

# Chapter 2

## ASIC's role in context

2.1 Australia's population of 23.2 million<sup>1</sup> represents only around 0.03 per cent of the world's estimated population of 7.1 billion people. Despite this, Australia is the world's 12th largest economy.<sup>2</sup> The Australian Securities Exchange (ASX) has a total market capitalisation of around \$1.5 trillion.<sup>3</sup> In 2012–13, the total annual turnover on Australia's financial markets was \$135 trillion.<sup>4</sup> The superannuation system now represents the fourth largest pool of superannuation savings in the world; as at December 2013, Australia's superannuation assets were estimated to total \$1.8 trillion.<sup>5</sup>

2.2 ASIC's role and its performance needs to be considered in the context of the growing importance of Australia's financial sector. This chapter outlines some key developments and likely future directions for the sector. The remainder of this chapter is principally based on research undertaken for the committee by the Parliamentary Library. The committee is grateful to the Library for this assistance.

### Relative size and growth of the financial services industry

2.3 The financial services industry as a share of the Australian economy has grown significantly since the introduction of the superannuation guarantee in 1992, rising from around six per cent to eight per cent by 2012 (Figure 2.1). However, this growth was preceded by growth in the industry from around the mid-1980s in response to a range of deregulation measures including the floating of the Australian dollar, the entry of foreign banks, removal of controls on bank deposits and the introduction of dividend imputation.<sup>6</sup>

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1 Estimated resident population as at 30 September 2013. ABS, cat. 3101.0.

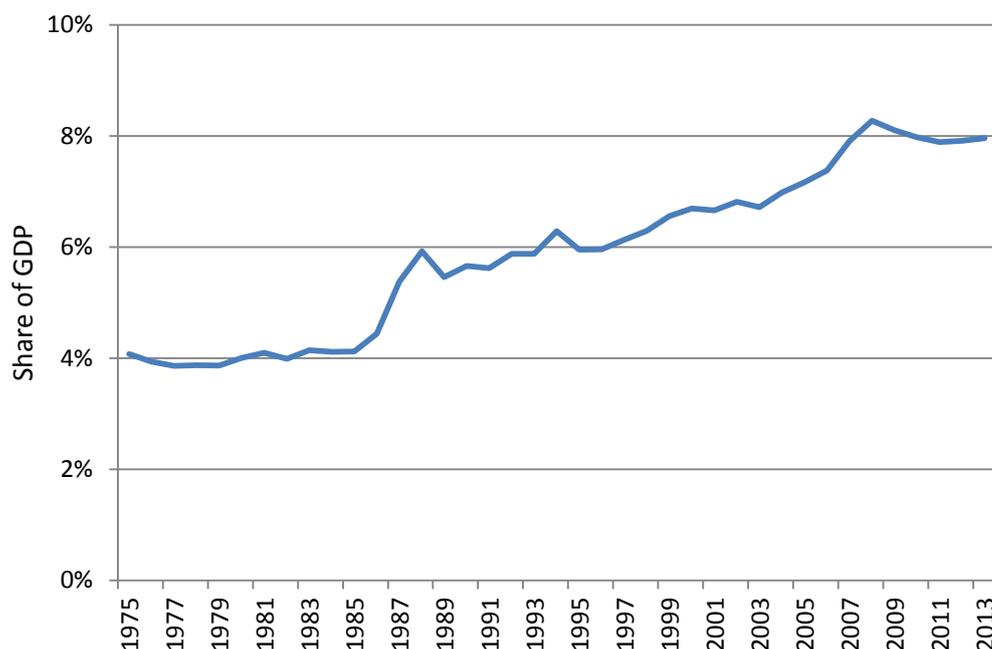
2 Based on 2012 gross domestic product. See <http://data.worldbank.org/data-catalog/GDP-ranking-table>.

3 ASX, 'Corporate Overview', [www.asx.com.au/about/corporate-overview.htm](http://www.asx.com.au/about/corporate-overview.htm) (accessed 13 May 2014).

4 Australian Financial Markets Association, *2013 Australian Financial Markets Report*, p. 2.

5 APRA, Statistics: Quarterly Superannuation Performance, December 2013 (issued 20 February 2014).

6 Diana Beal, 'Overview of financial services post-deregulation', [www.reconciliation.org.au/getfile?id=81&file=diana\\_beal.doc](http://www.reconciliation.org.au/getfile?id=81&file=diana_beal.doc) (accessed 2 May 2014).

