FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

30 November 2017

Email: digitaleconomy@industry.gov.au

National Department of Industry, Innovation and Science

Digital economy: Opening up the conversation

Dear: Sir/Madam,

The Financial Planning Association of Australia (FPA) welcomes the opportunity to comment on 'Digital Economy: Opening up the conversation' from the Department of Industry, innovation and Science. We aim to determine opportunities or highlight emerging technologies within the fintech ecosystem that may propagate conversations within the financial service industry with a specific focus on consumers having a better financial future. It is clear that the increasing opportunities of the digital economy correlates to the increase of fintech development that enhance financial services. In due course, consumers will benefit greatly from these digital innovations which is enriched by fintech, through increased accessibility, enhanced customer experience and faster advice delivery.

If you have any queries or comments, please do not hesitate to contact me at policy@fpa.com.au or 02 92204500

Yours sincerely,

Ben Marshan
Head of Policy and Government Relations
Financial Planning Association of Australia[1]

[1] The Financial Planning Association (FPA) has more than 12,000 members and affiliates of whom 10,000 are practising financial planners and 5,600 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
- We have an independent conduct review panel, Chaired by Mark Vincent, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
- We are recognised as a professional body by the Tax Practitioners Board

FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

Digital Economy

Opening up the conversation

FPA submission

30th November 2017

Table of Contents

Introduction

Purpose of this submission

The FPA represents professional financial planners whose purpose is to ensure all Australians have a better financial future. Our submission focuses on supporting technology and digital solutions which will achieve this outcome, and support our members providing professional financial planning services to their clients. Our submission therefore focuses on the ways in which fintech developments are addressing the financial needs of Australians and their impact on the financial services. The digital economy encompasses both challenges and opportunities for financial services but the FPA remains optimistic and welcome the disruption from fintech start-ups. We examined different ideas, emerging technologies and highlight issues that require government attention. The submission addresses the 3 broad themes from the consultation paper:

1. Enabling and supporting the digital economy
2. Building our areas of competitive strength
3. Empowering all Australians through digital skills and inclusion

Together, we begin to embark on a digital journey to discover emerging technologies of the fourth industrial revolution. Machine learning, Blockchain, Internet of things, Artificial intelligence and data analytics all provide exciting challenges for fintech to overcome. These extensive innovations will trickle down to consumers through enhanced banking experience, data transparency and wealth management.

While the fintech eco-system remains vibrant, our international competitors do not remain idle and provide many insights for Australia to follow. In saying that, Australia remains competitive and has strong potential to lead the charge on emerging frontiers. Furthermore, it is pivotal the government assist consumers and incumbents of the digital economy as its development parallels both; innovators understanding of the regulatory framework and individual consumers' digital literacy.

We suggest further examinations into the recommended reports that provides deeper insights into specific technological advances and their impact on the digital economy. Ultimately, the developments of the digital economy will contribute to improved consumer welfare and financial positions. The report may help grasp financial planners' to grasp the plethora of information and reports on fintech opportunities.

State of play

Advances in digital technology in the finance services industry have culminated to form financial technology: fintech. The vast network of fintech seek to innovate many areas that can enhance customer experience, reduce logistics and optimise data analytics.

Many fintech start-ups that emerge within wealth management can be stratified to specific areas of a financial planner's role. Wealthtech is considered the third largest number of fintech companies in Australia[2], bringing great innovation for the financial planning process which is seething with opportunities for digitisation. Our white paper 'Mapping fintech to the financial process'[3] can provide in-depth detail relating to each component in the financial planning process and how fintech can assist. In summary; the FPA endorse technological advances that clearly enhances client's financial journey and assist planners in achieving more suitable and engaging advice, delivered faster and more affordably.

Evidently, consumers are drawn to fintech services because propositions are simpler, more convenient, transparent and personalised. This has a ripple effect across the industry as consumers come to expect these characteristics in all financial products, regardless of whether in retail banking, wealth management or insurance, and of who is providing the service[4].

Future Disruptive Models

According to report 'Adoption index' by EY, fintech services can be defined in 5 broad categories:

- Money transfer and payments
- Wealth Management
- Savings and investments
- Borrowing
- Insurance

Money transfer and payments has the highest adoption rate at 50%, followed by insurance services at 24% adoption rate[5]. Money transfer and payment services is anticipated to reach 65% of consumers in the future. Borrowing and financial planning are anticipated to more than double in usage[6].

