

Deborah Ralston - THE INTERVIEW

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The director of the Melbourne Centre for Financial Studies hopes the new year brings a closer relationship between industry and the academy - and a careful approach to post-GFC regulation.

The centre was established in 2005 by Melbourne's key universities and the Victorian government to promote links between "town and gown". How would you describe its progress to date?

The centre was set up to link the finance industry, government and the universities, especially in Melbourne, to promote excellence in financial services. I think we've put some runs on the board in terms of facilitating rigorous industry-relevant research, thought leadership and independent commentary.

What have been the highlights and which areas need more attention?

In 2009 we undertook a number of major research projects with industry partners, including the Melbourne Mercer Global Pension Index. We also completed a project with ANZ Trustees to digitise a share price database that will be available to both industry and academic researchers. We would love to generate more industry partnerships and expand our research in 2010.

Has the gap between town and gown narrowed?

The gap is certainly wider than it should be in Australia and presents one of the greatest challenges for the centre. In 2009 we established two research reference groups, one in banking and one in funds management, made up of senior academics and practitioners, to drive an industry-relevant research agenda. In 2010 we will set up an insurance research reference group.

As you watch the response to the financial crisis, what do you see as the most positive outcomes and the biggest dangers?

A major benefit has been an increased awareness of the need for institution-wide risk management practices and of the importance of very sound judgement at the board and senior management levels. The biggest danger I see is that these important lessons may be forgotten before they are fully incorporated into risk management practices.

Some commentators argue the crisis has shown that a reliance on market efficiency doesn't always produce the best outcome and that in some areas more regulation is needed to protect the innocent. Do you agree?

In line with an "efficient markets" approach, regulation of consumer financial services in recent times has focused on greater conduct and disclosure regulation, based on the assumption that consumers are rational economic beings who will be best protected by ensuring they have the necessary information to make prudent decisions.

The experience of investor losses due to the GFC, however, suggests that consumers do not always act rationally and credit providers do not always act responsibly. While failures have contributed to investors' losses, some losses have occurred due to a lack of understanding of complex financial products, or of the suitability of those products, and a failure to adequately diversify investments. This experience provides a good argument for enhancing consumer protection and financial literacy and qualifying the general public's access to complex products.

Does the Australian Securities and Investments Commission have too much power?

No.

What is the best regulatory model?

The best regulatory model strikes the right balance between efficiency and stability, or consumer protection. And while regulatory intervention should be kept at a minimum to allow markets to drive efficiency, competition and innovation, the question is: What is the minimum level of regulation and the appropriate balance between market efficiency and consumer protection? While some gaps and inconsistencies in the regulation of financial service providers need to be addressed, the danger is that going too far in this direction will impede efficiency, competition and innovation.

The Rudd government has much of the wealth management industry under review. What would be your ideal outcome?

The outcomes of the Ripoll, Henry and Cooper reviews will certainly have major and longstanding ramifications for the wealth management industry. Ideally we will see a more responsible and professional financial planning industry, an equitable and simpler tax system - one that incentivises responsible economic behaviour - and a more efficient superannuation industry with an enhanced capacity to support an adequate and sustainable retirement system.

What are the centre's priorities this year?

Building more industry research partnerships. In the immediate future we are looking forward to the Melbourne Financial Services Symposium on March 1, with keynote speaker Rich Kushel, vice-chairman of BlackRock, the world's largest funds management company.

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