Business Council of Australia

SUBMISSION

Submission to the Select Committee on Financial Technology and Regulatory Technology

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ABOUT THIS SUBMISSION

This is the Business Council of Australia's submission to the Select Committee on Financial Technology and Regulatory Technology.

KEY ISSUES

Financial technology and regulatory technology are expected to deliver significant improvements in productivity, new employment opportunities and innovative new financial products with long-term benefits for consumers. It is important therefore that public policy settings support the growth of these technologies while continuing to appropriately protect competition and consumers.

These technologies are being applied extensively by existing businesses and start-ups. The Business Council supports the framing comment in the issues paper that this inquiry is about "all Australian businesses being as innovative as possible to create the next wave of employment growth". The issues paper for the inquiry identifies several policy challenges in relation to the future development and use of financial and regulatory technologies, notably: the R&D tax concession; tax reform; workforce; and regulation.

This submission summarises the Business Council's policy positions in these key areas, as set out in our recently released *Budget Submission 2020-21 - Strong Budget, Strong Growth, Strong Australia*. The Business Council's policy recommendations are designed to apply across the economy and are relevant to the development of new and emerging technologies in the financial sector. Further detail is available in the full budget submission at www.bca.com.au.

R&D Tax Incentive

Advances in financial technology and regulatory technology require business investment in research and development (R&D). The value of R&D Tax Incentive claims processed by the ATO fell over $1 billion, or around a fifth, over the past two years – driven by a reduction in claims by larger companies. The number of claims processed also fell around 5 per cent over the same period.

Tax incentives for R&D have been changed, or changes have been proposed, multiple times in recent years – including both policy and administrative changes. This has created uncertainty and made it difficult for businesses to plan confidently, and likely limited the success of various schemes.

As other countries become more attractive investment destinations, the risk is that the marginal R&D investment dollar moves overseas.

The Business Council recommends these actions:

- Repeal the R&D expenditure threshold (it is due to expire 1 July 2024), or at least increase it to $150 million.
- Ensure the scheme is administered consistently and predictably to avoid undermining confidence in it, and provide certainty.

- Simplify and reduce the administration and compliance costs.
- Introduce a collaboration premium of up to 20 per cent on non-refundable tax offsets to incentivise collaborations between industry and public research organisations and universities.
- Do not reduce the overall support or incentives for business expenditure on R&D, with consideration given to the balance between grants, tax incentives and business and university collaboration.

Over time, Australia should progressively lower the company tax rate to 25 per cent to make all businesses more competitive in the global contest for investment.

Regulation

Best practice regulation

Competitive regulatory settings will enable businesses in the Australian financial sector to innovate in response to the rapid rate of change in technology and consumer tastes, while also maintaining high standards of integrity.

Regulation provides important protections for consumers and competition, and will need to be regularly maintained to ensure it remains fit-for-purpose in this fast-changing environment. In reviewing or reforming regulatory settings, it is critical that best practice regulation making principles are applied to avoid poorly designed regulations.

Unnecessary and inefficient regulation impacts consumers through higher prices, delays and fewer product choices. It makes it harder to do business in Australia and a less attractive place to invest.

The Business Council supports these actions:

- Rigorously assess the impact and cost of new regulatory proposals by state and federal governments through regulatory impact assessment processes to ensure efficient and effective regulation. This includes committing to consultation processes that allow industry to properly understand a proposed regulation and fully assess its impact. The RIA process should demonstrate that the benefits of regulation exceed the costs.
- Monitor and reduce the cumulative cost of all regulation across the wider economy and as it applies to key sectors, such as the financial services sector. This work should be done through the government’s deregulation taskforce, which is an important new initiative.

Regulatory technology (Regtech)

Regulatory costs can also be contained by using Regtech to automate complex regulatory compliance and administration processes and reduce errors. Regtech solutions are increasingly used by business for more efficient regulatory compliance, and by governments to improve the management of regulatory frameworks and transform regulatory reform.

Governments should be prioritising investments in Regtech solutions that deliver more effective regulatory outcomes and reduce long term compliance and administration costs for businesses and government agencies.

Consumer Data Right

The Business Council supports the introduction of the Consumer Data Right (CDR). The successful implementation of the CDR framework overall will require consumers to trust that their data will be safe, secure and put to good use should they exercise their rights under the scheme.

For trust to be maintained, all parties – regulators, industry (data holders and Accredited Data Recipients), and any designated gateways – need to clearly understand their obligations, be fully prepared in terms of systems and processes, and demonstrate they can work together to protect consumers' privacy.

The implementation of the CDR in banking was recently deferred from February to July 2020, owing to the complexity of the CDR changes. Future CDR implementation timelines should continue to be governed by the capacity of industry or government regulators to implement the CDR policy initiative safely and securely – giving consideration to the clarity of requirements, and the preparedness of systems and processes.

Workforce

The growth and development of financial technology and regulatory technology in Australia will require a highly skilled workforce.

Education and training

Future growth in productivity and wages will best be achieved by ensuring that Australian workers have skills that are fit-for-purpose for new and emerging employment opportunities, including in the financial services sector. This will increasingly mean they have greater scope to improve their skills at various stages during their careers.

The establishment of a National Careers Institute (NCI) and the National Skills Commission (NSC) is vital foundational infrastructure on which Australia's future education and skills system can be built.

- The NCI should be established as a common market information platform across vocational education and training (VET) and higher education, providing the right kind of information and guidance to help learners, workers and employers make the best decision for their future.
- The Business Council regards the establishment of the NSC as the first step in establishing a single funding model across VET and higher education that is sector-neutral.

Temporary Skill Shortage visas

In order to apply new technologies to production processes in the financial services sector, and across the economy, Australia will need to continue to bring in highly skilled labour on a temporary basis under competitive migration settings when there are genuine skill shortages. A well-targeted skilled migration program complements the Australian workforce.

Skilled migrants bring ideas, innovation and new cultures, grow our trade and investment links and bring the capacity to train and skill their local co-workers.

The government's Global Talent Employer Sponsored scheme is a positive initiative that makes it easier for business to access highly skilled personnel for new and emerging roles, including in the use of information technology.

Since the changes to temporary skills shortage visas in 2017, however, the feedback from industry is that the uncertainty associated with requiring approval for renewal after two-years is a disincentive for highly skilled migrants to move to Australia. It also makes workforce planning more difficult and costly for businesses needing to fill skilled roles of greater than two-years duration.

The Business Council proposes these actions:

- Assess current approval rates for the renewal of two-year Temporary Skill Shortage visas for occupations on the Short Term Skilled Occupation List (STSOL). If the approval rate is high, consider returning to issuing a 4-year visa upfront for occupations on the STSOL in the future.
- Make all occupations with total annual remuneration over $180,000 eligible for 4-year Temporary Skill Shortage visas.
- Create special categories of skills that are a national priority and eligible for the Temporary Skill Shortage visas, starting with cyber security skills from the Five Eyes countries.

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