These emerging markets are characterised by having growing economies and a rapidly expanding middle class, but without traditional financial infrastructure to support demand.

Relatively high proportions of the populations are underserved by existing financial services providers, while falling prices for smart phones and broadband services have increased the digitally active population that fintech target. These have been made possible due to 'greater contribution and activity

[2] KPMG, *Scaling the fintech opportunity: for Sydney and Australia,* 2017
[3] FPA, *Mapping fintech to the financial process,* 2017
[4] EY, *fintech Adoption Index: The rapid emergence of fintech*, 2017
[5] EY, *fintech Adoption Index: For Sydney and Australia*, 2017
[6] ibid

from regulators and policymakers in some markets that support fintech, such as in money transfer and payments, as well as insurance services'[7].

These groups are addressing new business models and technologies that were previously undefined by the current regulatory framework, setting up initiatives, such as steering groups and sandboxes, updating licensing regulations and introducing infrastructure changes that facilitate open APIs.

[7] ibid

Government Role

Decreasing regulatory barriers to fintech innovation

Currently, Financial Institutions are concentrating on updating their legacy systems with a strong focus on data analytics and mobile technology. While most incumbents are struggling to consolidate and manage data and to offer digital customer-service experiences, fintech companies are paying attention to emergent technologies. Innovators excel at providing products that make existing user experiences better. These developments include technologies include block chain, artificial intelligence, bio metrics and identity management, data analytics and cloud technology. According to PwC global fintech survey, Blockchain, AI and biometrics are of top priority.[8] These technologies seek to improve efficiency, security, enhance client service, and reduce cost in financial services.

Drawing from KPMG: Scaling the fintech opportunity for Sydney and Australia[9]; three recommendations are still incipient:

1. Collaborate and Develop an International fintech vision
    a. State government should collaborate with the private sector to develop a comprehensive fintech vision and strategy for Sydney, providing a focal point for the alignment of effort across the public and private sector an articulating a clear commitment to the fintech sector
2. Building Competitive Strength in international markets
    a. Promote Sydney as fintech centre in ASPAC region and establish a series of events in the city, regionally and globally to showcase fintech in Sydney, in line with our leading financial services position
3. Future Educational Standards and Issue
    a. Engage with university sector and leverage research institutes such as the Centre for international Finance and regulation to research key fintech themes and explore key issues in future digital education

Furthermore the government should require regulators, beyond ASIC, to assist in licensing and bringing novel innovative solutions to markets within all areas of financial services.

While the regulatory sandbox provide relief from regulatory obligations with ASIC, the monetary barriers of innovation are still woven within the start-up industry in which fintech dwells. The Government can alleviate this problem by establishing fintech grants to assist fintech through initial costs or provide tax incentive for existing AFSLs to support fintech.

[8] PwC, *Global fintech Survey, 2017*, pp 9
[9] KPMG, *Scaling the fintech opportunity for Sydney and Australia, issue paper 17,* 2017

Enabling and supporting the digital economy

To facilitate fintech adoption, city-wide internet access and improvements in mobile applications provide a strong platform for improving digital economic activities.

Intelligent city platform – Cambridge shire

Examining international innovation can shed light on our current standards for a digital economy. Overseas cities are pushing the frontier on the use of free public infrastructure, which Australia can emulate. Cities, such as Cambridge under the UK government-funded Super connected Cities Project, are creating city-wide free Wi-Fi zones to give the public superfast connectivity[10]. The innovation of 5g network will best suit these platforms and should coincide with its implementation. Australians citizen will benefit from similar sources of accessible internet in public places, for price comparison & banking access that facilitate financial transactions. Increasing consumers' online presence will provide more opportunities for business to monitor and monetise, which will contribute to the digital economy.

