

## **Financial System Inquiry – Draft Terms of Reference**

### **Submission by David G Mayes, University of Auckland**

1 The terms of reference are comprehensive and well thought out so the two suggestions below are minor by comparison

2 The inquiry sounds rather inward looking. If the financial system is to meet Australia's evolving needs and support Australia's economic growth it needs to consider Australia's economic role in world, particularly as a regional power. It therefore does not make sense to consider Australia without New Zealand, as over the coming years closer integration of the two financial systems is to be expected. Indeed one of the areas where there has been less progress than expected is through the Trans-Tasman Banking Council. A common regulatory basis would help the strength and efficiency of Australian financial institutions and the Australian financial system in supporting the Australian economy. Conversely, problems in New Zealand would have an adverse effect on Australia given the common banking system and close links. Australia needs to be confident that its financial institutions will function well in both markets.

3 Australia has set some store by being a regional financial centre. The Inquiry should therefore also focus on how the financial system itself could contribute to Australia's evolving needs and support Australia's economic growth. It is likely to be part of that growth and the relative position, with respect to Singapore and Hong Kong in particular will have an important impact on Australia's competitiveness, its access to capital and the degree to which both outward and inward direct and portfolio investment support the growth process. The financial sector is not just a handmaiden of growth elsewhere in the economy but an inherent part of that growth as it may well outperform many other traditional sectors.

4 Lastly it is surprising that little is said specifically about the superannuation industry given its large and increasing role. It is likely to be as important a threat to stability as other parts of the financial system revealed in the global financial crisis, whether in terms of the funds themselves or the explosion of products such as annuities that will be required to turn investment into stable sources of retirement income. Threats to the system usually come from new directions. We tend to learn from previous mistakes and hence a further focus on the problems shown up since 2007 is probably unnecessary as that is being handled in great depth both in Australia and internationally

5 I hope this helps and I am happy to play any role you find useful during the course of the enquiry. I am a member of the Joint Shadow Financial Regulatory Committee for Australia and New Zealand and Professor of Banking and Financial Institutions at the University of Auckland.