



# Select Committee on Financial Technology and Regulatory Technology – AIIA Response

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## About the AIIA

The Australian Information Industry Association (AIIA) is Australia's peak representative body and advocacy group for those in the digital ecosystem. We are a not-for-profit organisation to benefit members, and AIIA membership fees are tax deductible.

Since 1978, the AIIA has pursued activities to stimulate and grow the digital ecosystem, to create a favourable business environment for our members and to contribute to Australia's economic prosperity.

We do this by delivering outstanding member value by:

- providing a strong voice of influence
- building a sense of community through events and education
- enabling a network for collaboration and inspiration; and
- developing compelling content and relevant and interesting information.

We represent a larger number of technology organisations in Australia, including:

- Global corporations such as Apple, Adobe, Avanade, Deloitte, Gartner, Google, IBM, Infosys, Intel, Lenovo, Microsoft and Oracle
- Multinational companies including Optus and Telstra
- National organisations including Data#3, ASG and Technology One; and
- a large number of small and medium businesses, start-ups, universities and digital incubators.

Some 92% of AIIA members are small and medium Australian businesses and 8% of AIIA members are large Australian companies and multinational corporations

## AIIA Response

### What are the biggest opportunities and challenges for your business in the short-to-medium term? Staffing, recruitment and talent retention:

The attraction and retention of skilled staff is a consistent and longstanding issue throughout the Australian ICT sector, with the Australian Fintech sector being no exception to this trend. However, in 2019, there was a shift within the sector where fewer Australian Fintech organisations reported a lack of experienced Fintech talent in Australia (43% versus 50% in 2018).<sup>1</sup>

As technology and automation progressively alters the way in which work is undertaken within the economy and financial services industry, it will be necessary to keep pace with developments and undergo upskilling to ensure they meet industry demands.<sup>2</sup> The core message that needs to be emphasised in this context is that in order to meet the skills demands required by the Fintech sector, Australia will need significant investment in upskilling the current workforce. This will be essential for any future ambitions the industry may have to develop the Fintech capability with a view to export.

This transformation is already underway within established financial institutions, such as NAB's recent initiative to upskill 2000 of its employees by providing AIIA member and major cloud provider AWS (Amazon Web Services) training to meet the changing skills requirement within the Australian banking sector.

A recent KPMG report highlights the impact the existing skills shortage in the Australian ICT industry sector has in this context. As technology leaders continue to experience difficulties in sourcing skilled workers, 58% of surveyed organisations have indicated that skills shortages prevent them from being able to keep up with the current digital transition.<sup>3</sup> At the time of reporting, the areas experiencing the highest in-demand skills are Big Data / Analytics (45%), Cyber Security (44%) and Artificial Intelligence (38%).<sup>4</sup>

### What are your views on recent and forthcoming changes to policy settings and regulatory initiatives affecting the sector (e.g. implementation of the new Open Banking framework; introduction of the NPP in 2018; and ASIC's Fintech regulatory sandbox)?

The AIIA anticipates that Open Banking will have a positive impact on the Australian Fintech industry by accelerating innovation and providing personalised products through the open standards, and also in building customer trust with Consumer Data Rights.<sup>5</sup>

A key concern identified by many Fintech-based companies has been the consumer-consent process. The current process requires consumers to provide initial consent to connect with financial institutions, with a subsequent annual reconfirmation process. If re-consent is not granted then Fintech products will no longer receive information from user accounts, which can adversely impact in the quality of service. Consumers may also inadvertently miss re-consent

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<sup>1</sup> <https://fintechauscensus.ey.com/2019/Documents/EY%20FinTech%20Australia%20Census%202019.pdf>

<sup>2</sup> <https://www.techrepublic.com/article/how-nab-is-taking-australias-skills-shortage-into-its-own-hands/>

<sup>3</sup> <https://home.kpmg/au/en/home/media/press-releases/2019/06/tech-spend-outside-it-creates-opportunities-but-also-potential-risks-12-june-2019.html>

<sup>4</sup> <https://www2.deloitte.com/au/en/pages/media-releases/articles/work-human-australia-faces-major-skills-crisis-120619.html>

<sup>5</sup> <https://www.finder.com.au/leading-australian-fintech-says-open-banking-will-not-work>



notifications, leading to poor outcomes and user experience. The re-consent model stands in stark contrast with the common paradigm of consent once for consumer as-a-service subscriptions, such as with popular platforms like Netflix or Spotify.

In a country such as Australia, Open Banking has the potential to pursue two different routes: as a platform for innovation and growth or as a competitive platform that poses a potential risk to their captive market. At present, it is still too early to see the strategy and subsequent messaging from the large Australian financial institutions. However, if these institutions do opt to pursue a defensive strategy and implement Open Banking only as a means to meet regulatory requirements rather than use them as an opportunity for growth and innovation, they would not be incentivised to educate their customers on the benefits of Open Banking.

A key concern which has already been raised by a number of Fintech companies with the Australian Treasury<sup>6</sup> is the need to provide support for a broad-based consumer education campaign. Awareness on Open Banking platforms needs to be communicated to consumers so as to ensure they have sufficient information to make informed decisions and are aware of financial institutions obligations to customers regarding personal data. Fintech companies have expressed reservations over the lack of adoption of Open Banking products and services due to poor consumer education, as they are not in a position to influence or educate consumers in the absence of assistance from the Government.

