

Financial Services – Opportunities in Asia

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Australian Government
Austrade



**Austrade will
focus on areas
of Australian
financial
services
capability**



Funds Management



FinTech



Technology disrupting the industry

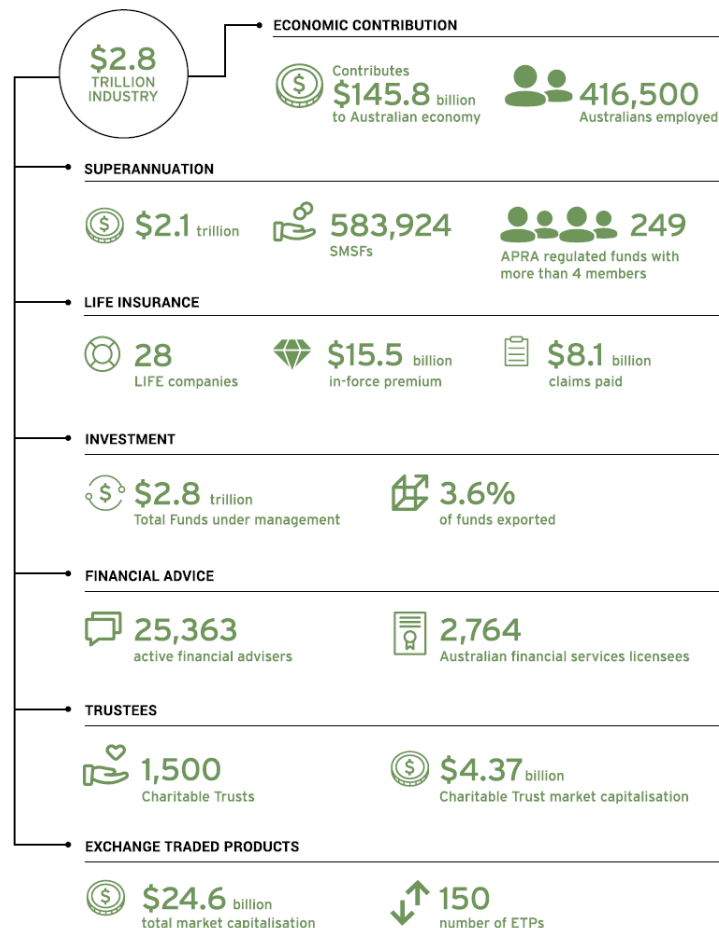


Growing demand for sophisticated financial products and services

FINANCIAL SERVICES IN AUSTRALIA

BACKGROUND – GENERAL

- In 2015/16 the financial services sector accounted for A\$146 billion of Australia's A\$1.7 trillion economy
- **One of the nations' largest employers providing for over 416,000 jobs**
- **Sector contributes 10.4% Gross Value Added to the economy.**
- 4th largest pool of contestable funds worldwide at A\$2.8 trillion
- Over 350 FinTech companies in Australia, many with global ambitions operating within a world class regulatory and policy environment



