Address by John Brogden, CEO Financial Services Council

Korea Australia Finance Forum

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Good Morning Ladies and Gentlemen and welcome to the Korea Australia Financial Forum.
I'm John Brogden, CEO of the Australian Financial Services Council.

The Financial Services Council (FSC) represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and public trustees.

Thank you to Mr Park, Chairman of KOFIA, and Ambassador Bill Paterson for your welcoming remarks.
The Hon Steven Ciobo MP, Parliamentary Secretary to The Australian Treasurer is with us today along with chairman of the Financial Services Council, Greg Cooper as well as the other Australian delegates.

We have Australian delegates from:

- Russell Investments;
- Tyndall Investment Management;
- La Trobe Financial Services;
- Legg Mason;
- CFS Global Asset Management;
- Schroder Investment Management;
- Vanguard Australia;
- APIR Systems;
- BT Financial Group
- K&L Gates; and
- Morningstar.

Together the Australian financial services companies in attendance today manage over US$200 billion in Australia.

Ladies and Gentlemen, the story of Australia's iron and coal exports to Korea is well known. Our trading relationship in the past has been based on the strong complementarity of our economies. Australia has exported raw materials to Korea and imported manufactured goods. However, as the Australian and Korean economies change, the opportunities for trade and investment will broaden.

I often wish that explaining exports of financial services was as simple as explaining exports of iron ore – that is you dig it out of the ground, put it on a train and then a ship to Korea. Exporting services is much more complex.

And the stories around exporting services are less well known but equally important. However, exports of services contributes to GDP and generate jobs in the same way. Australia's top two exports to Korea are iron ore - US$4.7 billion a year and coal - US$4.5 billion a year.

However, Australia's fourth largest export to Korea is travel services valued at US$1.3 billion. Together, Australia and Korea have to look at how the complementarity of our economies is changing and where the greatest opportunities for both countries will be in the next 30 years. Services already account for 80 per cent of GDP in Australia and financial services is the largest sector in the economy at 10.6 per cent of GDP.

Korea is on a similar path with services contribution already at 70 per cent of GDP.

It is in services and investment that the greatest long run benefit will come to Australia and Korea. While Korea will still demand raw materials from Australia - and Australia will still demand manufactured goods from Korea - the trading relationship will become – has to become – more complex.

And this is not just an opportunity for Australia to export services to Korea.

These opportunities must inform our free trade agreement negotiations bilaterally, regionally and through the World Trade Organisation.

In December last year, Korea and Australia completed a free trade agreement which includes high quality outcomes for services generally and financial services in particular. The FSC welcomes the Korea-Australia Free Trade Agreement and congratulates both the Korean and Australian Governments for concluding the agreement.

It is a great outcome and a great opportunity for both countries.

KAFTA

The FSC supports the reduction of barriers to trade for four reasons.

First as the investors of the US$1.7 trillion in retirement savings of all Australians, and the largest sector of the Australian economy, the financial services industry advocates for policies which affect the economy in which we invest.

Lower barriers to trade allows Australia to focus on the sectors in which we have a comparative advantage, increase trade in these and drive economic growth.

Second, Australia has the third largest pool of funds in the world and as a result has a funds management industry which is large, highly developed and highly skilled.

Korea too has one of the largest pools of funds in the world and a subsequently well regulated and developed financial services industry.

Financial services in Asia are underdeveloped.

While it has 60 per cent of the worlds' population, it has just 13 percent of global funds under management.

The combination of a comparative advantage in funds management and proximity to growing markets is a substantial opportunity to grow financial services exports for both countries.

Third, lower barriers to trade allows Australian and Korean consumers of financial services products access to a greater range of products.

For Korean consumers and pension funds these means access to Australia's expertise in equities and infrastructure.

While Australia's market for financial services is already one of the most open and well regulated in the world, free trade agreements provide the opportunity to broaden the range of products available to Australian consumers.

Finally, free trade agreements, in particular bi-lateral FTAs, raise Australia's profile in the partner country.

While lowering formal barriers to trade is important, the signalling effect of a bilateral FTA is just as important, as it raises Australia's profile in the partner country and provides some impetus for firms to export. Overall KAFTA delivers on all of these fronts.