***In addition to traditional financial services, which sectors of the Australian economy could benefit most from the integration of innovative Fintech and RegTech technologies? Why?***

A common outcome of RegTech is the overall reduction of costs and labour for repetitive and low-value compliance / administrative tasks. This practice has a positive impact, as it enables the skilled workforce to be redistributed to focus on higher-value tasks and customer outcomes.

In 2018, the American Hospital Association (AHA) demonstrated that the ensuing regulatory burden that was incurred every time a patient was admitted to a hospital amounted to \$1,200 USD.<sup>7</sup> Much of these associated costs are due to tasks that require a high degree of human interaction and intervention.

In leveraging the applications of RegTech solutions in the financial industry, such as automation and no-touch processing for repetitive administrative processes, numerous Australian industries could benefit from cost savings, process efficiency and reduction in manual errors.

Another area of the economy that could benefit from innovative FinTech products are the retailing and small business sectors of the economy. We have seen the rapid rise in pay later style products as well as success stories like Xero accounting and invoicing software that is available regardless of business size that can drive great efficiencies and productivity through the economy.

***Do you have any suggestions on how the Australian Government can best facilitate the continuing growth of the Fintech and RegTech industries in Australia?***

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<sup>6</sup> <https://treasury.gov.au/sites/default/files/2019-03/t247313-FintechAustralia.pdf>

<sup>7</sup> <https://www.aha.org/system/files/2018-02/regulatory-overload-report.pdf>

The AIIA notes the Australian Fintech and RegTech industries have been proactive in developing its own digital ecosystem, and have established themselves as a competitive force in the Asia-Pacific region. However, one of the more significant impediments to progress in this respect is the continuing market dominance of the four major Australian banks, making it difficult for smaller Fintech enterprises to establish themselves.<sup>8</sup> The introduction of the ADI Licencing Framework by the Australian Prudential Regulation Authority (APRA) in 2018, allowing Fintech start-ups to apply for restricted banking licences and become active competitors is a step in the right direction.<sup>9</sup>

The AIIA recommends the Government consider similar schemes that will enable smaller enterprises to compete against established banking institutions. It is anticipated that this will have a dual benefit of creating more diverse market activity, contributing to further domestic economic growth, and will promote greater innovation within the Australian Fintech sector.

The Australian RegTech industry has grown substantially in recent years, and this is anticipated to continue as companies increasingly invest in emerging technologies to meet compliance requirements. In the wake of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, there is a renewed impetus to develop effective systems that are able to comprehensively address legal and regulatory requirements. However, these technologies are still relatively new and it is important that all relevant stakeholders (i.e. markets, technology companies and regulatory bodies) are given sufficient time and scope to fully understand their capabilities and application.

In this respect, it is in the interest of the Government to engage further with industry in developing systems that effectively strengthens core risk management governance, including controls and reporting practices.

*How can the FinTech and RegTech sectors link into the Australian digital identity ecosystem reforms?*

The AIIA is assisting the Prime Minister's Digital Technology Taskforce in providing access to leading thinking around digital disruption and opportunities as to how Australia can prosper as the economy becomes increasingly digitised with innovation at its core. The Australian RegTech and Fintech sectors will produce innovative solutions to current and emerging business issues, whether they be global in nature, or bespoke to Australia.

*Can Australian regulators do more to support FinTech and RegTech companies to develop digital advice services? How can the Australian digital advice sector be supported to grow?*

Please refer to our response below on the R&D Tax Incentive.

*Is the R&D Tax Incentive adequately assisting companies in the Fintech and RegTech space? If not, how should it be reformed to encourage innovation in these sectors?*

The introduction of the R&D Tax Incentive provides a unique means of stimulating industry innovation in Australia, and has already been utilised by a number of Australian FinTech and

<sup>8</sup> <https://www.businessinsider.com/australia-taking-steps-to-enhance-fintech-industry-2018-5/?r=AU&IR=T>

<sup>9</sup> <https://www.apra.gov.au/sites/default/files/information-paper-adi-licensing-restricted-adi-framework-20180504.pdf>



RegTech companies. The 2019 EY Fintech Australia Census indicated that more than half of Australia's Fintech companies have accessed the scheme since its introduction, with 78% of companies stating that in them being able to access effective R&D tax programs incentivised them in keeping their operations in Australia.<sup>10</sup>

However, the AIIA would recommend that any move to alter the current incentives scheme be subject to broad and comprehensive industry consultation. Whilst the Australian scheme has provided significant incentives to local industry, it is important that Australia remains competitive in its support for R&D and accompanying incentive regimes. Successive Governments have reduced funding allocation for R&D tax incentive schemes in the 2016-2017 and 2018-2019 by an estimated \$4 billion, with a further reduction of \$1.35 billion as part of the 2019-2020 budget forward estimates.<sup>11</sup> According to the OECD, Australia is already falling behind its international counterparts in terms of R&D funding; in the 2017-18 period Australia fell from 114 to 107.<sup>12</sup>

As a driver of innovation and broader economic productivity, the AIIA recommends the Government focus its activities on sustaining schemes such as the R&D tax incentive to enhance the global competitiveness of Australian Fintech and RegTech companies and ensure Australia remains a viable Fintech and RegTech market.

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<sup>10</sup> <https://fintechauscensus.ey.com/2019/Documents/EY%20FinTech%20Australia%20Census%202019.pdf>

<sup>11</sup> <https://www.afr.com/policy/economy/federal-budget-2019-not-so-innovative-as-135b-squeezed-from-rd-20190401-h1d1i3>

<sup>12</sup> <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>