Source: 2017 FSC/UBS Asset Management State of Industry Report

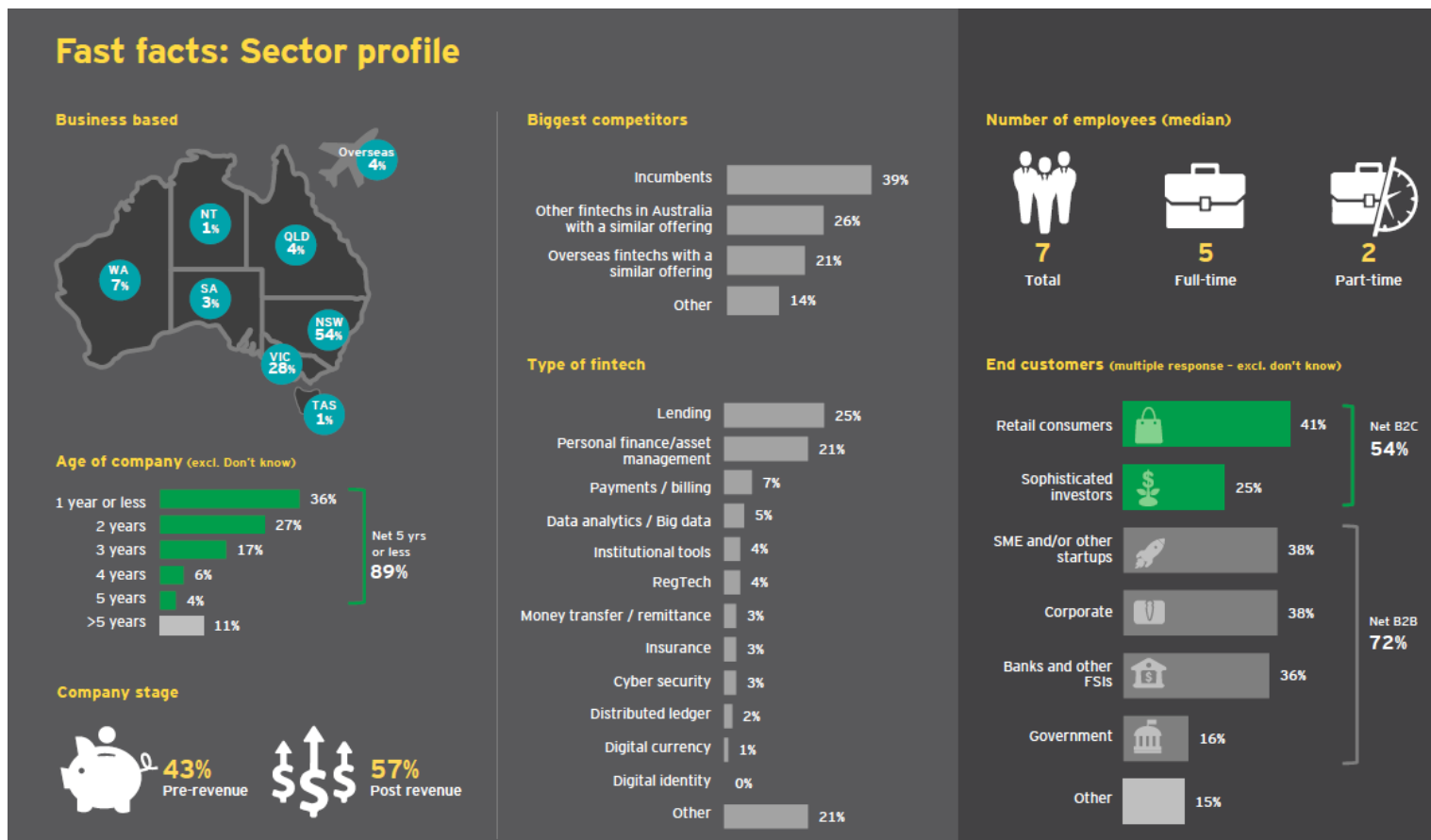
BACKGROUND

- Fintech is the number one industry subsector in Australia targeted by startup founders and investors.
- Australia had a total fintech investment of \$656m across 25 deals in 2016. This represented a major increase on 2015, which saw \$185m invested across 23 deals.
- Australia is the world leader when it comes to the adoption of contactless payment systems. Through Standards Australia & Treasury we are setting the global standards for blockchain transactions for the International Standards Association.



FINANCIAL SERVICES - FINTECH

BACKGROUND



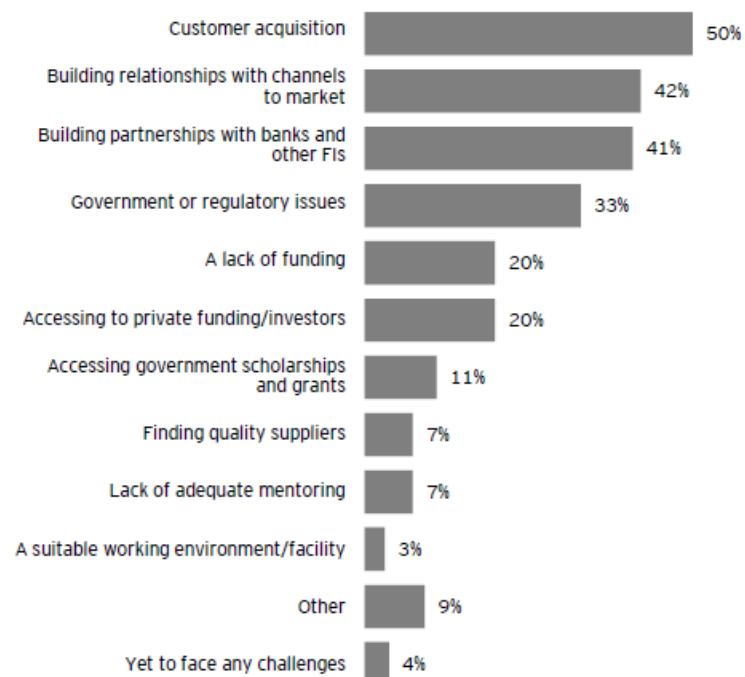
Source: E&Y/FinTech Australia Census 2016

