Australian Business Software Industry Association

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Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

RE: Senate Select Committee on Financial Technology and Regulatory Technology - Issues Paper

Dear Committee Secretariat,

The Australian Business Software Industry Association (ABSIA), welcomes the opportunity to submit to the *Senate Select Committee on Financial Technology and Regulatory Technology.*

ABSIA actively represents the interests of the local business software industry and its stakeholders. We also work closely with key government departments to produce the best outcomes for all involved. Over the years, ABSIA has worked on several issues close to the FinTech and RegTech sectors and are well placed to provide feedback from a collective industry perspective. Topics that we will address in our submission include:

- Making security technology more accessible and affordable for small software developers, of which a high percentage would be FinTechs and RegTechs.
- Digital technology application advisory.
- Consumer Data Right, Open Banking and Open Super.
- SSAM - Security Standards for Add-on Marketplaces.
- Research and Development Tax Incentive.

For the purpose of this submission, we have numbered the questions from the *Issues Paper* and responded to select questions in order.

For more information about this submission, please contact:

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Kind Regards,
Chris Howard
ABSIA President.

2. In general terms, how would you describe the operating environment for FinTech and RegTech startups in Australia?

While the FinTech and RegTech markets are maturing and becoming more competitive in Australia, there is a commonly held view that Australia is falling behind globally.

Many ABSIA members produce software to ease the administration burden for all businesses. In comparison, many members fit within the scale-up category of SMEs and often encounter similar, if not the same, challenges as their startup counterparts. They are arguably more disadvantaged because they do not receive the same attention and funding support from venture capitalists and Research and Development Tax Incentives (R&DTI) that startups often attract.

As industries converge due to technological developments, ABSIA members find it increasingly difficult to meet the criteria for create-establish-commercialise types of "innovation", as the software they develop often innovates by utilising contemporary and emerging technologies. Further, the cost of regulatory compliance-related software development and changes required by the Government over the years has been mainly borne by software developer companies themselves with no support, financial or otherwise, from the Government.

We acknowledge there are many areas of overlap between FinTech, RegTech and ABSIA. It would be worthwhile for our organisations to work more collaboratively and seamlessly for the benefit of the industry. We propose a consideration workshop with the relevant leaders to discuss and determine a consolidated and collaborative path forward.

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

ABSIA welcomes, and in fact our members drive, the advent and application of technology that reduces bureaucracy and promotes innovative approaches that provide better experiences for consumer companies and individuals. However, there are competing platforms. For example, the New Payments Platform (NPP) is viewed as an alternative platform to the ATO's Superannuation Transaction Network (STN), on which Practitioner Lodgment Services (PLS), Single Touch Payroll (STP) and other systems have been built, with hundreds of millions of dollars having been invested by the industry in addition to the Government's own investments.

If the NPP were to become an alternative platform to the STN, then the effort required from software developers to adapt to another platform should not be underestimated. On top of this, the Government should provide financial and other in-kind support for any required platform transitions.

Another important initiative that may benefit the sector is the recently endorsed National API Design Standard (NAPIDS)[1]. For those FinTech and RegTech organisations looking to connect to government APIs, it aims to standardise how these APIs are built and discovered and therefore making it easier to connect and share data. As an industry, we look forward to continued work on the NAPIDS and we encourage the FinTech and RegTech circles to also utilise the NAPIDS to realise the benefits of a common API design.

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

Software startups and SMEs would benefit from a more appropriate and realistic set of criteria for the R&D Incentives and grants. The proposed streamlining of these processes for a more timely response to qualify candidates would be welcomed. Any retrospective penalties or repayments demanded of the organisations who have been qualified by the government as "entitled", through no fault of their own, would be an unfair treatment.

The increasing need for digital products and services to offer greater security measures, and the need for organisations to be more secure themselves, can be a financial barrier for some technology providers, especially software developers and consumer SMEs. This is one area in which the Government can provide support and therefore facilitate growth in the industry.

The Government should consider providing Managed Security Service Provider (MSSP) capabilities to lower the cost and capability burdens on startups and SMEs. This could also involve the release of the Trusted Digital Identity Framework (TDIF) to trusted third parties.

