Chanticleer

For crowing there was not his equal in all the land...

ISSN 0404-2918

9 770404 201020

www.afr.com | Tuesday 4 October 2016

Japan Inc is going for growth

National Australia Bank's completion of the sale of 80 per cent of MLC Life to Nippon Life Insurance Company for $2.4 billion marks another significant milestone in the deepening of business relations between Australia and Japan.

The deal has the potential to shake up the Australian life insurance market because it brings the capital strength of the world's eighth-largest life insurer as well as a mutual structure that focuses solely on the interests of policyholders.

The MLC deal is the latest in a wave of direct investments by Japanese corporations over the past decade in a wide range of industries, including food, construction, financial services, logistics and professional services.

The first wave of Japanese investment started in the 1960s and mainly involved minority investments in mining and resources joint ventures. This was driven by Japan's desire to achieve energy security and acquire the commodities needed for its phenomenal post-war expansion.

A second wave of investment occurred in the 1980s when Japanese property developers embarked on large-scale residential developments on Queensland's Gold Coast.

This explosion in Japanese investment in Australia was part of a global tsunami of speculative capital that flooded the world on the back of country's bubble economy.

The Japanese asset price bubble burst in 1990, paving the way for a quarter century of deflation and lacklustre economic growth. The latest wave of investments is driven by the need for Japanese companies to seek out higher return on capital in markets that offer positive economic growth. Investments in Australia can provide a natural hedge against Japan's demographic challenges of an ageing and declining population, according to a new paper on Japanese investment in Australia prepared by Herbert Smith Freehills.

The paper, written by Ian Williams, Damien Roberts and Natalie McDowell, was prepared for next week's Australia-Japan Business Conference in Melbourne, organised by the Australia-Japan Business Co-operation Committee.

The authors sought to find the success factors behind a dozen landmark transactions, including Kirin's acquisition of National Foods, Dairy Farmers and Lion Nathan, Japan Post's purchase of Toll Holdings, Dai-Ichi Life's takeover of Tower Life, Mitsubishi UFJ Trust's joint venture with AMP Capital and Recruit's takeover of Chandler McLeod.

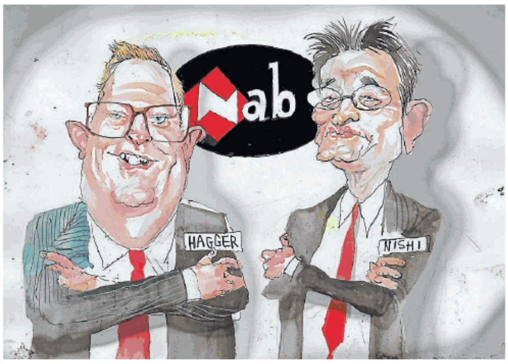
Williams and his colleagues interviewed 30 leading executives from Japanese and Australian businesses involved in the recent wave of Japanese direct investment in Australia.

Those interviewed and willing to be quoted included Lion chairman Rod Eddington, Lion chief executive Stuart Irvine and Toll chief executive Brian Kruger.

Eddington stressed the importance of developing governance principles at the outset which gave the Australian management the right degree of autonomy.

Irvine highlighted the importance of having an initial minority investment by the Japanese company. This allowed the Japanese to become familiar with the strategy, business plan and practices of the Australian business without the market pressure for rapid results.

Williams, who first visited Japan in 1989, says creating a "circle of trust" between Japanese and Australian executives was the key to bridging the divides inherent in



Nishi says the transaction has the potential to significantly change the life insurance market.

language, culture, time zones, operating assumptions and business styles.

The Dai-Ichi Life takeover of Tower Life provides a perfect example of this gradual building of trust. Dai-Ichi started with a 29.7 per cent stake in 2008 and followed that up with a full takeover in 2011.

Tower chief executive Jim Minto became a trusted adviser to the Dai-Ichi Life board and remains so.

The merger of Henderson Group and Janus Capital Group provides another timely example of the Japanese expansion methodology at work.

Dai-Ichi agreed to take a 20 per cent stake in Janus Capital in 2012.

Four years later, Dai-Ichi is giving its full support to Janus merging with Henderson to create a $US6 billion company with $US320 billion in assets under management. Dai-Ichi will own 9 per cent of the merged group but has agreed to lift its interest to 15 per cent.

In Australia, Nippon Life's purchase of 80 per cent of MLC Life is almost a textbook example of the success factors described in the report by Herbert Smith Freehills.

Nippon Life's Hiroyuki Nishi, who is managing executive officer responsible for all the company's international investments in six countries, first met NAB's head of wealth Andrew Hagger three years ago.

Hagger says they met every six weeks either in Australia and Japan to work through the details of what is a complex transaction.

Nishi says the transaction has the potential to significantly change the Australian life insurance market. He says there are two reasons why this is so.