ISSUES

Internal impediments



External impediments



Source: E&Y/FinTech Australia Census 2016

ISSUES

Key elements of Australia's potential competitive advantages are:

1. **Regulatory environment** – Australia's sophisticated and trusted regulation of financial services provides a solid foundation for the development of solutions.
2. **Advanced financial services industry** – advanced financial services and wealth management sector drives commercial expertise and develops opportunities.
3. **Access to Asia** – develop solutions then export to Asia
4. **The appeal of Australia** – high liveability of Sydney and Melbourne as financial capitals attracts and retains global talent.

Source: EY/FinTech Australia Census 2017



However – Fintech as per financial services is highly regulatory and policy driven. Asia is difficult to navigate with multiple jurisdictions, opaque regulations coupled with long lead times and need for greater scale.

ISSUES

- Current ASIC agreements – Kenya, UK, and Singapore.
- Interesting and potential Australian Government financial sector relationships within Fintech – Indonesia, Vietnam, Malaysia Thailand, S.Korea, HK, China and Japan.
- Australian Government Programs - Mekong Business Initiative & Australia Indonesia Economic Governance Partnership.



IDEAS

- Promote and lead the regional harmonization or best practice of fintech regulation and policy with financial sector government counterparts in Asia.
- Work with key industry associations to promotion alliances, especially within Asia.
- Provide the Australian fintech sector with market insight and opportunities from the Asia region, especially from more progressive financial institutions.
- Work with State governments, FinTech Australia, Australian Digital Currency & Commerce Association, Standards Australia and industry to promote a **Team Australia** approach to fintech promotion.
- Develop material and content to improve the international image of Australian fintech's sector using traditional and new media.