**Figure 2.1: Financial services industry as a share of the economy (1975 to 2012)**

Source: Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product, cat. 5206.0, Table 33, December 2013 and March 2014.

2.4 Contributing to this growth has been the expansion of the global presence of Australia's financial services industry and a rise in services exports from the industry. Although Australian financial services businesses are concentrated in the Asia Pacific region, they also have a presence in Europe and the Americas (Figure 2.2).

**Figure 2.2: Australian financial services global footprint, 2009**

	<i>Asia Pacific</i>	<i>Europe</i>	<i>Americas</i>	<i>Africa and Middle East</i>
Banking	China, Fiji, Hong Kong, India, Indonesia, Japan, NZ, Singapore, Vietnam	Malta, UK	Canada, Cayman Islands, USA	
Funds management	Fiji, Hong Kong, Japan, Korea, Malaysia, NZ, Singapore, Taiwan, Thailand	Germany, Ireland, Luxembourg, Netherlands, Switzerland, UK	Canada, USA, Brazil	Oman, UAE, South Africa
Financial planning	Hong Kong, Singapore, Thailand			
Insurance	China, Fiji, Indonesia, NZ, Samoa			
Investment administration	China, Hong Kong, Malaysia, NZ, Singapore, Taiwan	France	Canada, USA, Brazil	

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Mortgage broking	China, NZ		USA	
Stock brokering	Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand	Germany, Switzerland	Canada, USA	South Africa

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Source: Innovation & Business Skills Australia, *Environment Scan 2013: Financial Services Industry*, p. 13 (accessed 8 May 2014).

## Expansion in retail investors

2.5 Government privatisations during the 1990s (including the Commonwealth Bank of Australia (CBA), Telstra, various state banks and Qantas) and demutualisation of a number of financial services providers and other entities (AMP, National Mutual and the NRMA) provided opportunities for household investors to participate in the ownership of equities.<sup>7</sup>

2.6 Regular surveys of share ownership in Australia by the ASX since 1991 show the considerable growth in the number and proportion of people investing directly and indirectly (via superannuation for example) in shares. In 1991, only 1.8 million (15 per cent) of Australian adults directly or indirectly held shares (Figure 2.3). By 2012, 6.7 million (38 per cent) of Australian adults directly or indirectly held shares. While there has been some decline in share ownership since the peak of 2004—this has been attributed to the repayment of debt, the exit of 'passive' investors and a shift to property investment<sup>8</sup>—the level of share ownership in Australia remains high compared to other developed countries.<sup>9</sup>

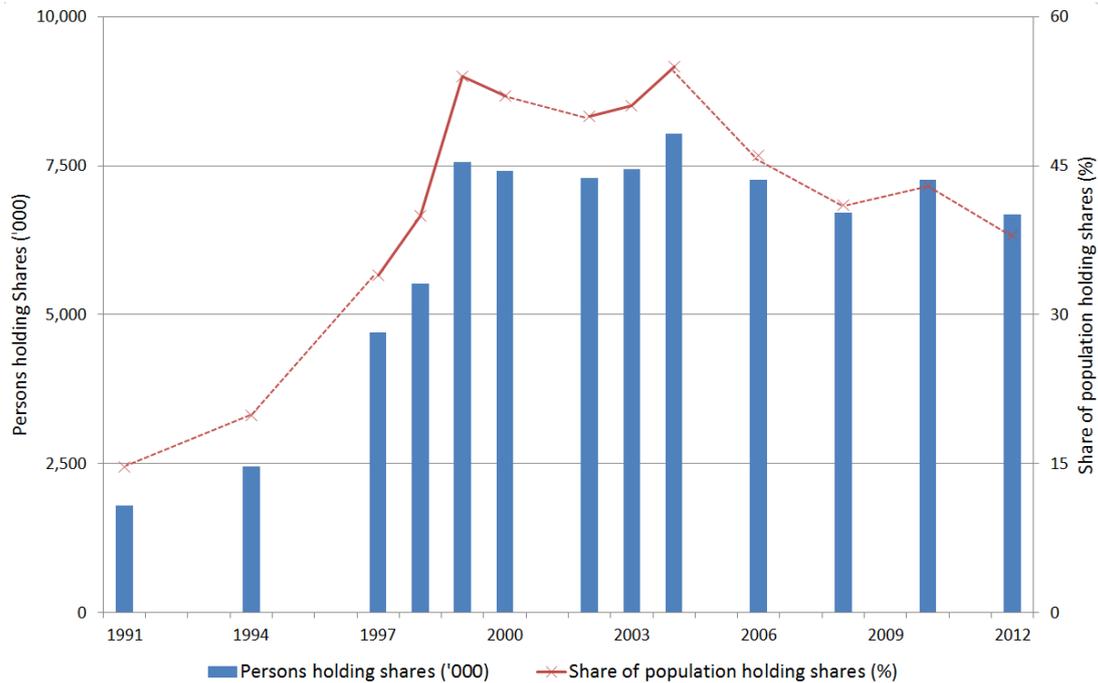
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7 Demutualisations and privatisations in the 1990s were summarised in: Reserve Bank of Australia, 'Demutualisation in Australia', *RBA Bulletin*, January 1999, [www.rba.gov.au/publications/bulletin/1999/jan/pdf/bu-0199-1.pdf](http://www.rba.gov.au/publications/bulletin/1999/jan/pdf/bu-0199-1.pdf) (accessed 30 April 2014).

