



## GATEWAY INSIGHTS

March 2010

### # 14 Key insights and takeouts - The Asian Financial Forum, Hong Kong, January 2010

#### **To start with.....**

In late January 2010 Gateway Financial Marketing (Gateway) took the time to attend the Asian Financial Forum in Hong Kong. We were part of a delegation of Australians led by David Thomas from Think Global Consulting. As well as the attraction of attending a Forum with over 1600 attendees all of whom were financial services professionals from around the region, we also went with the aim of exploring what Australia looks and feels like as a possible business destination for Asian based asset managers. In this Insight we'd like to share with you our thoughts on this as well as key takeouts from a high quality, influential and extremely well informed line up of speakers. This included global economists, financial markets commentators, politicians and regulators. As an overall summary the Forum had a strong focus on topical issues including the rise of China and its impact on the global economy, as well as the opportunities and challenges arising from China's growth for all players in the region. Our key takeouts are summarised below.

#### **Opportunities – Australia vs China**

The overwhelming focus of the Asian region at the moment is China. The key theme of the Forum with regards to China and Hong Kong was the notion of "one country, two systems". Hong Kong is positioned as the international gateway of China and Shanghai is positioned as the domestic centre. So comments on China made by some of the presenters were aimed at mainland China as opposed to Hong Kong. Donald Tsang, president of the Hong Kong Administration Region Centre summarised this focus by saying "the global economic focus is shifting from west to east, starting with China".

Almost all commentators mentioned and recognized that Australia has a strong economy and a well regulated and substantial financial services market due to our mandated superannuation system, but (frequently they believe) even greater opportunities exist in China and the surrounding regions. There is a view by some that there is not the time, nor proximity for Australia to be a priority for attention. The Australian opportunity is saleable however and we found that the following messages were of particular interest to asset managers and investors in Hong Kong:

- The “Mutual Recognition Agreement” which was recently signed between Australian, Hong Kong and Singapore regulatory authorities now makes it easier than before to deal with the red tape of funds licensing and distribution between regions.
- Australian economic growth is positive and one of the strongest in the western world.
- The Australian Government, through the release of the recent Johnson Report, has signalled that it wants to create a financial hub, and is encouraging fund managers to consider Australia, including mooted changes to taxation status. Minister Chris Bowen was one of the presenters at the Forum and also attended a private briefing for the Australian delegation, where he talked about the importance of the Johnson Report going forward.
- Australia has one of the largest pension markets in the world, currently at A\$1 trillion. This is underpinned by Australia’s mandatory superannuation system. Currently this pool of assets only has 28% of funds invested in offshore funds. Whilst domestic players are trying to build offshore capability some do not have as much local experience and credibility as some offshore businesses specialising in this area.

### **The China growth story**

Professor Liu Mingkang, Chairman of the China Banking Regulatory Commission made comment that China is very satisfied with the way they have managed growth in the past decade and more particularly through the global financial crisis. This raised some alarm bells with us! Credit growth is at capacity, investment ratios are huge and both these factors are likely to dampen consumer demand in China? In addition there is overcapacity in steel, cement, aluminium, and manufacturing. However, to date China appears to have done everything right, there is a recognition that fiscal policy needs to be tightened, the right noises are being made elsewhere, we shall wait and see.

Dominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF) stated that in the IMF’s view global economic recovery has been lead by Asia and this is happening faster and stronger than first anticipated, mainly in China. He went on to say that this region will have an even greater role to play going forward. As China has opened its economy (China and ASEAN are now major trading partners), it has been frantically engaged in catching up with the rich West. This has led to the idea, even among many Chinese, that it will gradually become more ‘western’. The financial crisis has undermined that assumption and goal. Many Chinese now feel that ‘decisive authoritarianism’ is the way to go rather than democratic debate.

Australia has stated that they want to be a financial hub for the Asian region. In our view, it is unrealistic to expect that both geographically and culturally Hong Kong, Singapore or even Guangdong Province in mainland China wouldn’t also be vying for this role. However this doesn’t mean that Australia can’t add value in areas in which it has specialist financial expertise. Areas that we identified are:

- Compliance and risk management
- Provision of financial advice
- Marketing of fund management services
- Funds management research

## **The recovery is still fragile**

An overwhelming takeout from the Forum was that the pain is not over yet. As Governments around the world acknowledge the need to pull back from stimulus spending, what effect will this have? When is the right time to exit? Will an early exit risk a double dip? Will everyone forget the lessons learnt? Or will there be new sources of growth from this crisis? The IMF's view is that those that will emerge the strongest will be 'emerging' countries including China and other Asian countries. The view of almost all speakers was that 2010 will be a difficult year.