FINANCIAL SERVICES – MANAGING ASIA’S WEALTH

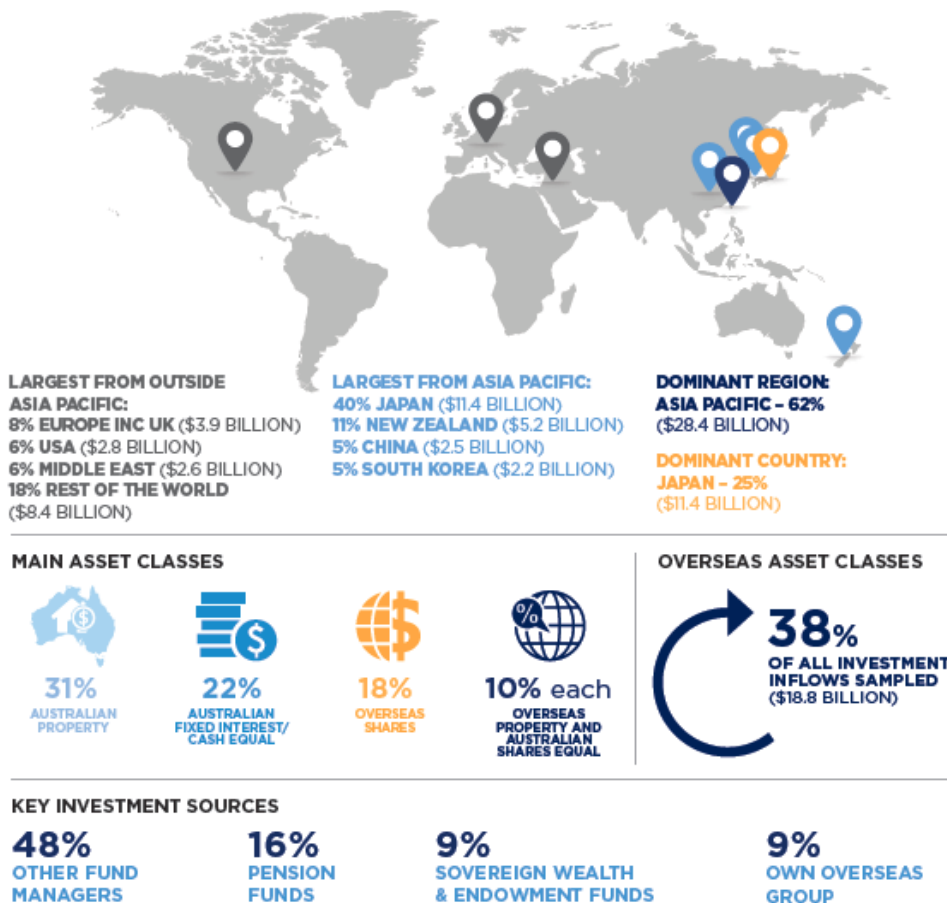
BACKGROUND

- Trade in financial services is small at just 3.6% of Australia’s \$2.8 trillion is from foreign funds.
- Demographic changes in Asia incl. ageing population, and demand for pension and savings products to match asset – liability requirements.
- Regional trade agreements with Financial Services chapters and the Asia Regional Funds Passport providing platforms for engagement.



FUNDS MANAGED BY AUSTRALIAN MANAGERS CONTINUE TO GROW

From \$20.3 billion at 1 January 2010 to \$46.0 billion at 31 December 2015
17.8% pa compounded

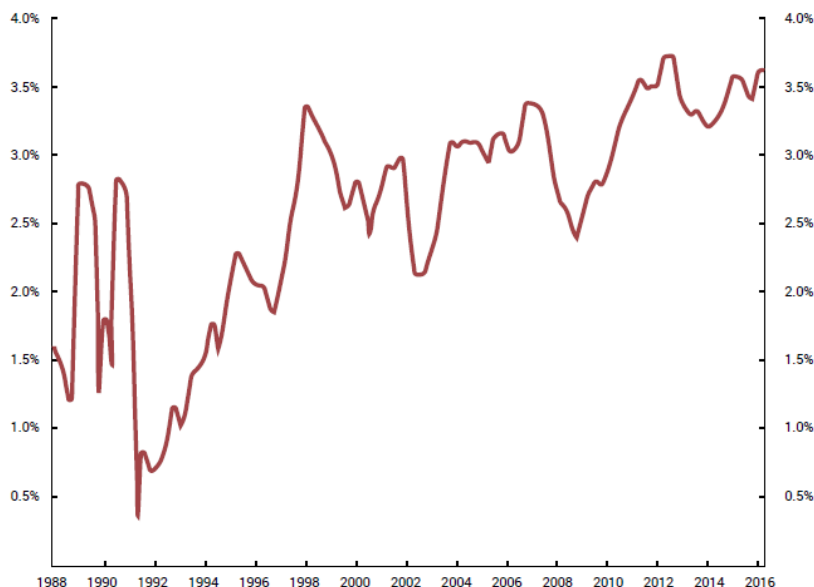


2016 FSC/Perpetual Australian Investment Managers Cross-Border Flows Report

FINANCIAL SERVICES – MANAGING ASIA’S WEALTH

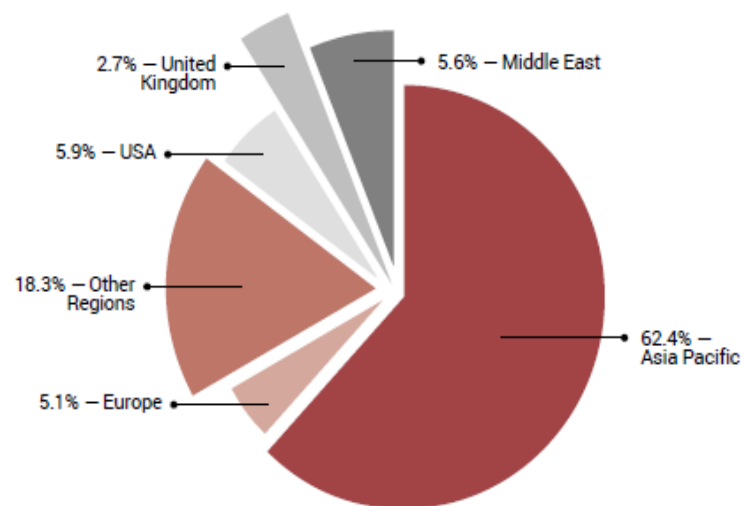
ISSUES & COMPLICATIONS

Funds under management on behalf of overseas investors as a proportion of funds under management in Australia