8 ASX, *2006 Australian Share Ownership Study*, 2007, [www.asx.com.au](http://www.asx.com.au) (accessed 1 May 2014), p. 7.

9 ASX, *2012 Australian Share Ownership Study*, May 2013, [www.asx.com.au](http://www.asx.com.au) (accessed 1 May 2014), p. 29.

**Figure 2.3: Share ownership in Australia, 1991 to 2012**

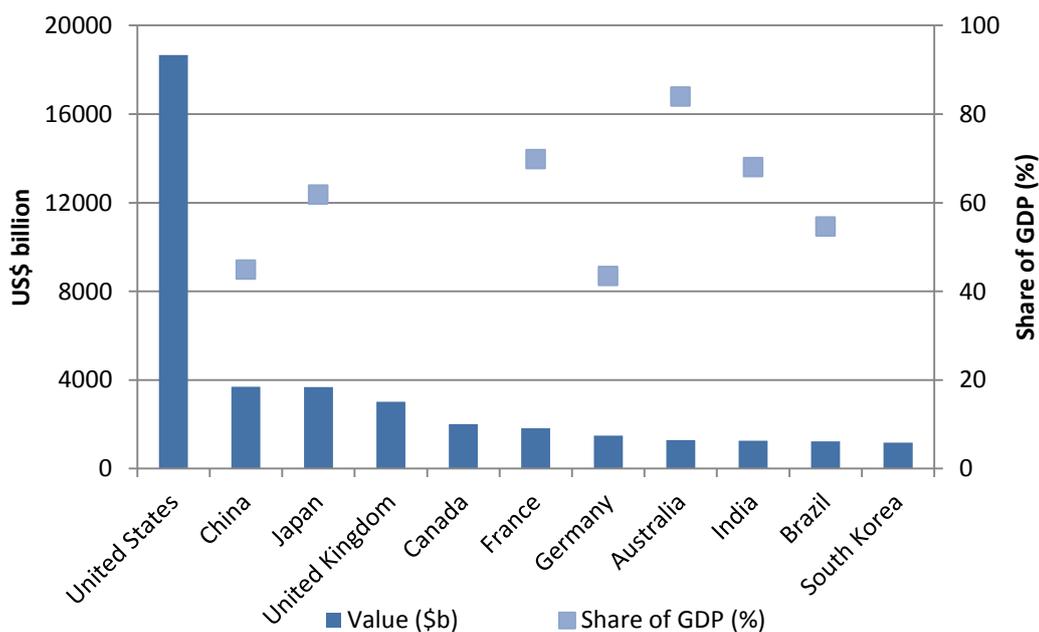


Source: ASX, 2012 Australian Share Ownership Study, May 2013, [www.asx.com.au](http://www.asx.com.au) (accessed 1 May 2014) and previous issues.