It is a high level agreement which improves on previous bilateral FTAs with other countries and builds in opportunity for further enhancements. And there are significant opportunities for Korea as well.

Australia's market is as much an opportunity for Korean financial services companies as the Korean market is for Australia.The size of Australia's superannuation system is already larger than the capitalisation of the Australian Stock Exchange and funds under management will increase 3 fold over the next twenty years.

Australian pension funds are in search of investments for these funds and there is great capacity for Korean financial services companies to provide assistance to achieve this.

The Korean economy itself represents an opportunity for Australian investors.

However, the greatest barriers to trade in financial services are not technical or legal which are fundamentally dealt with in the FTA.Rather the barriers that remain relate to culture and relationships.

This forum and this trade mission are examples of the kind of relationship building both industries need to do if we are to turn the free trade agreement into greater financial services trade and investment.

The signing of the Memorandum of Understanding with Seoul Metropolitan Government yesterday and the renewal of the FSC's MOU with KOFIA today are important steps in building relationships.

Korean Government Investment office

One of the few remaining technical issues holding back greater trade in funds management services between Australia and Korea is the absence of a deep market for Australian dollar- Won exchange and a consequent lack of currency hedging services.

Korea has a large sovereign wealth fund, the Korean Investment Corporation and a large Government operated pension fund, the National Pension Service.

For Australian fund managers this is a significant opportunity to provide funds management services.

For Korea, the opportunity is to access Australian equities, bonds, infrastructure and other assets directly through Australian.

A lack of information about Australia as an investment destination is holding back growth in trade in financial services between the two countries.

The Korean Government has established investment offices in the United States and the UK.
These offices act to reduce the gap in information available to Korean investors directly through the two government operated funds.

There is no equivalent Korean investment office in Australia.

As a result EU and US fund managers have an advantage over Australian fund managers.

The establishment of a similar office in Australia would have a substantial benefit in providing for direct relationships between the two Korean Government operated funds and Australian fund managers and in turn facilitate the development of deeper currency hedging services.

The FSC would welcome the opportunity to assist the Korean Government in establishing an investment office in Australia.

Enhancements to KAFTA - Passport

The next step for Australian and Korean financial services trade is towards mutual recognition of Australian and Korean fund management services. Australia and Korea can both benefit from mutual recognition.

For Korea it provides the opportunity for pension funds to broaden investment into equities and infrastructure, in which Australian fund managers have a long history and deep skill base.

This may come through further negotiation within KAFTA or through the Asia Region Funds Passport which Australia and Korea are leading.

Greater trade in financial services and cross border investment flows must be a goal for all countries in the region. As we know, the UCITS regime means a European fund manager need only pass the regulatory and legal requirements once to access a market of 500 million people.
In contrast, there is very little mutual recognition of financial services regulation between countries in Asia.

This means financial services providers must undertake the full application and compliance process and satisfy all the local requirements in every country in Asia in which they want to sell their products.

As a result instead of funds sourced from the region being managed in the region – they are mostly managed in Europe through the UCITS regime.

Asian fund managers have gone through the expensive process of establishing an office in Europe for the sole purpose of gaining a UCITS licence for their product so that they can then sell into Asia. The European UCITs regime has been very successful in accessing Asian funds under management with 40 per cent of all new sales of UCIT products are sourced from Asia.

To overcome this, a number of countries in the region are working together under the umbrella of APEC to develop the Asian Region Funds Passport – a set of regulations for funds management which would be common across all countries that agree join.

Once operational, the Passport will permit investment funds domiciled in one country to be sold directly to retail investors in participating jurisdictions and vice versa.

At the APEC Summit in Bali in September last year four countries –Korea, New Zealand, Singapore and Australia - agreed to develop a pilot of the Passport.

Since then Thailand and the Philippines have joined the process.

This was a key milestone in moving towards liberalised trade of investment funds in the Asian region. There is a phenomenal potential for Asia to quickly grow its overall share of funds management activity and our two countries need to ensure we are in a position to capitalise on this.

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