Improving mobile platforms for Mobile – only users

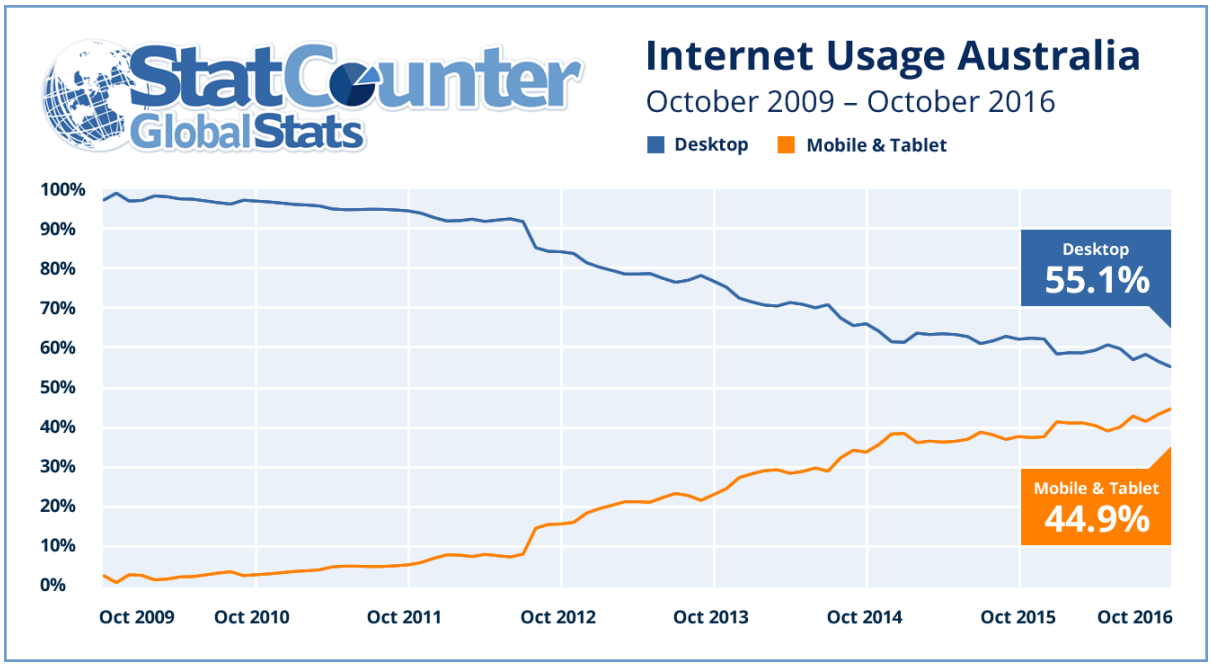
The multiple ways to engage with a digital economy can be problematic. Digital opportunities are accessed through: Desktop, Mobile or Tablet, assuming they have internet access. Each has their advantages that tailors user's experiences, based on accessibility and affordability. Therefore, solutions must be provided on a platform that has strong market penetration and attraction with the financial consumers and community. For consumers, mobile application can be considered a strong platform whilst desktop would pre-dominantly be used by financial services.

[10] Connecting Cambridgeshire, Cambridgeshire Council, accessed November 2017

We endorse mobile applications as it provides many advantages for consumers such as:

- Leveraged familiarity of mobile device, coupled with assurance of security
- Ease of use
- Growing cashless economy supported by regulators
- Reduce reliance on traditional payment process
- Provide unique customer experience
- Increase engagement by smoothing traditional friction points

According to *Statcounter*[11], internet usage is on the verge of being dominated by smart phones.



Arguably, more people are likely to individually own a mobile, or be connected to one, rather than each individually own a PC. Hence, distinguishing opportunities on mobile vs desktop is crucial in maximising digital opportunities.

Evidence of success in mobile applications engaging communities can be seen in India, China and Nigeria. The growth of mobile penetration increased financial inclusion, with people moving from no previous banking history to being able to make payments via a mobile phone[12]. Hence, their financial literacy & capabilities are improved due to the constant access to their financial situations. Mobile devices also provide more work opportunities for micro-businesses, especially for digital products. Hence, by closely monitoring the digitisation process of government and financial services, and synergising with smartphones, we can increase Australians digital adoption, translating into acceleration of new technology development.

[11] http://gs.statcounter.com/press/mobile-and-tablet-internet-usage-exceeds-desktop-for-first-time-worldwide

[12] PWC, *Future of Payments in Australia: The future of transaction banking and payments in 2020,* 2017

Standards and Regulation

Standards and Regulation development

Regulation within fintech was seen as a barrier to entry into Financial Services. However, PWC suggest the reverse is happening. Many incumbents are hampered by complex governance and navigate around risk and regulation[13]. The time management of consumer information can deter digital innovation as rules and regulation are constantly changing. From their survey, respondents indicated that regulations in digital identity authentication and anti-monetary laundering/know your client (AML/KYC) spaces were strong barriers to innovation.