### Overall significance of Australia's capital markets

2.7 Capital markets comprise a range of financial products including loans, equities, bonds and other financial instruments. In 2012, Australia had the eighth highest equity market capitalisation of global equity markets by value (Figure 2.4).

**Figure 2.4: Market capitalisation of equity markets, 2012 (\$US billion)**

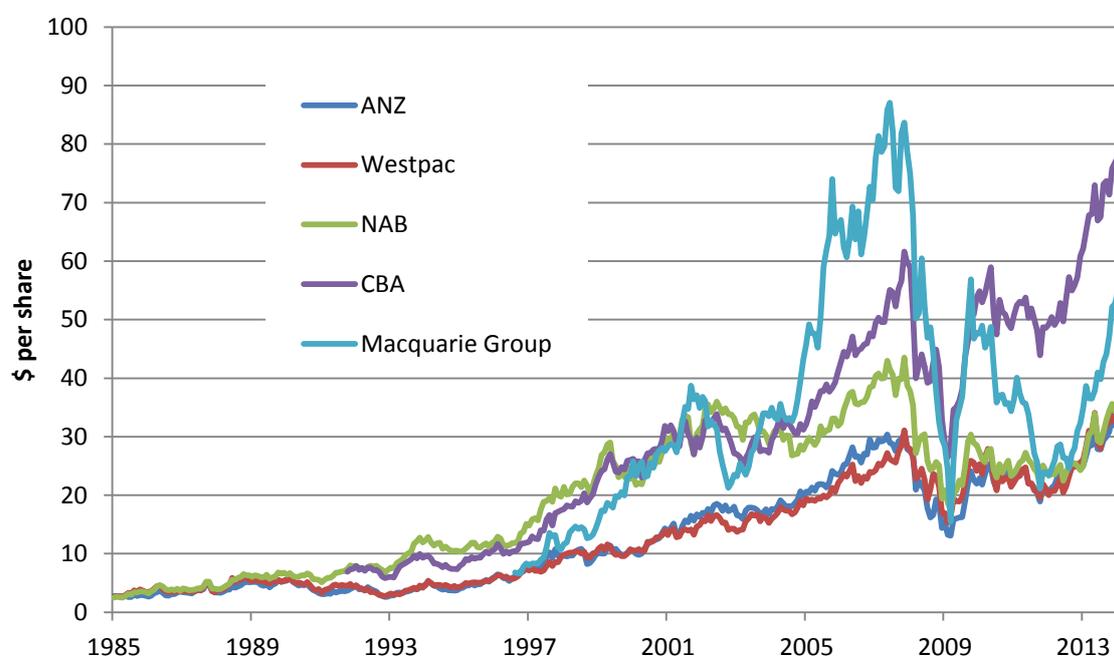


Source: The World Bank, World Development Indicators 2014, 9 April 2014.

