From the Chair of the Editorial Board

THE WORLD'S FINANCIAL MARKETS and economies continue to feel the aftershocks of the events of the second half of 2008. Some of the effects are tectonic and will take years and perhaps decades to run their course. Others are more readily apparent but may prove to be ephemeral. The challenge for policy makers, regulators and all involved in the delivery of financial services is to ensure that the steps taken today address the underlying problems and not simply the latest mini-crisis or scandal.

This second issue of JASSA for 2009 therefore addresses a wide range of issues facing the financial services sector in Australia today.

Bart Frijns and Alireza Tourani-Rad F Fin provide an historical perspective on the current financial crisis, which started out as a crisis in the credit markets, spilled over to the real economy, and is now often described as the worst crisis we have seen in our lifetimes. To assess the severity of the current financial crisis in Australia, they examine stock market index data from five previous crises since 1882. They conclude that although the current crisis has not yet come to an end, it is very similar to the other crises, both in terms of magnitude and high-to-low duration.

Within the context of the global financial crisis, Geoff Gloster addresses the crucial question of the extent to which product design, associated with housing lending and deposit gathering, contributed to an inability to match maturity risk across balance sheets and, hence, to the need to resort to complex and apparently flawed schemes to deal with it. Gloster says savings and loan products are so flawed in their ability to address user needs as to render them ‘dysfunctional’. He suggests that the current and previous financial crises are at least partly due to this problem and, unless addressed, it will recur in future crises, regardless of the regulatory reforms that are introduced.

Turning to global issues of a different kind, Andrew McKillop provides some estimates of the costs involved in global energy transition. He highlights the considerable difficulties involved in making this assessment due to the myriad of decisions to be made at all levels, from final users though to government, concerning energy saving versus energy supply substitution by renewable and low carbon energy. Noting that large energy savings or demand-side management will be necessary to mitigate the effects of climate change, McKillop indicates that a minimum of US$750 billion to US$1000 billion per year of investment and spending will need to be mobilised to enable global energy transition away from fossil fuels.

In recent years, there has been considerable governmental focus on increasing the financial literacy of Australians. Through a case study from the Gippsland region, Judy Tennant, Jill Wright and Janet Jackson examine the extent to which, and among which demographic groups, inadequate financial literacy plays a role in perpetuating financial hardship. Their research indicates that while inadequate financial literacy is a contributing...
factor to financial hardship, other factors such as inadequate income are important. They find no significant relationship between ‘sex’ and ‘financial literacy’.

In a similar vein, my paper examines the current heavy reliance on disclosure as a regulatory instrument within the context of compulsory superannuation, particularly in relation to product disclosure statements (PDSs). It highlights a number of reasons why such disclosures are problematic, and questions the logic of disclosure in a system where participation is compulsory. It also suggests a need for reforms that rebalance the emphasis in the regulatory scheme shaping superannuation away from disclosure and in favour of other regulatory instruments and strategies.

Tim Griffiths takes a look at the vexing issue of defamation risk in the banking industry, noting that it is the traditional roles of banks and financiers as drawees of cheques and financial instruments, and as credit providers, that often attract the risk of defamation liability. Based on recent groundbreaking decisions, his paper examines the legal means by which banks and financiers can protect their own reputation and manage defamation risk. It also highlights the defamation risk to financial institutions as credit providers and drawees of cheques and financial instruments, including the risk of providing information about creditworthiness.

In recent years, the provision of technological banking services to customers has been viewed as a crucial means of reducing banks’ operating costs in terms of traditional branches and staffing. However, the findings of the paper by Tom Cronje challenge the expectation that technological banking progress will improve the ratio of staff costs to overhead expenses for all Authorised Deposit-taking Institutions (ADIs).

Finally, Ted Watts and Brian Murphy examine the case for viewing financial planning as a profession. Their assessment, based on a relatively small survey of 78 financial planners and their attitudes to professionalism, is that financial planning, as practised today in Australia, remains an industry rather than a profession. They indicate that, based on a set of attributes of professionalism derived from the literature, the results from the attitude statements provided by the respondents failed to achieve a satisfactory level of professionalism for any of these attributes.

I trust that you will find this issue of JASSA particularly interesting and thought-provoking. We continue to encourage submissions that are topical and relevant for finance industry professionals and policy makers and, for those interested in submitting an article, the guidelines for submission are available at www.finsia.com. Any comments on these or previous articles in JASSA are also welcome at m.fahrer@finsia.com. ☺