Blockchain is gaining traction for regulators given the native 'regulatory capabilities' embedded in the technology. Technology that can monitor, capture and analyse systemic risk of large amounts of data will provide a more comprehensive and efficient approach to regulation and risk management[14].

REGTECH

The term Regtech has emerged to characterise innovation and emerging tech focused on enabling smarter regulation and reducing complexity in existing regulation and compliance. Regtech fast-growth is a reflection of the substantial regulatory and cost burden for financial institutions, as well as policy makers and regulators who are supportive of the industry finding more effective solutions to risk management, compliance and transparency for stakeholders.

Furthermore, the key areas where policy makers and the regulatory community may engage in are:

- Regulatory guidance on digital verification & cloud computing
- Reviewing regulators settings globally in line with regulatory sandbox
- Ensure free and open markets are established for transferring digital and analogue currencies and assets are established

We endorse the recommendations from KPMG: "Scaling the fintech opportunity" and suggest a closer examination on their recommendations on policy and regulatory settings.

[13] PWC, *Global fintech Report 2017*, pp 13
[14] Ibid

Labour market regulation to enable digital entrepreneurship

Employment regulations and policy will need to keep abreast of fast evolving labour markets, which are becoming increasingly important as a global competition moves to the levels of individual jobs. Australia, like the rest of the developed world, is experiencing rise of a digitally-enabled 'gig economy' as more and more individuals abandon the traditional employment model in favour of working independently on a task-by-task basis for multiple employers[15]. Start-ups like 'Quarter life crises'[16] have enabled these new trend by collaborating with the university sector to provide international projects to students from start-ups. As the projects are heavily digital, it allows the logistics, management and objectives be achieved almost anywhere. Business also gain access to an international talent pool who are more digitally capable. However, we have to be careful not to enable a collaborative labour market without regulation or scrutiny. It will be pivotal for policy makers to ensure legislation supports a digitally-enabled labour market.

AI eliminates bias

Although minor in comparison, the government can promote responsible use and access to trusted data sources that provide unbiased, relevant data that reflects the diversity of its cohort/users. As such, the gender issues and its prominent unconscious bias may manifest itself in the digital economy. Kriti Sharma, in her article, "Why AI provides a fresh opportunity to neutralise bias[17]," raised a concern about the exuberant use of 'female' AI in assistive roles, versus 'male' AI in more robust, financial advisory and banking roles. While it presents no real threat now, it raises the question of whether unconscious bias has its place it the future digital economy. It is important to recognise and abolish these small details before they propagate gender stigmas, especially as the digital economy thrive on social norms and interactions.

Potential Solutions:

- Monitor diversity in development of AI innovations
- Promote education from different cultures, backgrounds and educational pedigrees

The end goal is to build tech that achieve diversity, inclusion and equity through utility, "shifting society in the necessary direction of acceptance and equality"[18].

[15] Mckinsey, *Digital Australia: Seizing the Digital opportunity*, 2017, pp 155
[16] https://qlc.io/, accessed Nov 2017
[17] http://mashable.com/2017/11/06/artificial-intelligence-ai-bias/#yghCrzWyJPqV
[18] ibid

Supply Chain Optimisation

The plethora of information from different supply chains presents many opportunities for the digital economy to realise. Gathering from PWC and EY, supply optimisation can be achieved through rectifying digital standards and de-cluttering data complexity from supply chains.

Digital Standards needed for supply chain optimisation can be broadly promoted by use of[19]:

- Social channels to provide better customer experiences, real-time feedback and identification of opportunities to reduce costs in the future.
- Mobile technologies streamlining supply chain operations
    - E.g. Users working remotely in the field can use their mobile device to take care of all administrative tasks, including approving and process payments from wherever they are.
- Data Analytics provide performance metrics on vendor performance
- Cloud technologies to improve coordination between suppliers and vendors

Data Collection and Complexity

A concern with the surge of data collection is the growing data complexity and need for increase data analytics capabilities. This may inhibit companies' ability to access business insights. Therefore, data complexity can and must be simplified by a focused enterprise data strategy.

A possible solution suggested by EY, in 'Digital Supply Chain: It's all about that data' is the use of machine learning[20]. As the report states: "Machine learning technology is well-suited to identifying micro-level patterns in large datasets that human analysts are likely to miss… such as subtle demand signals that otherwise would've been costly"[21]. Hence, improvements resulting from changes suggested by such micro-patterns can lead to material gains.

