamic financial products.

The FSC has also been pushing for the implementation of an Asia Region Funds Passport, which is being backed by the federal Treasury and the Australian Securities & Investments Commission, between Australia, Japan, Korea and New Zealand, which would allow collective investment products from one country to be sold to investors in other economies.

The four countries have signed a memorandum of co-operation for the passport to start from next year with hopes that Thailand and Singapore will also sign up.

But the passport still needs to be implemented in at least two jurisdictions before it can start.

The FSC is backing the concept of the passport and other recommendations made in the 2009 report by former Macquarie Bank deputy chairman Mark Johnson to promote Australia as a financial centre.

In an updated report released last year, Mr Johnson said that progress had been made in exporting Australia's fund management expertise with total foreign investment in Australian managed investment trusts more than doubled from \$20.3 billion in 2009 to \$43.6bn last year.

But he said financial services still made up only 3.6 per cent of Australia's total exports over the period. "Some large Australian fund managers are already managing overseas sourced funds, but they are mostly doing it in offshore jurisdictions," Mr Johnson said. "This limits the benefits to Australia because much of the potential employment and tax remains offshore.

"Encouraging Australian fund managers to build up global expertise in Australia remains a sensible policy objective, but it will take ongoing policy changes as both financial markets and overseas policy settings continue to evolve."

Ms Loane said the reform of withholding tax arrangements was a key issue as the current situation penalised foreign investments in Australian funds and financial assets.

"Our tax system is complex and still a barrier for overseas funds to come in here," she said.

"Foreigners who want to invest in Australian products get hit with taxes. We really need withholding tax to be brought down.

"In some other jurisdictions, such as Hong Kong, it is down to zero."

Ms Loane said the potential for the export of Australian financial services expertise including funds management was a "sleeper" as it was hard for people to envisage.

"Financial services is not one of the things you can see loaded on boats, you can't see it being dug out of the ground, but it is just as important and it has a massive potential because we are really good at it."

"Australia is really good at producing agricultural products and mineral products and we have really good funds management because we have this massive pool of money in superannuation which has been accumulated and grown over the last 25 years.

"We have developed skills which are recognised globally."

Ms Loane said Australia was also well advanced compared with many other countries in its use of financial technology.

"Financial services is the second biggest contributor to Australia's GDP after mining," she said.

"It employs some 450,000 people. There is no reason why we can't be extremely good at developing new financial services technology."

She said Australia needed to push ahead with global trading deals with other countries regardless of the status of the TPP.

"Protectionism doesn't work for a country like Australia," she said.

"We need foreign investment. And we would like to see more of a narrative around the potential of financial services exports."

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