



August 2003

## Contents

- Reorganisation
- Upcoming events
- Hot topic "The Wall of Money"
- Regional Financial Integration
- About the Roundtable
- Become a Member

## Reorganisation

The Roundtable has moved to new business premises and is incorporating as a not for profit company. The new Board of Directors will hold its first formal meeting shortly. Our new website is under construction

## Upcoming Events

23 September  
"International IT Outsourcing"  
hosted by the ACS  
Sydney

September (tba)  
"Debrief on 5<sup>th</sup> WTO Ministerial in Cancun, Mexico" Sydney

1 October  
"Implications of the AUSFTA for Government Procurement"  
hosted by Corrs Chambers Westgarth, Melbourne

30 October 9.30am – 2pm  
Engineers Australia Trade in Professional Services Forum  
Shangri - La Hotel Sydney

National Press Club Telstra luncheon (tba)  
Roundtable Media Launch  
Canberra

20 November 7pm  
Dinner in Honour of Thai Deputy Prime Minister Suwit,  
Shangri -La Hotel Sydney

## Hot topic "The Wall of Money"

Richard Humphry, Managing Director and CEO of the ASX addressed the July Roundtable on the subject of retirement savings.

Mr Humphry noted that the demographic waves in Australia and overseas, largely set in motion by WWII and the subsequent baby

boom, have been and will continue to be defining influences on our society and economy in coming decades. He said that one of the consequences is that we now face a sharp jump in the population of over-65 year olds and the increasing costs associated with providing for an increasingly dependent population. Currently less than 13% of the population is aged over 65. By 2022 the figure will be over 18% and by 2042 almost 25%.

Mr Humphry said that increased expenditure, related largely to the aging of the population and rising cost of health care, will put significant pressure on the budget balance. Treasury estimated that the fiscal pressure would be equal to close to 5% of GDP in around 40 years time.

According to Mr Humphry, this expenditure will not of itself generate stronger growth with which to finance the resulting liability over time. The cost of financing any consequent budget deficits in the future could fall squarely on the shoulders of future generations.

Australian Governments over the past two decades have



had a deliberate focus on retirement policy. The most significant example of this was the introduction of the compulsory superannuation regime as a step towards greater self-provision for retirement. Mr Humphry spoke about the “wall of money” that will be building in superannuation funds, that will be a key tool in tackling the challenges that arise with our aging population.

Although the growth in superannuation fund assets has levelled out in the past year, by the end of this decade the combined assets of superannuation funds will likely total well over \$1tn, up from around \$500bn currently. Net contribution flows are likely to add over \$200bn to the superannuation pool over this period.

Mr Humphry noted that trends in the financial position of the household sector in recent years give some cause for concern. The household sector’s (net) financial wealth has declined in recent years despite the positive flow of superannuation contributions. Household borrowing, which has been largely directed into housing

but also into consumption, has surged. At the same time investment returns have been mixed, tempering growth in financial assets.

Looking purely at financial flows, the household sector has gone from being a supplier of savings to the broader economy to a net borrower. In contrast, household (net) wealth, including real property, has held at solid levels, primarily on the back of the surge in house prices. Mr Humphry indicated that the level of financial savings by the household sector is likely to gradually recover as the housing upswing loses momentum and the returns on financial assets improve.

Mr Humphry felt that in time the flow of funds into superannuation, both compulsory and also voluntary, should stand as a dominant pillar in the structure of household financial flows going forward.

Mr Humphry concluded that one of the key age related challenges Australia faces is ensuring that we maximise our self-provision for retirement both through savings, including through superannuation, and through

maximising the return on those savings.

Another age related concern is that the slower growth of the workforce will inhibit the rate of economic growth.

To put this in context – in 2002 the workforce in Australia rose by around 240,000. In the decade ended 2032, the population aged between 15 and 64 is projected to grow by around 200,000 – that is 200,000 for the whole decade.

One way of cushioning the impact of demographic trends on the rate of growth of the workforce, according to Mr Humphry, is to attempt to increase the rate of participation, particularly of those aged over 50. This may require changing attitudes, changing work practices, and additional training initiatives.

Mr Humphry said that our long term economic health will still depend heavily on ensuring that we get the most from our labours. So a second key age related challenge going forward is – how to ensure that we are as productive as we can be?

The solutions to two key age related challenges are



linked, according to Mr Humphry. In order to ensure we earn an adequate rate of return on retirement savings and also do all we can to maintain real income growth in our economy, it is essential that we look to invest in a way that generates real productive returns.

In one sense Australia is not short of investment opportunities. The fact that Australia runs a current account deficit – ie we are a net borrower from the rest of the world – implies we are likely to grow financial liabilities at least as strongly as we are financial assets. Mr Humphry said this imbalance makes it even more important that our future savings are channelled into new productive investments, that will earn a return that can finance Australia's accumulating foreign liabilities, rather than financing ever increasing amounts of consumption.

He believed it is also important that financial markets engineer investment opportunities into financial assets that meet the needs of superannuation funds – that is, a mix of assets that

provide steady real returns over the long run, while still offering a high level of market liquidity.