The internet of things and Blockchain also have the potential to impact the market and supply chain. As highlighted in the key takeaways, which suggest that:

1. IoT can enable new operational processes leading to self-organising supply chains
2. Block chains ease financial collaboration that can lead to open distribution-network supply chains.

Hence, utilising these technologies as soon as possible, will increase supply chain productivity and gain competitive advantage.

[19] Pwc, *Leading the front: Redesigning finance from the digital age*, 2017
[20] EY, *Digital Supply Chain: It's all about that data,* 2017
[21] ibid

Building on our areas of competitive strength

Barriers to fintech Adoption:

As with most emerging innovation, whether technological advances or prominent financial opportunities, there will always be two barriers to their adoption: awareness and conservatism. Respondents who cited awareness as a barrier to using fintech services have declines from 38% to 16%, indicating 84% of the surveyed population in these 6 countries [Aus, Can, HK, Sing, UK, US] are now aware of fintech[22]. In the financial planning industry, it is difficult to substitute the confidence, empathy and humanity provided from financial planners. While, a preference for traditional financial services providers can be a reason for not using fintech in some generations, conservatism will decrease with more digital confidence.

Younger consumers are tech savvy, digitally literate, but more importantly, they are at the age where they have a greater need for financial service[23]. In some markets, they have not developed many strong relationships with financial providers, and are willing to consider non-traditional options as alternatives. Therefore, as time progresses, security and confidence among younger generations can encourage fintech adoption

How are we responding to digital transformation?

A core aspect of financial planning is understanding clients' level of financial and digital literacy which demonstrates their ability to develop good financial habits aligning with a planner's recommendation. The FPA has partnered with BANQER[24] who aims to boost financial literacy for students between years 1 -7. BANQER's simulated online banking gives students the opportunity to learn about the concepts of saving, investing, borrowing and purchasing. Each student is given their own bank account, where they can transfer money, set up automatic payments and track their spending. We believe a proactive approach to financial literacy will instil proper money management for future financial goals**.**

Opportunities for Small-to-medium-sized-businesses (SMEs)

There is an opportunity for government to use targeted digital policies to boost efficiencies in select parts of the economy. SMEs are prime candidate for such policies, given that they are a significant contributor to the Australian economy, but face capital and scale constraints that could hinder them benefiting from the same digital opportunities as larger businesses[25]. The Mckinsey report, 'Digital Australia: Seizing the opportunity from the fourth industrial revolution' 2017, elaborates on the impact of the smaller business in the digital economy and highlight areas for the government to regulate. Meanwhile, several countries have already enacted digital policies which focus specifically on

[22] EY, *fintech Adoption index: The rapid emergence of fintech,* 2017
[23] ibid
[24] https://www.banqer.co/ , accessed Nov 2017
[25] Mckinsey, '*Digital Australia: Seizing the opportunity from the fourth industrial revolution'*, 2017

improving efficiencies in SMEs – such as 'Mittlestand –Digital' in Germany, which promotes the use of software for enhancing business processes among SMEs[26].

International trends and 'fast following'

We rank fifth in the EY fintech Adoption index, at 37% which is only 4% higher than the average adoption rate of 20 markets. Fintech adoption by digitally active consumers in Brazil, China, India, Mexico and South Africa average 46%, considerably higher than the global average. From an individual market perspective, China and India have the highest adoption rates at 69% and 52% respectively. Brazil is notable for the evolution of its online budgeting and financial planning services, while the UK is notable for having the second most developed insurance services

KPMG's: "Scaling the fintech opportunity" compared the 6 giant financial hubs: Silicon valley, New York, London, Singapore, Hong Kong and Shanghai. We recommend observing the government policy and regulatory framework among each city to better understand the opportunities Australians can benefit.

Through KPMG stakeholder surveys, they articulate areas that Australia can potentially be global leaders in. These areas, from highest to lowest potential are:

1. Payments
2. RegTech
3. Blockchain
4. Lending
5. Wealth tech
6. Big data

Payments, Regtech and Blockchain were identified as the three areas of fintech where Australia has the potential to scale locally and to grow internationally through exporting capability. These areas are designated as 'priority' areas of capability for NSW government support and investment as they offer benefits to domestic markets, as well as international export potential. While the NPP catalyse our growth in fintech and attract international attention, we can achieve the competitive advantage in Regtech and Blockchain. KPMG recommendations include facilitating collaboration between private and public, including regulators, to develop a potential solution for one common industry issue such as KYC and AUSTRAC requirements[27].