Interestingly, there was little recognition that Australia had weathered the financial crisis amazingly well apart from by Professor Nouriel Roubini, a Professor of Economics from NYU's Stern School of Business. He did note that Australia had done a good job but to also beware of the effect of the withdrawal of government stimulus packages.

## **Regulatory reform needed**

Dominique Strass-Kahn made comment in his opening remarks that a lack of regulation and supervision around the world was the root of the financial crisis. This was echoed by Professor Liu Mingkang as well who commented on the importance of firewalls in all organisations and that regulations need to "get back to basics".

Norman Chan, CEO of the Hong Kong Monetary Authority was convinced that Asian financial institutions have learnt from the financial crisis and gave as an example, that in Asia the non-bank financial sector had done much better than those counterparts in the west. He sees the continued growth that the east is currently enjoying is due to the stability of the banking sector. He went so far as to claim that the Regulatory Authorities in China are totally focused on the ongoing regulation of the banking sector – not a view necessarily shared with all of the audience.

Dr Gerald Corrigan, Managing Director, Goldman Sachs and former President, Federal Reserve Bank of New York cited there were six critical factors in the arena of financial reform. He prefaced these factors by saying that completing the agenda for financial reform will not be easy. These critical factors are summarised below:

1. Systemic regulation – which in his view is much harder to implement
2. Capital and liquidity standards must be raised over the next few years and it should be considered a 'single discipline'
3. Enhancements in risk "monitoring" vs risk management
4. "Too big to fail" – individual organisations need individual stress testing done on them
5. A need to strengthen financial 'infrastructure'
6. There needs to be a flexible and effective framework for the orderly wind down of large institutions should they need it

## Other developments

Throughout the region there is talk of the concept of a financial 'passport' or 'Asian passport' which would recognise regulations in other Asian regions and cut through a lot of the red tape experienced by fund managers and other financial services providers subject to certain provisions. This concept has a great deal of support and will facilitate cross border capital flows and is widely documented in the Johnson Report. Please refer to Insight #16 for full details on the Johnson Report.



Finally a couple of 'doing business matters'

- Whilst our focus was on the importing of financial services into Australia, Think Global Consulting ([www.thinkglobal.com.au](http://www.thinkglobal.com.au)) is a fantastic resource for Australian companies wanting to explore opportunities offshore, particularly in Asia. Please contact us if you would like us to facilitate an introduction to David who has a long established network of contacts in the region and can assist in all of the relevant areas.
- A new Australasian Financial Forum has been established by David Thomas to maintain an ongoing dialogue amongst Australian financial services companies with an interest in participating in the business, investment and trade opportunities arising within the Asia Pacific region. The inaugural meeting of the Australasian Financial Forum was in Sydney on Wednesday

10th March 2010. To reserve a place, or express interest in attending a future session, please or email [support@thinkglobal.com.au](mailto:support@thinkglobal.com.au) or Gateway.

- Hong Kong is a great place to do business, it is easy to navigate and get around, most people speak English and it is very centrally located to the rest of Asia, so if you are interested in opportunities in China, maybe try Hong Kong first.
- We recommend that you consider attending the Asian Financial Forum in January 2011 as a member of next year's Think Global delegation. Please let us know if you are interested in being added to the list to receive further information as it is released.

#### About Gateway

Gateway Financial Marketing (Gateway) was established in February 2004 by Amanda Rethus and Edwina Best for the purpose of offering fund managers, other product providers and international new entrants, expert advice, services and assistance in negotiating entry into the Australian Retail Financial Services market. Use of Gateway's services provides the opportunity for clients to overcome the hurdles that can often confront fund managers when transitioning from institutional to retail and hence improve participation in retail funds flow. Prior to Gateway, Amanda and Edwina spent over 30 years combined with major institutions in the Retail Financial Services market.

#### Our qualifications

Amanda has over 20 years experience in the Financial Services industry and was formerly a Divisional Director in the Financial Services Group of Macquarie. Amanda managed investment portfolios for over 10 years, and has spent in excess of 10 years introducing investment products to the Australian Retail market.

Edwina has a Bachelor of Business from UTS majoring in Marketing and International Business. She has over 12 years experience in the financial services market, concentrating in relationship management, product management and marketing. They both have extensive contacts in the retail financial services market especially with key decision makers.

If you would like to confidentially discuss your current approach to the retail market or have any questions on the above please do not hesitate to contact us on – Edwina 0404 046 179 or Amanda or 0414 658 323.