One way in which the Government can provide support is through allowing SMEs to access affordable security services. ABSIA's Security Standard for Add-on Marketplaces (SSAM) can be used as a security starting point for many SMEs in this space. This is discussed further in our response to Question 15.

6. Do current regulatory settings support the growth of local FinTech and RegTech companies in Australia?

Depending on where products and services fit into the FinTech or RegTech market, there can be complex regulatory and security requirements that are especially hard to navigate for those entering the market. There is a high entry barrier for new participants, especially with ISO requirements and many government frameworks in place, which makes it difficult, if not impossible, to bootstrap projects. This is yet another factor limiting innovation in the industry.

The Australian Government, while they are working on standards for security and other areas of relevance to software developers, do not make this clear to all those operating in the industry.

[1] https://www.dta.gov.au/blogs/apis-enabling-better-government-interactions-and-data-sharing

When such work is being done, this should be communicated in a timely and effective manner to the industry so they can better understand the time, effort and money going into these initiatives and therefore the Government's commitment to standardisation.

7. What are the key reform priorities that will enable FinTech and RegTech innovations to flourish in Australia?

Reiterating EY's FinTech Australia Census[2], the increased funding of ASIC after the Banking Royal Commission has led to greater scrutiny and therefore decreased innovation amongst FinTechs. This, coupled with recent changes to the R&DTI and the high entry barriers discussed in the question above, are effectively disincentivising opportunities for innovation. This is also a contributor to companies moving development to offshore locations where incentives are more readily accessible.

We have heard feedback that there is a need for frameworks that cover all government departments, not just certain departments like the ATO. This would help to facilitate faster and lower development costs for fundamental requirements across multiple departments.

In terms of FinTechs and e-invoicing, there is an opportunity for the Government to provide funding or grants to e-invoicing service providers in Australia. While the European Union were mandating e-invoicing they offered grants to service providers. Such grants could be offered in Australia to incentivise service providers and promote the adoption of e-invoicing.

8. To what extent should government encourage or incentivise the disruption of existing financial services business models by new market entrants, as opposed to promoting partnerships between new and incumbent players? Are these aims mutually exclusive?

Current financial services business models have many layers of service providers, especially in the debit and credit card industry, with each layer adding to a lack of transparency, bureaucracy and unnecessary costs to end consumers. The incumbents of the existing financial services model have a vested interest in maintaining the status quo for as long as possible, but there is a view that market forces will inevitably gravitate to the new disruptive models of financial services.

If the Government is truly interested in Australia's consumer citizens, and the SMEs that employ 40% of Australia's workforce, they should provide incentives and support these new business models to grow and further encourage the incumbents to simplify their value chains and provide benefits to customers.

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

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

There is a huge opportunity for software providers to be involved in identity ecosystems, although it may be a challenge given the siloed approach to identity in the different industry sectors.

There are several security vulnerabilities and inefficiencies being created as a result of our current fragmented digital identity system[3]. FinTechs and RegTechs should work with the TDIF initiative, which is a collaborative effort of multiple Government agencies, to innovate and support a unified approach across Australia and drive adoption in this space. Currently, by not working collaboratively, we are creating additional costs and complexities due to multiple standards being deployed across the industry.

Digital identity reforms should incorporate the concept of MSSPs as a mechanism for improving the cyber resilience of SMEs in a cost effective manner. Identity is an ideal candidate for an MSSP capability.

11. 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?

Australian Government agencies are driving the uptake of digital technologies amongst SMEs to improve economic productivity and allow SMEs to benefit from enhanced lifestyle factors. Tax professionals are naturally positioned as trusted advisers to SMEs to promote digital and other related advisory services. It is important to note that many tax and bookkeeping professionals are SMEs themselves who also need to adopt these digital services and, as a result, there is more pressure put on them. Similarly, a significant number of FinTech and RegTech companies are startups or SMEs and it would be unrealistic to expect that those companies are resourced sufficiently to provide digital advice services as well. To account for this, the ecosystem approach to leverage the current network of trusted advisers. This would be more appropriate.