## Overall significance of large financial sector firms to the Australian economy

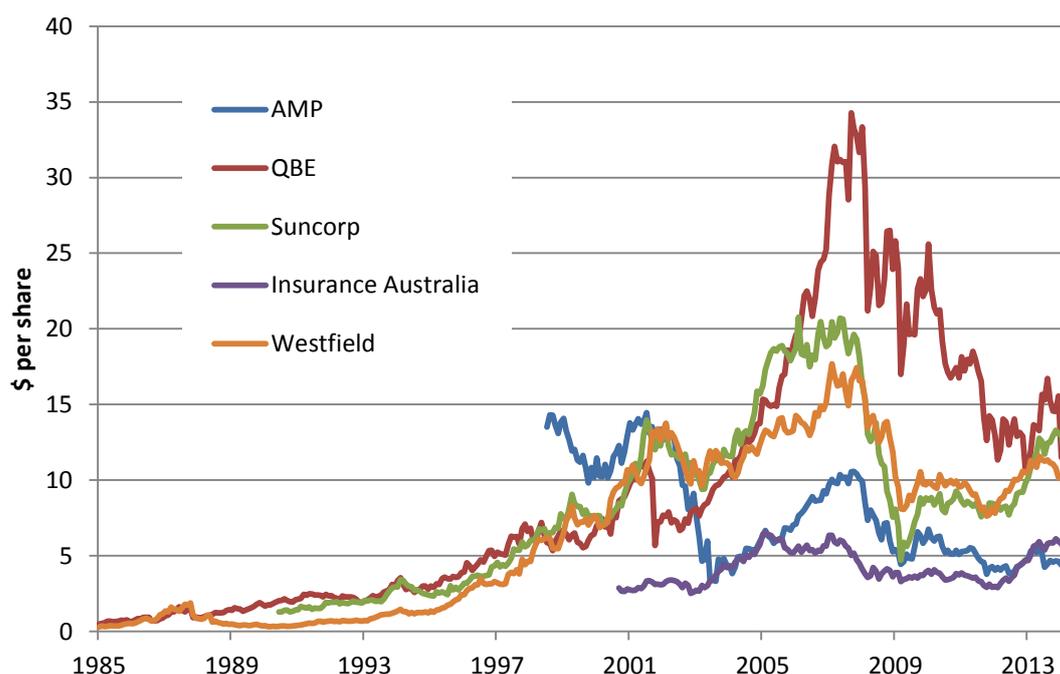
2.8 Of the top 20 companies by market capitalisation listed on the ASX, half are classified as being in the 'financials' sector. These include companies such as the big four banks (CBA, NAB, Westpac and ANZ) and insurance providers AMP, QBE, Suncorp and Insurance Australia. Fund managers Macquarie Group and Westfield were also part of the sector.<sup>10</sup> At the end of April 2014, these ten companies accounted for around one-third of total ASX market capitalisation.<sup>11</sup> For these ten companies, share prices are generally still below peaks experienced prior to the global financial crisis. However, most shareholders of these companies have enjoyed significant increases in share prices in recent years and over the long term (Figure 2.5).

*Figure 2.5: Share price trends, financials sector companies in the top 20 ASX listed companies by market capitalisation, 1985 to 2014 (as at April 2014)*



10 As at May 2014. The composition of the S&P 20 index is revised regularly and as a result companies can move in and out of the index over time.

11 ASX 200, [www.asx200list.com](http://www.asx200list.com) (accessed 8 May 2014).



Source: Datastream.

## Indications of where Australia's financial sector is headed

2.9 The superannuation industry will continue to benefit from growing superannuation contributions. The gradual increase in the superannuation guarantee from nine per cent to 12 per cent by 2019–20 and strong positive cashflows into superannuation funds will see net superannuation contributions (contributions less payments) result in significant additional funds flowing into the financial system. One projection has total assets in superannuation funds rising to more than \$7.6 trillion by 2033.<sup>12</sup>

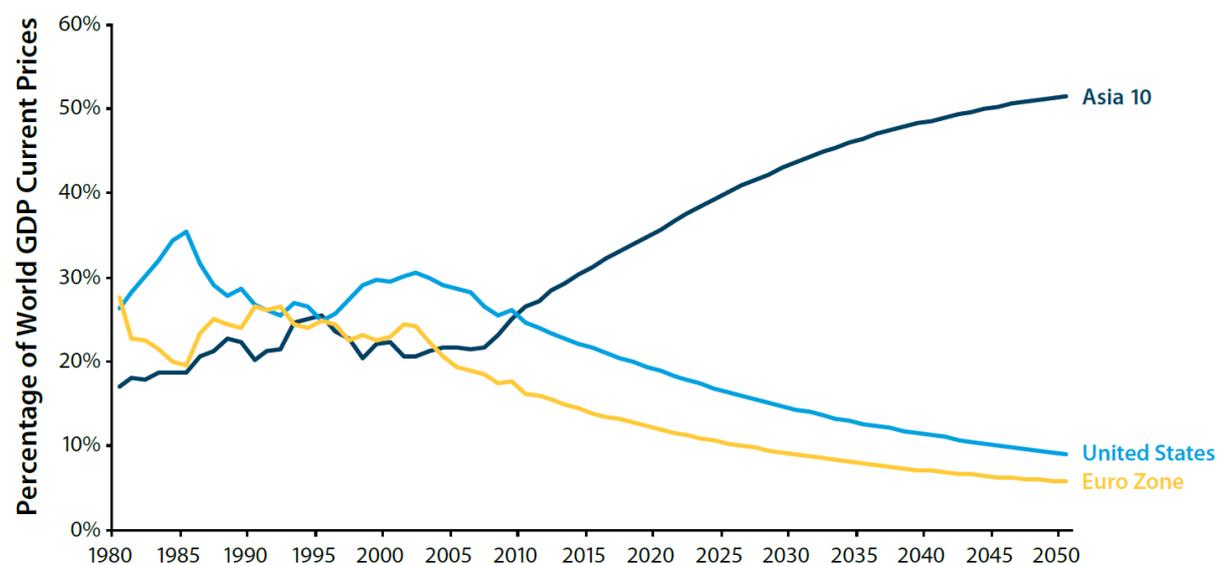
2.10 This growth in superannuation funds should provide a solid cornerstone for the growth in the financial services industry generally, with a substantial portion of these funds to be invested in Australian equities and providing liquidity in cash deposits with banks. A growing skilled labour force of advisers, accountants and information technology providers will also be required to invest these additional funds efficiently.

