

**PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

**Inquiry into budget estimates 2009–10**

Melbourne — 12 May 2009

Members

Mr R. Dalla-Riva  
Ms J. Huppert  
Ms J. Munt  
Mr W. Noonan  
Ms S. Pennicuik

Mr G. Rich-Phillips  
Mr R. Scott  
Mr B. Stensholt  
Dr W. Sykes  
Mr K. Wells

Chair: Mr B. Stensholt  
Deputy Chair: Mr K. Wells

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Executive Officer: Ms V. Cheong

Witnesses

Mr J. Lenders, Minister for Financial Services,

Mr P. Collens, Executive Director, International Investment, and

Mr H. Moor, Manager, Financial Services, Department of Innovation, Industry and Regional Development.

**The CHAIR** — I welcome Mr Peter Collens and Mr Hugh Moor. I now call on the minister to give a brief presentation of no more than 5 minutes on the budget estimates for the financial services portfolio.

**Overheads shown.**

**Mr LENDERS** — Thank you, Chair. We always leave the best until last. Financial services is the third-largest industry in Victoria. It is 9 per cent of the state's economy, it directly provides \$23 million in GSP and more than 90 000 jobs and indirectly it adds further to GSP and adds a lot more jobs. So it is a big part of where Victoria is. Two of Australia's four major banks are here in Victoria — we have the ANZ and the NAB here. In addition to those two larger banks, we have a series of innovative regional banks. Clearly in that category Bendigo Bank and Members Equity Bank are the two that symbolise those innovative regional banks.

We are also the home of major industry funds. The Future Fund, the VFMC, which I have already talked about today, are all headquartered here in Victoria. We also have very strong regional insurance players. We often look at insurance companies and see Sydney as the heartland of insurance, but we forget that a lot of the innovative niche is in Melbourne. Whether it be the WorkCover authority or the TAC, both of them are leaders in risk mitigation and claims management, and they are based in Melbourne. Whether it be Medibank Private or health, we have a lot of niche insurance in Melbourne. We should not always concede that Sydney might be the place, because Sydney does general insurance but Melbourne does a lot of the niche insurance.

We have a critical mass in skilled workforce. We have, as I have mentioned, the centres of excellence in the VFMC and the TAC, and of course the Future Fund has been located in Melbourne. Between the FMC and the Future Fund and the largest private pension funds we are actually the centre of funds management.

Coming up on the screen is a series, just to highlight some of the companies we have here. As I said, we have the Members Equity Bank, innovative — and superannuation leveraging off it, the TAC, Medibank, AAMI, WorkSafe, and then a series of international fund managers, whether they are some of the really old established ones like Franklin Templeton, which has an operation here with \$2 billion in funds management, or, as I said, the Future Fund and a range of others.

If we go through some of the challenges, clearly the global financial crisis started in the finance sector in the United States. It has certainly hit London like a sledgehammer — the financial services sector in the UK has certainly been hit. It is affecting financial services across the globe. That is clearly a challenge that faces financial services everywhere, but Melbourne and Victoria are well positioned to go forward because of the strengths we have.

We have some challenges with commonwealth taxation and regulation, and we are working on them on a commonwealth level. We have some challenges with distance — there is a range of issues. There are a lot of challenges before the financial services sector, but there are also a lot of opportunities for Victoria. We have a lot of the boutique funds, and we certainly have the critical mass of pension funds: the value of one-quarter of the world's private-sector pension funds is in Australia. A lot of that is a legacy of those years in the Hawke-Keating government when the 9 per cent superannuation phased in, which many other countries around the world are seeking to do. We often do not see that statistic, that the fourth-largest amount of private pension funds anywhere in the world are managed in Australia.

To go forward, we have a financial services statement that we will come up with later this year, that we have pledged to do. It will build on the strengths going forward. We have dealt with a range of issues in investing going forward. We have certainly put a fair amount into the Melbourne Centre for Financial Studies over time that builds on that. There have been more than 60 research projects done, and to date more than 70 events have gone through that particular area.