To support and grow this model of digital advice, the Government should:

- Encourage the FinTech and RegTech sectors to create intuitive and easy to use software products;
- Support the new or disrupted model of financial services that will help de-layer the multiple layers of services provided by incumbent financial institutions; and
- Put in place programs to upskill professionals, such as those operating in the tax and legal industries, and have an evolutionary transition plan for those professions extending over the next decade, not just the next 12-18 months.

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3 https://www.itnews.com.au/news/mastercard-joins-with-australia-post-on-digital-identity-but-whos-using-what-is-deeply-unclear-535401?utm_source=feed&utm_medium=rss&utm_campaign=editors_picks

Further, education systems must be reviewed and be prepared for the evolution of these professions. Individuals' skill sets and capabilities will need to mirror the technological advancements and adoption.

With many financial advisers recently leaving the industry[4] and Australia's ageing population left trying to obtain advice from a depleted pool of advisers, there is an opportunity for software providers to fill this gap with Robo advice services. These solutions however, will need to rely on both Open Banking and Open Super to provide the data needed to create this advice. As such, secure methods for individuals to access their banking and super transactional data will be critical. The continued use of screen scraping to obtain transaction data is unsecure, unsustainable and needs to be addressed[5].

12. Are there any impediments to ensuring that the benefits Open Banking offers for consumers and FinTech firms are maximised?

Security and privacy concerns would be high on the list of impediments amongst FinTechs, however, we have addressed some other concerns below.

While much of the focus on Open Banking has been on making the transactional data available, little thought has been given to a reliable and scalable access mechanism. Simply creating APIs is not a scalable solution and additional thought needs to be undertaken to address the issue in a cost effective manner.

The issues of access are not new and they have been addressed in the superannuation industry via the STN. The superannuation industry realised that trying to establish a series of API direct connections was impractical earlier on with the current STN now able to provide low cost, secure and reliable access. This is another example of where an MSSP model could assist FinTech firms with obtaining capability at lost cost.

Currently, there is a lack of awareness amongst Australian consumers about Open Banking and how they can utilise it[6]. Similarly, according to the FinTech Census[7], FinTechs do not seem to know enough about the Consumer Data Right (CDR) and further, there is a lack of

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4 https://www.abc.net.au/news/2019-10-10/amp-financial-advisers-facing-ruin-banking-royal-commission/11587986

5 https://www.afr.com/companies/financial-services/cba-misleads-customers-to-protect-market-share-ahead-of-open-banking-20191117-p53b9y

6 https://which-50.com/open-banking-will-give-consumers-control-of-their-data-but-most-australians-still-havent-heard-of-it/

7 https://fintechauscensus.ey.com/2019/Documents/EY%20FinTech%20Australia%20Census%202019.pdf

understanding around how they can become accredited providers. Given Open Banking is a new initiative, it will take time for both consumers and software providers to understand the benefits and leverage the system. In the meantime however, we need to increase the understanding around CDR and Open Banking to educate FinTechs about opportunities for innovation.

We agree with FinTech Australia's comments in the *Issues Paper* that the cost of CDR accreditation can make it inaccessible for many startups, but also SMEs, wishing to access the system. The regulation surrounding Open Banking clearly disadvantages both startups and SMEs. To make it more accessible, ABSIA suggests that a lower cost accreditation option should be introduced, given the high proportion of SMEs operating in Australia.

In the *Issues Paper* we note the Senate Committees support for "write access" to be allowed in CDR for Open Banking. If this were to go ahead, we would like to see significant work around realising any unintended consequences and how to avoid or prevent them. There should also be considerations around safeguarding this data, including data ethics.

13. Following the implementation of the CDR in the banking sector, how quickly should government seek to implement CDR reforms in related financial sectors such as superannuation?

a. What specific considerations need to be given to the implementation of CDR in the superannuation sector?

The introduction of Open Super, alongside Open Banking, would cover the majority of an individual's entire financial position allowing software providers to create solutions capable of bringing this data together in products aimed at both individual consumers and advisers. The opportunity exists to empower advisers and give them the necessary tool to provide more encompassing super advice to their clients, as most individuals are not aware of their full financial positions. Additionally, the opportunity exists for services to provide Robo advice as we mentioned in our response to question 11.