2.11 The health of the financial sector in Australia is heavily dependent on general economic and financial market conditions. With strong domestic economic growth compared to much of the developed world and the growing pool of superannuation funds, there appears to be no shortage of available domestic capital and business opportunities to grow the sector.

12 Deloitte, *Dynamics of the Australian Superannuation System—The next 20 years: 2013 – 2033*, September 2013, [www.deloitte.com](http://www.deloitte.com) (accessed 4 June 2014), p. 7.

2.12 There will also be a significant rebalancing of the world economy in the next 40 years, with around half of global economic production expected to take place in Asia by 2050 (Figure 2.6). While Australia's traditional merchandise export destinations still account for most of Australia's exports of financial services, the presence of Australia's financial services companies in the fast growing Asian region will support future export opportunities for the industry.

**Figure 2.6: Projected share of world GDP, by specific regions, 1980 to 2050**



Source: ANZ Research, 'Caged Tiger: The transformation of the Asian Financial System', *ANZ Insight*, Issue 5, March 2014, [www.media.anz.com/phoenix.zhtml?c=248677&p=irol-insight](http://www.media.anz.com/phoenix.zhtml?c=248677&p=irol-insight) (accessed 8 May 2014). Based on CEIC and ANZ projections.

2.13 To position Australia to benefit from this change, successive governments have pursued an interest in developing Australia into a regional financial services hub. The current government's Financial System Inquiry is another opportunity to look again at how Australia's financial services industry can better interact with international capital markets and benefit from economic growth in our region. That superannuation will be a key consideration of the inquiry is clear: one estimate presented to the inquiry was that in 40 years, funds controlled by superannuation will exceed that of the banking industry.<sup>13</sup> Some issues raised in submissions to that inquiry have included how to better link superannuation to the economy, the need to support technological innovation and consumer protection requirements.<sup>14</sup>

13 Rodney Maddock, 'Superannuation asset allocations and growth projections', Paper prepared for the Financial Services Council, 17 February 2014, [www.fsc.org.au/downloads/uploaded/2014\\_0226\\_140226-FSC\\_Maddock-Capital Flows Report FINAL\\_2d88.pdf](http://www.fsc.org.au/downloads/uploaded/2014_0226_140226-FSC_Maddock-Capital Flows Report FINAL_2d88.pdf) (accessed 11 May 2014), p. 25.

14 See, for example, submissions made to the Financial System Inquiry by the Australian Bankers' Association, Association of Superannuation Funds of Australia and the Financial Services Council: [www.fsi.gov.au](http://www.fsi.gov.au).

***Committee comment***

2.14 This inquiry has necessarily required the committee to review ASIC's past performance, however, the committee has also been mindful of the likely future directions of Australia's financial system and their implications for ASIC's role.

2.15 The size and growth of Australia's financial sector and the fact that millions of Australians are involved in it, not least because of compulsory superannuation, makes it essential that modern and adaptable regulations are in place and regulators such as ASIC are at the top of their game. Although Australia's experience during the global financial crisis demonstrated that the regulation of Australia's financial system is fundamentally sound, there cannot be complacency about the effectiveness of the regulations in place and the performance of the regulators charged with administering them. As a key financial regulator, ASIC's role and performance should be of interest to all Australians.