In the Victorian industry and manufacturing statement last year we outlined some of the financial service priorities, which I have mentioned. They include pension funds management. Carbon markets is a real opportunity for Victoria going forward. It is a new area of financial services that is a niche that we can take advantage of in Australia. There is a range of issues, including e-security and venture capital. We led in Australia with legislation to make venture capital easier through amending legislation back about three or four years ago, and there is a range of areas, including the APEC financial centre, that we can work with.

Going forward, we have also helped to fund the Mercer index, which I announced at a financial forum, that I think from memory that Mr Wells, Mr Dalla-Riva and Mr Rich-Phillips were all at. We had a forum where that was announced. We can highlight the strengths of our pension funds, our superannuation funds worldwide, so we need to leverage off our reputation. Going forward, we need to enhance the business environment of the sector. We can do that by flexible rules, low regulation — a lot is in commonwealth hands. We can boost financial services through research and education, and we can build a profile where we go around the world.

In January a year and a half ago, I went to China. The thing that would grip the imagination of anybody in any financial market in China was the fact that we have had compulsory private pensions in place since the mid-80s. It gets the attention of people everywhere.

**Ms MUNT** — And the USA.

**Mr LENDERS** — And in the USA, as Ms Munt says, and across the world, because have led in this area. So there are a couple of niches that we certainly have. We need to promote strongly Victoria's strengths. If you are someone contemplating in the Australasian context whether you set up in Sydney, Brisbane, Auckland or Melbourne, you can get square metreage in Docklands for 40 per cent of the cost of square metreage in Pitt Street in Sydney. There are a lot a very strong financial advantages. We have skills, we have a range of things in Victoria. We need to promote them to encourage more financial services to come here because they are almost 10 per cent of the value of our economy. They are a classic area that suits the skills of our population and, I might say, despite the chill winds of global change that are affecting financial services everywhere across the world, Victoria's sector has remained far more intact compared to when you cross the border north or you go internationally. That is the strength of Victoria and the people and the companies that work in that particular area.

**Ms HUPPERT** — In your presentation, you talked about the challenges facing the finance sector due to the global financial crisis. I notice that in budget paper 3 on page 16 down at the very bottom it talks about an allocation of \$1.2 million over four years for financial services initiatives. Could you expand on the action being taken to develop the financial services sector?

**Mr LENDERS** — I thank Ms Huppert for her question. I mentioned before pension funds management. This fits into a lot of the particular issues going forward. Pension funds are a great Victorian strength; there is no question of it. We have, I think, 7 of the 10 largest pension funds here, and I mentioned before that in Australia we have the fourth largest in quantum in private pension funds across the world.

It is an area of great strength to us. Yet, if people are looking internationally at making investment decisions, unless we actually tell the markets and tell the world about that, they are not going to know about it. Part of our joint project with Mercer is to have an international pensions fund so that we can start looking at where Victoria lines up with Singapore, North America, Europe — a range of other places — to show that there is a lot to learnt from here and reasons why people should invest here, have offices here, work through this area.

It is one of those issues where in this particular area it is a modest investment from the state. Often the scene is set very much on the indices that are around. We all talk about the livability index that goes out about the world's most livable city. It focuses minds on it and suddenly the index is there and people start focusing on Melbourne, in this particular case, as a livable place. Similarly with the pensions index. It is an area where we can go proactively out there and do particular work. Carbon markets are an area that we can certainly work on, and e-security and venture capital. One of the stabilising features in these very uncertain global times is that we have a very stable financial services sector. Data is relatively secure, compared with the rest of the world. We have boutique managers and we have managers who are often accused of being conservative but in difficult times we have come out of this relatively well.