Source: ABS and FSC

Sources of funds in Australia as at December 2015



Source: FSC/Perpetual Cross Border Flows Report

ISSUES & COMPLICATIONS

APEC Asia Regional Funds Passport (ARFP)

- Mechanism to facilitate cross-border distribution of retail managed fund products across the Asia region. Key countries are: Japan, Korea, New Zealand and Thailand. Excludes China.
- Issues remain around implementation include withholding tax agreements and an appropriate Collective Investment Vehicle (CIV) that can counter the widespread UCITS vehicle, and high US\$500m threshold that excludes wholesale funds.

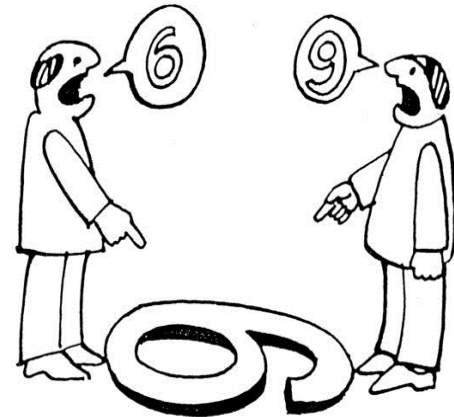
New World Order with ongoing disruption and nations seeking new dance partners.



ISSUES & COMPLICATIONS

Supply & Demand issues

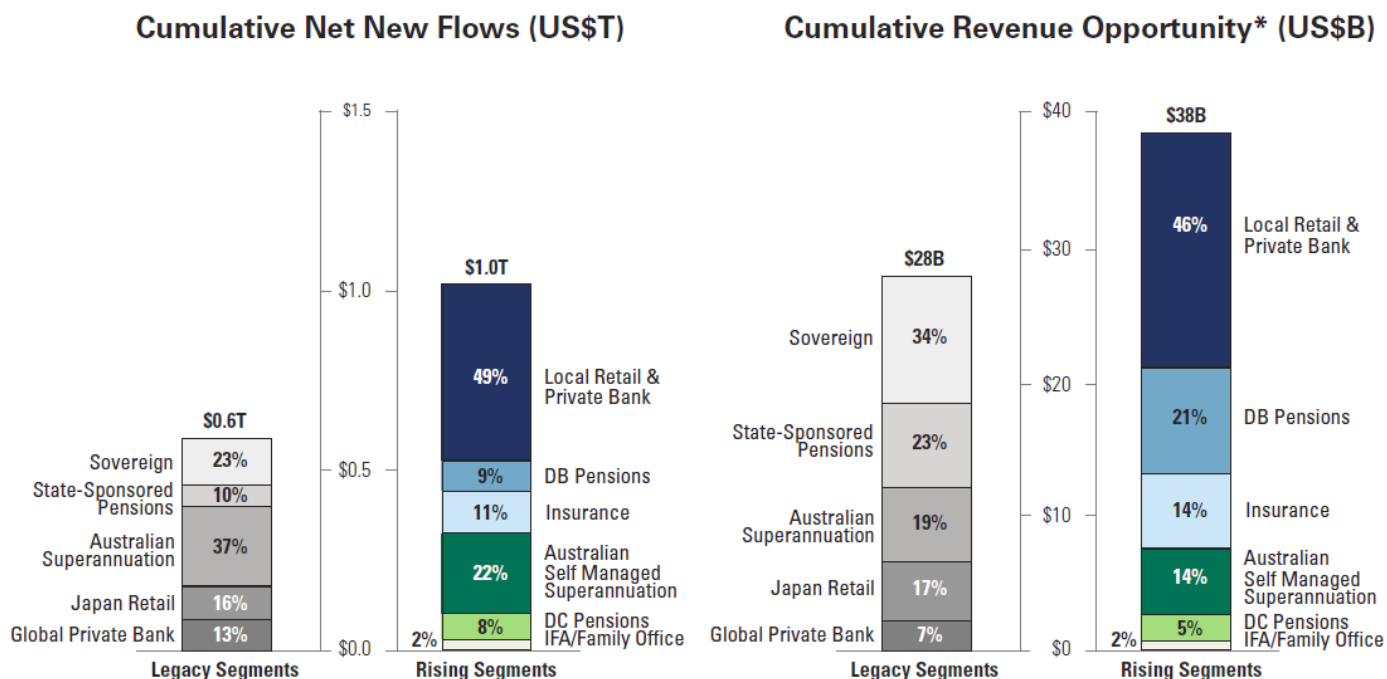
- Perception of Australian fund management capability by foreign institutional funds as well as competition by foreign asset managers.
- Lack of understanding of doing business in Asia as Australia's financial services sector is heavily domestic focused.
- Domestic taxation and fund vehicle structures considered either unfavorable or poorly understood – **BUT recent Treasury consultation paper on Withholding Tax options very positive!**