As an industry, we would support the Superannuation Transaction Network (STN) being used as the access point for both Open Banking and Open Super, given that this network connects the majority of businesses in Australia with hundreds of super funds and thousands of SMSFs including banks and the ATO.

14. Is the New Payments Platform accessible enough for FinTech startups and scale ups? If no, how should this issue be addressed?

The NPP have detailed some of the unexpected use cases they have seen from FinTechs innovating off the platform. They have also detailed a number of unexpected use cases resulting from FinTechs innovating off the platform. This suggests that the platform is easily accessible, but we have been given feedback that while this appears to be true, there are actually barriers such as having an AFSL as a minimum requirement rather than a 'nice to have'.

15. Is ASIC's FinTech regulatory sandbox useful for start-ups? Will the recently proposed expansion to the sandbox be sufficient to support growth in the sector?

From our understanding, the sandbox is beneficial to startups through allowing them to test and experiment before releasing their products or services to the market. However, given the length of time it can take for FinTechs and their products to become established, it may be beneficial to allow some startups and SMEs an extended period of time (beyond the current 12 months) to use the sandbox before needing to obtain a licence. This may also help startups and SMEs financially.

Like the sandbox, the Security Standard for Add-on Marketplaces (SSAM), is a useful standard for all software providers looking to participate in this ecosystem. This standard, while specifically designed for products and services wishing to connect to Digital Service Providers (DSPs) who provide, access or share data with the ATO, easily translates to any add-on wishing to connect to software via APIs. The security requirements within the standard are best practice within the industry and should be utilised by FinTechs and RegTechs to ensure their products and/or services have a minimum level of security. This also allows them the opportunity to increase their portability across add-on ecosystems. Essentially, the SSAM can be applied to any digital services, should a developer be interested. The requirements for the SSAM, as well as supplementary information and resources, can be accessed on ABSIA's website[8].

18. 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?

In the software and technology industry, the R&DTI has not been very successful. This is largely due to the criteria being weighted towards new technology creation, rather than applied innovation, within our industry. This is a direct result of AusIndustry and the ATO's interpretation of the legislation.

We agree with the Australian Small Business and Family Enterprise Ombudman's recent review of the incentive[9] outlining that AusIndustry's software guidance material does not provide enough examples of software development that is, or includes R&D activities. The focus is largely on why certain activities are not R&D. We encourage AusIndustry to support the software industry and allow us to better understand how we can benefit from the R&DTI given many in the industry believe, "the eligibility of software activities in the R&DTI is considered to be one of the biggest issues facing the Technology Start-Up and Fintech sectors.[10]"

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[8] https://www.absia.asn.au/industry-standards/addon-security-standard/
[9] https://www.asbfeo.gov.au/sites/default/files/documents/ASBFEO-RDTI-report.pdf
[10] https://www.asbfeo.gov.au/sites/default/files/documents/ASBFEO-RDTI-report.pdf

Recent work on the R&DTI was meant to introduce changes making it easier for the software industry but instead, these changes have been criticised and labelled as "anti-innovation[11]." They are also said to disadvantage local businesses that operate with greater costs, such as those choosing keep their operations onshore and therefore supporting local jobs. This could potentially see Australian companies opting out of Australia's incentive schemes and shifting their operations offshore to places like New Zealand, where they have recently introduced a 15 percent R&D tax credit[12].

19. Are the existing visa settings for entrepreneurs and workers in the tech industry succeeding in attracting overseas talent into Australian FinTech and RegTech companies? Are changes needed to make this process more straightforward?

According to the FinTech Census[13], there are still concerns about the lack of experienced talent within Australia even though this does not seem as prominent as other FinTech Census reports. Despite this, the talent gap still exists. As noted in the *Issues Paper*, there are a number of visa pathways currently available and with the introduction of entrepreneur visas, it is believed this will aid in attracting talent. To enable Australia's technology industry to progress and keep up with the rest of the world, we need to support existing visa settings and create additional visas in order to attract the individuals and skills needed by the industry right now.

However, in the long term, we need to ask ourselves this question: how can we support and improve our own education sectors to foster interest in digital career pathways and skills so we can develop local talent to fill this gap and keep up with the demand for "tech savvy" individuals in an increasingly digital economy?

