# FSC STATE OF THE INDUSTRY 2019 SUMMARY

The financial services industry is a key contributor to the economy.

- It is the largest industry in Australia and has been largest for most of the period since 2006, producing about $6,400 per person or about 9 per cent of GDP.
- Financial services contributed more than any other industry to economic growth since 1974 and had the second least volatile growth over that period, after Information Technology.
- The industry is the largest industry in both NSW and Victoria, with almost half of national production of financial services occurring in NSW, and just over a quarter in Victoria.
- Financial services had one of the fastest rates of productivity growth from 1990 to 2018.
- Financial services represented 6 per cent of total services exports in 2018. Australia exports a much lower share of financial services than the OECD average.
- The industry paid $8.5 billion in industry specific taxes in 2017–18, and paid 34% of all company tax revenue, well above the industry's share of profits of 14%.
- About 450,000 people are employed in financial services, or 3.5 per cent of total employment numbers.
- Employees in financial services are more likely to be full-time than in other industries. The number of male and female employees in the industry is approximately equal; however, a smaller proportion of management personnel or CEOs are women than in other industries.
- Wages are above average in financial services, likely reflecting higher training and education standards, with employees more likely to participate in training and have a degree.

*Note: the category of financial services mainly comprises banking, funds management, insurance, superannuation, financial markets, and related services such as broking and trading.*

**Superannuation**

- Superannuation assets are currently $2.8 trillion, which is about 150% of GDP. Industry assets have historically grown faster than GDP and is forecast to reach 167% of GDP in 2028.
- The superannuation industry has four main segments: industry, retail, public sector, and self-managed (SMSFs), which have all grown faster than GDP. The number of SMSFs has grown over time, but the number of all other types of funds has declined.
- About 25% of superannuation assets are in MySuper accounts, while 55% of the total number of accounts are in MySuper.
- Almost half of total assets in large funds are held in the top 10 large funds; and 85% of assets are held in in the 36 funds with assets of more than $10 billion.

- About one-third of superannuation assets are invested in unit trusts, about 15% is invested in Australian shares, about 15% is in overseas assets, and about 15% is invested in debt.
- Australia's superannuation system is the fourth largest retirement/pension system in the world and operates well to limit the cost to Government of ageing. The OECD forecasts Australia to spend less on Government pensions than any other OECD country in 2025, 2035 and 2045.
- Nevertheless, Australia's Age Pension provides better retirement incomes for low income earners than most other OECD countries – we spend less on the Age Pension in total because it is much more targeted at low income earners.
- Australia's superannuation system had the highest real rate of return of any private pension system in the OECD over the five years to 2017 (after deducting investment fees).
- The relative tax incentives for superannuation in Australia are below the OECD average, and are approximately equal for low, middle and high income earners – by comparison, many OECD countries provide a greater relative tax incentive for high income earners.
- While average superannuation balances have been increasing strongly in Australia, a large gender gap in super savings exists, with average balances for women 35% below the balances for men.
- The industry is undergoing an unprecedented period of change which, ultimately, should reduce costs and enhance trust in the industry.

**Funds management**

- There is currently $2.9 trillion invested in Australian managed funds, which pool money from many investors together to invest on their behalf.
- There are also institutions that provide investment advice, but do not own assets on behalf of investors, bringing the total size of the industry to $3.6 trillion.
- A majority of funds managed in Australia are sourced from superannuation funds, with smaller contributions from retail and wholesale trusts, government and life insurance providers.
- Only 5.7% of funds managed in Australia are sourced from offshore (effectively Australia's export of funds management services). In the recent past, when taxes were cut, the export of fund management grew, but tax increases have halted export growth.
- The top 10 managed funds had total assets of $74 bn, 13% of total assets in managed funds but only 0.3% of the total number of funds. There are 118 funds with more than $1bn, representing just under half of total assets of managed funds but only 4% of the number of funds.

**Exchange Traded Funds (ETFs)**

- ETFs have around $50 bn under management, which has grown 27% over the past year, and 328% over past five years.
- The appeal of ETFs to investors can include ease of access, increased liquidity, lower cost, increased diversification, and tighter link between ETF value and value of underlying assets.
- Globally, there is about $5.4 trillion in ETFs and similar products, with the Australian market just under 1% of the total, though the Australian market is growing more quickly.
- There are 12 ETFs with value over $1bn, representing just under half of all ETF assets. Just under half of all ETF assets are in international equity, and about a third in Australian equity.

**Financial advice**

- There are over 26,000 active licenced financial planners who work for over 2,200 financial service licensees.
- After a substantial increase in adviser numbers in late 2018, the number of advisers has fallen due to increased regulation and market movements in adviser groups. Education standards are tightening with advisers required to pass an exam by 2021 and have a relevant degree by 2024.
- Commissions for financial advice are generally coming to an end, thought commissions remain for life insurance, but with substantial reforms underway to the structure of these commissions.
- The number of advisers in large advice groups is declining over time, with the share of advisers in groups with more than 100 advisers declining from 65% in late 2016 to 55% in July 2019. There are 845 advisers who were sole traders, or about 3% of all advisers.
- Many financial advisers make use of platforms, which allow advisers or clients to manage portfolios directly at low cost, with greater access to greater information and investments. There is about $860bn invested through platforms including master trusts and wraps.

**Life insurance**

- Life insurers paid $10.5bn in claims in the year to March 2019. The value of claims has been growing faster than GDP. About 82% of Australia's adult population has life cover (almost 16 million people).
- Accidents were the number one cause of claim, with payouts of $1.3 billion in 2018. Cancer had a higher value of claims at $1.7 billion in 2018. Mental health conditions had the third highest value of claim at $750m.
- Income protection insurance saves the Government money in the long term for middle and high income earners, while the impact on Government budgets of Total and Permanent Disability insurance for these groups is small.
- Insurance is subsidised for low income earners, meaning the premiums are lower, or payouts higher, for this group than without the subsidy.
- Life insurance products purchased by individuals represent 65% of total insurance revenue, the remainder being group insurance (particularly through superannuation).
- Substantial changes are expected in the industry over time with several large mergers, acquisitions or disposals completed, underway, or proposed.
- The FSC's Life Insurance Code of Conduct has resulted in major changes to every aspect of a consumer's interaction with the industry, and a current Code review is likely to make further extensive improvements to the industry's performance.