Furthermore, providing international pathways for Australia's fintech sector will foster opportunities for Australia's eco-system in offshore markets. These can be in the form of international programs and funding that best allows start-ups to access travel to international markets. The pathways serve as a

[26] *Future of the German Mittlestand Action Programme: New edition 2016,* Federal ministry for Economic Affairs and Energy, accessed: Nov 2017
[27] KPMG, *Scaling the fintech Opportunity: for Sydney and Australia,* 2017

means for the fintech start-ups to gain a better understanding in world-leading developments in international jurisdictions.

Empowering all Australians through digital skills and inclusion

Education, Skills & Talents

In, KPMG's 'Scaling the fintech Opportunity' report, best tabulates the current talent pools around various cities[28]. The table indicates strong requisition of overseas talent as well as changes to curriculums to best satisfy growing demands for fintech skills. Emphasis on collaboration within the regulatory community, private sector and university to best explore the effective solutions in funding, research, awareness and fintech representation.

While the integration of new STEM subjects are rolling out, Australia can still benefit from the specialisation of fintech-related subjects as the finance field continue to diverge from *paper-trails* and more towards digitally intense processes.

"***Australians advantage is that we have quality education and a highly regulated education system that supports quality and we need to make sure this is maintained. Education is the best force that we have to improve out nations' productivity" - Ian Grayson***

It can be problematic to predict the specific skillsets required in the future, hence there has been increased focused on adaptability and resilience to education. It can also be noted that the growth mindset is best demonstrated from current leaders as they need to revisit long-standing assumptions[29]. Hence, Australians education sector will need to evolve to support entrepreneurs and technologist of the future.

Addressing the digital divide

Addressing the digital divide within Australia will be key to capturing the full opportunity for economic growth and improved citizen experience[30]. The digital divide can be categorised into 3 broad metrics: access, affordability and digital ability[31]. The Australian government has made progress in each field with the introduction of NBN and 'Be Connected'[32]. The initiative has potential to increase digital engagement and transaction opportunity for the elderly, who's current 'Digital Inclusion Index' falls well below national average. As the initiative is still in beta, further improvements has high potential to benefit other socioeconomic groups with respect to their disadvantage:

Indigenous Australians	Digital ability
Australians with Disability	Affordability
Rural Regions	Accessibility

[28] KPMG, 'Scaling the fintech Opportunity: for Sydney & Australia', 2017, pp. 44-46
[29] PWC, Global fintech report, 2017, pp. 14
[30] Mckinsey: Digital Australia: Seizing the Opportunity from the Fourth Industrial Revolution, pp 152
[31] Measuring Australia's Digital Divide, The Australia Digital Inclusion Index 2017, Swinburne University of technology, Swinburne Institute for Social Research and Telstra, 2016
[32] Be Connected, Australian Government, Accessed November 2017

The main concern is the program's ability to reach individuals that most require its services. The irony remains; 'Be connected' teaches basic digital skills but requires basic digital skills to get started. As such, traditional marketing such as mailing may acquire traction within regional communities, who may not have access to 'Be connected' networks, but have access to internet and computer. Furthermore, targeting younger generations can raise the programs awareness and shift some responsibilities to them. The idea is more prevalent in cultural communities where the language barrier is present. The problem is exacerbated with mobile-only use generations who may not have access to pc/tablet/laptop; a device that best fulfils the program's purpose.

Cultural impacts of the digital economy

A stronger digital economy enables a world to overcome the barriers of borders. The multiculturalism of Australia is epitomised through faster and regulated payment system as it enables ethnic families to fulfil their family duty of care. The cultural practice of transnational care is prevalent within the immigrant Australian community. However, transnational carers are faced with visa restrictions and immigration regulations, and more importantly, disparities in the availability of telecommunication and digital infrastructures[33]. A digital economy can enable families to securely transfer payments, worry-free. As such, the New-payments-platform and 'Consumers data right' play a role in traversing the filial piety landscape. Indubitably, a digital economy will improve the social and cultural practices, as we endeavour to create more equality and acceptance in Australia.

[33] Loretta Baldassar, Cora Vellekoop Baldock, Raelene Wilding, *Families Caring Across Borders: Migration, Ageing and Transnational Caregiving,* 2007