21. How can public sector data be made more accessible and useful for FinTech and RegTech companies seeking to deliver innovative products and services?

Given the Office of the National Data Commissioner is now focusing on data sharing rather than release in their proposed legislation, one example of making data available would be for FinTechs and RegTechs to have access to ABN data when the Modernising Business Registers (MBR) program is complete. Further to this, perhaps providing access to a company's tax and superannuation commitments could be examined which would allow for the matching of company data from multiple sources and provide a consolidated position of financial commitments, not just for regular bills and utilities. Such access would require significant legislation changes for public access to sensitive tax and Centrelink data. Essentially this requires a huge extension of Open Banking to show the totality of a financial position for an individual or company.

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[11] https://www.smartcompany.com.au/finance/tax/rd-tax-incentive-morrison/
[12] https://www.business.govt.nz/news/r-and-d-tax-incentive-2019/
[13] https://fintechauscensus.ey.com/2019/Documents/EY%20FinTech%20Australia%20Census%202019.pdf

25. What changes are required in order to create a better enabling environment for the transfer of technological innovations across sectors of the economy?

To improve the efficiency and experience of Australian communities, technological and associated process innovations across sectors will require the commonality of fundamental data that identifies individuals and organisations. The failed attempt of Australia card more than a decade ago should be buried and a fresh approach should be taken to unify the fragmented identity crisis that Australia is currently facing.

The Australian Government is continuing to drive a whole-of-government approach on technology platforms and a one-portal service philosophy. This is starting to take traction whilst acknowledging challenges along the way. The industry should also take a similar mindset and take a whole-of-economy approach to vital common building blocks that form the foundation of smooth processes and data sharing across different industry sectors, such as identity and security. The ability to progress with an approach like this will require an absolute commitment to standards and security. This should be supported by relevant parties considering that programs, such as My Health Record, have come under scrutiny due to the public's distrust in the Government's ability to protect data.

Australia's technology landscape is littered with many associations that are arguably trying to innovate in their own space. There is currently no "association of associations" that pulls the threads of technological innovators across industry sectors together, including the Government which is a key stakeholder interacting with many associations. This currently exists in New Zealand with the NZ Tech Alliance covering 20+ independent technology associations[14]. ABSIA would be interested in collaborating more closely and more formally with other associations to harmonise and progress Australia's technology industry in preference to a siloed approach that could culminate in a similar situation that existed with the historic VHS v Beta video tape industry. As noted in our response to question 2, we propose a consideration workshop with the relevant leaders to discuss and determine a consolidated and collaborative path forward.

30. How can Australia take advantage of its geographical proximity to the rapidly growing markets in the Asia-Pacific and increase its financial services exports in the region?

Australia is a leader in the solutions for accounting, tax and practitioner software. With the second most complex tax system in the world, opportunities exist for expanding into the Asian region with adapted or more simplified offerings.

There is further opportunity with Australia, New Zealand and Singapore all adopting the Peppol framework for e-invoicing. This common framework not only opens up the door to further e-procurement innovation, it is one way Australian software providers can expand their services and collaborate with others in these markets. Other Asia-Pacific countries have also expressed

[14] https://techalliance.nz/

their interest in adopting the global framework. In particular, ASEAN countries currently participating in the Single Window program have seen the potential in Singapore's e-invoicing solution.

Further, software providers should be encouraged to make use of Australia's Free Trade Agreements, especially those that cover e-commerce and digital trade, in the Asia Pacific region. Such agreements include:

- ASEAN-Australia-New Zealand
- China
- Japan
- Korea
- Malaysia
- Singapore
- Thailand[15]

31. What measures can the Australian Government take to directly support FinTech businesses seeking to expand internationally?

The RDTI was meant to be providing assistance to companies looking to expand internationally, but seem to have fallen short here. There are other grants such as Austrade's Export Market Development Grants (EMDG)[16] that could be of particular assistance for startups and SMEs. FinTech and RegTech SMEs and startups should be educated about such grants.

[15] https://dfat.gov.au/trade/services-and-digital-trade/Pages/e-commerce-and-digital-trade.aspx
[16] https://www.austrade.gov.au/Australian/Export/Export-Grants