FINANCIAL SERVICES – MANAGING ASIA’S WEALTH

ISSUES & COMPLICATIONS

Asia-Pacific Asset Management Growth Metrics by Investor Type, 2014-2018E

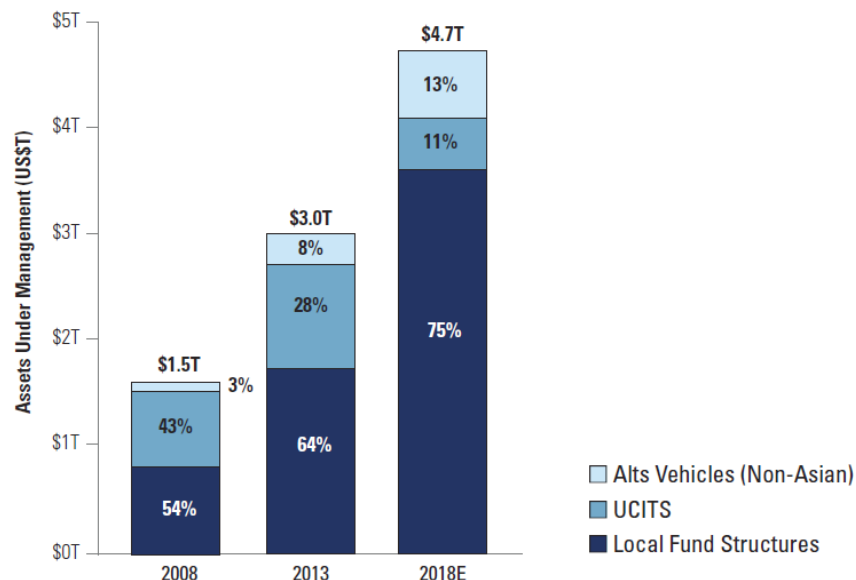


**Note: Revenue opportunity includes fees from manager turnover and net new flow. Source: Casey Quirk by Deloitte Analysis*

ISSUES & COMPLICATIONS

- Fund managers are approaching Asia with outdated growth strategies.
- Future commercial opportunities are shifting towards insurers, retail investors, regional private banks, and defined contribution pension schemes.
- Regional fund structures will dominate by 2018.
- Australian fund managers will need to have a strong geographic focus, targeted engagement models and operating models that suit local and international requirements incl. regulatory

Asia Pacific Fund AUM by Regulatory Structure



Source: Casey Quirk by Deloitte

ISSUES & COMPLICATIONS

Australia needs to leverage the current and under negotiation FTA's and the Asia Region Funds Passport to raise the profile of Australia's asset and funds management sector

“We do have a competitive edge in REIT's, listed infrastructure, unlisted infrastructure ... we are at the leading edge in the industry because of managing unlisted assets”

Australian investment manager



IDEAS

- Leverage the ARFP and FTA’s to engage in high level dialogues with financial sector counterparts in Asia.
- Provide the funds management sector with insight and market intelligence from key Asian markets especially Greater China, Japan, Korea, India and Middle East
- Work with State governments and the Financial Services Council to promote a Team Australia approach to promoting the export of the funds management.
- Engage with DFAT, Treasury, and other stakeholders to promote Australian corporate educational capability in funds management.
- Improve the brand and/or international image of Australian infrastructure fund managers in Asia using traditional and new media.



SUMMARY & CONCLUSION

Go Team Australia!



Thank you