An interesting anecdote, Chair, is that the Rabobank is the only AAA-rated private bank left in the world. It is a Dutch bank. It comes off a good Dutch farmers' coop, so I have an affinity with the Rabobank and I have a number of relatives who work for it in the Netherlands. There are 11 banks left that are AA or more; Rabobank is the only AAA private bank left in the world. It is interesting that the senior executives of the Rabobank, I am reliably told, are going through their teledexes and ringing all those doubters over the last 10 years who said they were too conservative, why were they not being more ambitious et cetera — because they have come out of this process the envy of the financial system.

Melbourne has a prudent reputation for risk mitigation. I mentioned before the TAC and WorkCover, Chair. I think it is fair to say that Victoria and Sweden are probably the world leaders on risk mitigation in transport. There is a long, rich history in Victoria since 1970 when the state decided collectively that enough was enough with the carnage on our roads; we had to do something about it. We have the WorkCover authority., I am not making political points on this, but most other jurisdictions look to Victoria with some envy. They say injuries are down in workplaces, therefore premiums are down — claim management and injuries are going down. So there are a lot of risk mitigation things which run through the entire financial services sector. It is a long response to Ms Huppert's question but there is a range of these areas that we can work on.

The final one I will touch on is the Docklands precinct. Docklands is a great success story for Victoria and Melbourne on financial services organisations moving down there, whether it be two banks, whether it be ATSA, whether it be Bendigo Bank — three banks — or whether it be the other services that are down there, it is a good location. If you are someone who is on the road around Australia and can choose to live in Melbourne, Sydney or Brisbane, Docklands has great proximity to the airport, if that is the way you go. It has great communications. It has custom-made, new, innovative and green buildings. It is a good place to work.

**The CHAIR** — It has trams as well.

**Mr LENDERS** — Indeed.

**Mr DALLA-RIVA** — I refer the minister to budget paper 3, pages 16 and 17, in relation to building our industries for the future, which was announced, as he indicated in November last year. I note also in budget paper 3 at page 326 the allocation of \$1.2 million directly to the financial services initiatives over four years, given you have indicated in your overheads that it represents 9 per cent of the state's economy. The question really relates to the amount of money that is directed, given the money that has been thrown at other industries.

From the \$1.2 million over the forward estimates, and given that it is under creating jobs, exactly how many jobs and how many export dollars have been generated to date as a result of this initiative, and how many jobs and how many export dollars in this program are projected to be delivered for each of the years that it will run? Further to that, while we are on that particular issue, if that is not the case, are any of those moneys from the financial services initiatives being used to propping up the Melbourne Centre for Financial Studies and, if so, how much?

**Mr LENDERS** — Chair, I thank Mr Dalla-Riva for his multifaceted, comprehensive series of questions that he raises on what in budget terms is actually a very modest line in the budget. I congratulate him on drawing as many strings on the bow as is humanly possible.

**Mr DALLA-RIVA** — I am trying to get as many in as I can. They are on the same issue, though.

**Mr LENDERS** — There are a couple of things. I guess opening up personally, in industry support the government has a series of choices. I do not think you measure success in industry support by the amount of money you put into a particular area. That is a measure people could use. Another one is what leveraging you make and how you take best advantage of where a state is. Clearly for us, in any of these financial services initiatives, creating the environment for having financial services here for a starting point is as significant as any money you put into a particular project or a chair at an academic institution.

Having the environment where we have high year-12 retention, having the environment where we have courses at our major tertiary institutes that actually provide financial services skills, having the environment where banks and financial institutions will come and operate out of Victoria because we have lower congestion in our inner urban areas than, say, Sydney does, having the environment where you can get to an airport more quickly and back if you are footloose, having the environment where if you are a bank and the manufacturer of credit cards and things is in Melbourne and do you want to have the other part of the organisation there, having the environment where you have the pension funds present and therefore things can be leveraged off them — they are all critical things that go to the strengths of our financial services sector.