Firstly, it opens the way for the world's eighth-largest life insurers to enter the local market with all its capital strength and extensive product range.

Secondly, the fact that Nippon Life is a mutual means it can offer more competitive products compared to companies that have to share earnings with shareholders.

Nishi says that Japan's ageing population means that Nippon Life has a sophisticated array of products for people in the pension phase of retirement. He plans to bring these products to Australia.

In the Herbert Smith Freehills paper Kruger talks about the value that can accrue to the Japanese owner when its senior executives are aware of what can be learned from the target company.

Nishi says Nippon Life is keen to take several things learned in the Australian market back to Japan. He is impressed with a MLC Life program called MLC On Track, which uses smartwatch technology to measure physical activity and reward customers with "wellness" targets.

Nippon Life has investments in life insurance operations in five other countries. The investment in MLC Life is the largest investment the company has made overseas and the first time it has bought a controlling interest.

The new governance arrangements for MLC Life will deal directly with the question of cultural sensitivity. The new chairman is a former ambassador to Japan Peter Grey. Other directors include Andy Cornish, Nishi and Toshihiro Nakashima.

NAB walks away from the MLC deal with about $2 billion in additional capital, which will be used to lift its common equity tier 1 capital ratio by 50 basis points.

Fundamental problem

The introduction of criminal penalties for manipulation of Australia's key benchmark interest rate will not solve a fundamental problem – banks do not want to be involved in setting the bank bill swap rate (BBSW).

Banks are steering clear of the BBSW "rate set" because of the uncertainty about how the corporate regulator, the Australian Securities and Investments Commission, will deal with the potential conflict of interest inherent in setting the BBSW rate.

This conflict was identified in a speech by Reserve Bank official Guy Debelle in a speech earlier this year.

He said "institutions face a potential conflict of interest when they participate in the market underpinning a benchmark as well as the derivatives market that references the benchmark".

It was this conflict of interest that was a focus of RBA attention in 2010 when an RBA official, Matthew Boge, was recorded speaking to Westpac's chief trader, Colin Roden. The recording was revealed as part of the ASIC court case accusing Westpac of rigging the BBSW rate.

Roden expressed concern about what might happen the following day in trading in bank bill futures.

Given the unwillingness of the banks to participate in the BBSW rate set it is not a surprise that the proposed legislation to impose criminal penalties on those who manipulate the BBSW also includes provisions allowing ASIC to "compel banks to make submissions to a significant benchmark".

TONY BOYD

Rear Window

Joe Aston

joe.aston@afr.com.au
Twitter:@mrjoeaston

Bill Shorten and Labor MPs playing silly buggers on bank hearings

Unless you've been reading this newspaper wearing a silk blindfold (which is how we prefer to write for it), you'd know the chief executives of the Big Four banks will front public hearings of the House Economics Committee this week in Canberra. CBA boss **Ian Narev** is first cab off the rank on Tuesday afternoon.

And Labor's serving members on the committee – **Matt Thistlethwaite**, **Matt Keogh** and **Pat Conroy** – are already playing funny buggers, serving up a request for documents to Narev, ANZ's **Shayne Elliott**, NAB's **Andrew Thorburn** and Westpac's **Brian Hartzer** after close of business on Friday (CBA and Westpac, both based in Sydney, are closed until Tuesday morning for the Labour Day weekend), giving Narev in particular about six hours to prepare multitudinous internal reports and employment records, correspondence with clients and regulators and various other records.

By any measure (certainly by the measure of a royal commission), this is a denial of natural justice and procedural fairness – nothing more than a stunt. But even better is that the Labor MPs have clearly fired off a badly-edited mail merge, with the names of one bank mentioned in the body of the letters to the others. It's like Colonel Cathcart's form letter in **Joseph Heller**'s *Catch-22*, which began: "Dear Mrs., Mr., Miss, or Mr. and Mrs. ___: Words cannot express the deep personal grief I experienced when your husband, son, father or brother was killed, wounded or reported missing in action." Except that was satire – this is, sadly enough, public administration.

More embarrassing still, only the committee secretariat, through the chair (Liberal MP **David Coleman**) can requisition documents from witnesses. Individual members have no power to do so.

Nobody has yet credibly suggested the banks won't comply with these kind of requests for information when given sufficient notice and made through the appropriate channels.

You certainly can't say the same of **Bill Shorten**.

When Australian Bankers' Association chief executive **Steven Münchenberg** wrote to the Labor leader last month requesting information on specific cases and persons he and his caucus colleagues have cited as proof of widespread malfeasance in the banking sector (so as to attempt to facilitate redress), Shorten declined, claiming "our duty of care to these Australians".

You'd have thought getting these people's money back would fit that definition. If indeed, all of these people really exist ...

▶ More Rear Window page 37