Equities will remain a significant destination for investment funds. However Mr Humphry believed it is likely that the growth in superannuation funds over the coming decades will run ahead of the market capitalisation of the Australian equity market.

Mr Humphry contemplated what other investment opportunities could exist?

He said that in the long run there may be an increased issue of Government bonds, as the aging of the population adds to budget expenditures. The issue of government bonds will also often be a sensible way to finance economically worthwhile expenditures such as public investment in infrastructure and the like. However, age related fiscal pressures are not expected to become acute until well after 2020.

Australian superannuation funds will also continue to explore international investment opportunities. A trend towards overseas

investment by superannuation funds has emerged in recent years, in part motivated by a desire for portfolio diversification.

Mr Humphry suggested that the Australian financial system should also identify and generate new productive investment opportunities in what might be termed non-traditional areas. In this way the wall of money that will build in the superannuation system could both provide the return that retirees need and also assist in providing the type of investment that will sustain Australia's productivity performance in coming years, ensuring we continue to improve our standard of living. Developing new productive investment opportunities will also ensure Australia remains attractive as an investment destination for overseas capital.

Mr Humphry discussed the provision of economic infrastructure, education services and environmental improvement as possible future investment channels.

Identifying and developing productive investments is a task to be undertaken by the financial sector, in



partnership with the broader business community. The ASX has a role in this process. Australia's deep and liquid capital markets help ensure investors can obtain the liquidity they require.

There are also several important roles for government through the provision of the legal and regulatory frameworks within which the private sector can develop investment opportunities and by being open to innovative public-private partnership opportunities.

The full text of Richard Humphry's speech is available at <http://www.asx.com.au/shareholders/pdf/wallofmoney250703.pdf>

## Regional Financial Integration

By John Garnaut  
Unedited version of the story which appeared in the Sydney Morning Herald on 29 July 2003

The Parliamentary Secretary for Financial Services, Ian Campbell, has sought

to use the Singapore and US trade talks as stepping stones to regional financial integration.

"What I'm proposing is a framework for a single market of financial products in our region," Senator Campbell told the Herald yesterday.

"I just made sure that Mark [Vaile] is aware that an FTA is about more than just agriculture - he said go for your life."

The Asia Pacific accounts for 70 per cent of the world's capital markets, with Australia being the third largest in the region behind the US and Japan. An integrated market would enable Australia and regional nations to easily invest and borrow in each other's markets.

Last week, Senator Campbell told the Services Roundtable that Australia has pressed the US for mutual recognition of each other's investment regulations, during free trade talks. He has also asked the US to join Australia, Europe and "most countries in our region" in accepting

International Accounting Standards by 2005.

Senator Campbell said he will release a discussion paper in coming months showing how Australia can leverage its regional and American relationships towards a common financial market. The paper is likely to propose the Asia Pacific Economic Cooperation Leaders Forum be used to consolidate links that already exist between stock exchanges, central banks and investment regulators.

"I think we can drive it because we've got good relationships across the Pacific and great relationships in the region, although I don't think we should over-inflate our importance," Senator Campbell said.

## About the Roundtable

The Australian Services Roundtable, inaugurated in June 2002, is the peak business body representing the services industries in Australia.



The Roundtable consists of a very broad range of services firms covering financial services (banking, insurance, securities), the professions (consultants, accountants, lawyers, engineers, architects), health, education, environment and energy services, logistics, tourism, computer and IT, telecommunications, transport, standards and conformance, audio-visual, media, entertainment, cultural and other business services.

The Roundtable aims to stimulate informed policy oriented networking within and across the services sectors. Our key objective is to identify the domestic regulatory obstacles to international competitiveness and highlight the need for domestic policy reform.

The Roundtable is distinctive in its focus on the international dimension to services industry issues. We aim to contribute to strategies for negotiating services trade and investment issues in the WTO, APEC, Free Trade Agreements, including with the United States, and in other bilateral and regional arrangements.

## Become a Member

To find out more about the Roundtable, attend events, or enjoy Membership Benefits, contact the Roundtable Convenor.

Jane Drake-Brockman  
[jdb@tesol.com.au](mailto:jdb@tesol.com.au)  
mobile; 0404 83 1159

## Foundation Members

**Qantas Airways**

**MinterEllison**

**Corrs Chambers  
Westgarth**

**Arup Melbourne**

**Macquarie Bank**

**Abbott Tout Solicitors**

**Gribbles Pathology**

**Australian  
Telecommunications  
Users Group**

**Standards Australia**

**SAI Global Limited**

**The Cox Group, Architects**

**Service Providers Industry  
Association**

**Engineers Australia**

**Environment Business  
Australia**

**Australian Computer  
Society**

**IBM Australia Limited**

**Australian Tourism Export  
Council**

**Allen Consulting Group**

**International Banks and  
Securities Association**

**ICC Australia**

**PricewaterhouseCoopers**

**Australian Bankers  
Association**

**The Internet Society of  
Australia**

**School of Management,  
University of Western  
Sydney**

**Australia Council**

**Australian Film  
Commission**