The challenge for government then is: how do you leverage off that and make further decisions going forward? That is a significant part. The funding for particular chairs, the funding for particular projects, all leverage and help in the skills sector. You say we might be propping up a centre at a university or tertiary institution, for us

the skills and the work that come out of a tertiary institution are a part of the story that makes Victoria attractive. It is a part, as is cheaper floor space in Docklands than in Pitt Street.

It helps us leverage beyond that. It is what industry puts in — the leveraging in work. Often an innovative idea is what starts us going forward. There are a range of things that are in place that we have with the institute, the Melbourne Centre for Financial Studies. There are a range of initiatives we have in place which all build on that particular competitiveness. In the end the financial services are a private sector. They are industries that we seek to grow here. We seek to show the opportunities we have, so I do not think we are propping anything up. In fact we are leveraging with private sector in adding strengths to Victoria that are enhanced by our contribution.

Innovation in Victorian financial services is quite interesting. It is not my role to praise one bank or another, but the Bendigo Bank model and the community banking model, for example, is an innovation. I know the Chair here is on the board of the community banks, so I probably need to be careful I do not cross over a conflict of interest or whatever. But the innovative form of banking by itself has actually added to the GSP of the state of Victoria, let alone the extra services it has provided, the innovation it is provided in the model that has been rolled out across the country.

They are the sorts of strengths. We will facilitate what we can in those areas, but they are things that are fairly unique to Victoria. Bendigo Bank is actually a great model of community banking. Think of the insurance sector: if there is a lack in an area of product, if we go back to the insurance issues of, say, 2002–03, there was no innovation in that sector like there has been in banking. Bendigo Bank has people chasing it to move into their communities and operate businesses in partnership. That is Victorian innovation. It happens in dozens of other areas. That is probably one of the flagship areas.

**Mr DALLA-RIVA** — Chair, can I just put that on notice, because it does relate to the number of jobs.

**The CHAIR** — No problems.

**Mr SCOTT** — Treasurer, I refer you to your presentation and budget paper 3, page 16. Your presentation mentioned attracting the carbon market to Melbourne as a priority. What work is under way to bring the carbon market to Melbourne?

**Mr LENDERS** — I thank Mr Scott for his question about the carbon markets. This is, again, a classic area where there is a potential to grow jobs.

**The CHAIR** — World Vision actually advertised for a position in this the other day.

**Mr LENDERS** — Clearly with the carbon market — carbon cap and trading, the whole concept going forward — there is going to be a growth industry in this area. We have carbon markets at the moment, we have a few around the world. There are ones in the US, which obviously have been where people opt into them, those who want to be ahead of the legislative scheme in the US.

There are some in Europe that clearly leverage off the rules of the European Union in carbon cap and trade. For us the opportunity here is we have a national government that will bring in a CPRS in the years ahead. That project has slowed down a bit with announcements recently the commonwealth has made. The reality is it will come.

The commonwealth correctly is using the market mechanism to try to deal with cap and trade of carbon, going forward. There is an opportunity for us to go forward, to say, ‘What can that do for jobs here in Victoria?’. There is an opportunity. If we have a hub, if we get the regulator here, if we get some of the trading here, it builds on itself, with the analysts, the providers, a range of other people who will also seek to work off that.

**Dr SYKES** — Layers upon layers of bureaucracy.

**Mr LENDERS** — Mr Scott asks what the state is doing. We clearly have an active interest. One of my first acts as acting minister for industry was actually to chair a meeting that my predecessor, Mr Theophanous, had gathered together of a whole lot of interested parties across Melbourne to see what we could actually do. We have had two subsequent meetings of that task force, going forward — what government, academia, industry can do together to attract these jobs to Melbourne.

Firstly, we need to have a mindset which actually says, 'We welcome and embrace this going forward as an opportunity'. We do not say, 'It is all too hard'. We actually say, 'How can we move forward and do things?'. There have been a series of actions that have arisen out of it. We are clearly seeking to get the regulator from the commonwealth based in Melbourne. We have certainly been looking into feasibility into a cooperative carbon market institute coming into Melbourne. We have sort of then formed a network. We have also been released already a carbon market services guide. All of those put Victorian businesses and citizens in a position of more information than they otherwise would have. If information is out there, the work is being done out there, we are more likely to attract those various parts of the carbon trading and capping system in place and the jobs that come to us through that.

The world is moving in this direction. The election of the Obama administration is probably the single largest move that has happened in a long time in this policy sense. People put their heads in the sand and hope it goes away. It is a legitimate argument over the transition — a very legitimate argument affecting a state like Victoria. It is a very legitimate argument as to the timing, as to how gentle the start is. There will be differences in this particular area, but there is a real opportunity here for us to leverage off the changing policy settings of the commonwealth, the changing focus of the world. This will be jobs for Victoria if we can get this balance right. I look forward to the challenge.

**Ms PENNICUIK** — Will it actually reduce carbon emissions? But my question is not actually on that. It is to follow up, Treasurer, on the remark you made regarding WorkCover premiums. You made a remark that WorkCover premiums have reduced because injuries have reduced. You know my background in occupational health and safety. That is a long, ongoing conversation. My question is: don't you really mean compensated injuries have reduced? Certainly the data that has been around for the last decade is that the actual injury rate is a lot higher than the compensated injury rate.

**The CHAIR** — Insofar as it relates to your portfolio, Minister?

**Mr LENDERS** — As the former WorkCover minister, I would be delighted to have that off-line, long conversation with Ms Pennicuik on this issue.

**The CHAIR** — And I would as a former parliamentary secretary.

**Mr LENDERS** — That is right. And her as a former OHS officer with the ACTU. From my view, as far as it affects the budget and where we are saying Victoria is a centre of excellence, however one measures it, we have seen premiums come down — four lots of 10 per cent and then 5 per cent.

We are seeing, as part of the OH & S act of 2004 or 2005, whenever it was the new act went through, a reduction in injuries. The issue is whether it is compensable injuries or injuries, but our workplaces are, from the government's perspective, becoming safer, but

I guess in the context of the financial services presentation, if you measure OH & S regimes and you measure the WorkSafe authority and the like, ours compared to I think almost any measure, certainly compared to Comcare or certainly compared to the other state schemes, is one where the costs to employers is down. I think as far as benefits go, the only one that is a cheaper scheme as far as costs to employers go is Queensland, and quite frankly you would not want to be injured in the state of Queensland. If Ms Pennicuik has issues here, Chair, if you have to get injured anywhere, Victoria would be a better place than Queensland — not that I am advocating that anyone gets injured anywhere, but in the sense that compensation is certainly more generous here.

We certainly see it in the context of the financial services portfolio. Other jurisdictions are looking at the Victorian scheme to see from their perspective how you can reduce the number of injuries, and they see the Victorian scheme as a good one for that, and also the view as to how can your claims management be more efficient. Claims management is always a challenge. There are two completely different perspectives from the employer to the employee, but it needs to be one that is certain, it needs to be one that is prompt and it needs to be one that has a sound policy foundation underneath it.

So I would suggest — and I follow your guidance — we need to stray not beyond the financial services portfolio here, but it is a conversation I would be delighted to have, and I am sure Ms Pennicuik could also have with the WorkCover minister, and he would be delighted to have a discussion with her in this forum as well.

**The CHAIR** — Thank you very much for that, Minister. That concludes consideration of the budget estimates for the portfolios of Treasury, information and communication technology, and financial services. I thank the Treasurer and departmental officers for their attendance today.

Where questions were taken on notice — and there were a number of those — the committee will follow up with you in writing at a later date. The committee requests that written responses to those matters be provided within 30 days.

In respect of the commonwealth arrangements which we hope are coming out tonight, the Premier did promise to try and get those to us as quickly as possible. Thank you very much.

**Witnesses withdrew.**