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Standing Committee on Economics
Parliament House
CANBERRA ACT 2600

Thank you for the opportunity to provide evidence to the Inquiry into Economic Dynamism, Competition and Business Formation.

About the Tech Council of Australia (TCA)

The TCA is Australia's peak industry body for the tech sector. We represent a diverse cross-section of Australia's tech sector, including startups, venture capital funds, and large technology companies that link Australians to global markets. This also includes local industry leaders in FinTech such as Afterpay (part of Block inc.), Airwallex, Finder, Tyro and Zepto.

1. The tech sector is a driver of growth and productivity in the Australian economy

The growth of the Australian tech sector – and the high paid, high-skilled jobs it creates – is one of the great success stories of Australia's economy over the last decade. The Australian tech sector now contributes \$167 billion to GDP per annum and employs over 860,000 people.¹ This makes the tech sector equivalent to Australia's third largest industry, behind mining and banking, and Australia's seventh largest employing sector.

This contribution comes from the direct tech sector (e.g. software firms), which represents \$76 billion in GDP, and from the indirect tech sector which consists of tech workers and activity in other industries such as mining and banking. The indirect tech sector contributes \$92 billion to GDP per annum and employs over 250,000 workers, roughly equivalent in employment size to the total mining sector.²

Tech workers across industries generate significant productivity benefits. They introduce new technologies, ideas and processes to businesses, and spur different parts of the economy to innovate. As noted in the Productivity Commission's 5-Year Productivity Inquiry, this represents a significant opportunity to increase productivity, particularly in services industries such as retail, hospitality and transport.³

Within the direct tech sector, Australia has been successful at originating companies in a wide variety of verticals such as Business Software, BioTech, Medical Devices, Media Design and PayTech. We have a disproportionate share of the world's unicorn companies valued at \$1 billion or more (2.3%) relative to our contribution to global GDP (1.6%), and have now created over 100 tech firms valued at \$100 million or

¹ [TCA The Economic Contribution of Australia's Tech Sector 7](#)

² Ibid., 6.

³ [Productivity Commission, 5-year Productivity Inquiry: Innovation for the 98%, 8](#)

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more.⁴ Companies such as Atlassian, Afterpay and Canva are just some of the well-known companies that have built globally successful businesses, delivering economic and jobs benefits to Australia and significant productivity and competition gains across the wider economy.

While Australia has huge potential and impact in its direct tech sector, the direct tech sector is a smaller share of Australia's economy versus other nations. It is 3.8% of Australia's economy, compared to 6.8% in Canada, 8.1% in the UK and 10.2% in the US.⁵ Growing the direct tech sector as a share of the Australian economy is an important structural policy goal if Australia wants to increase economic dynamism in our economy.

Overall, the tech sector is a key driver of productivity in the Australian economy. The sector supports productivity through 'indirect impacts' by driving enhancements of business practices and developing new assets, products and business models.⁶ These improvements are transforming the nature of work and supporting business to access global markets, better reach customers, improve productivity and scale their business.⁷

The tech sector's productivity gains are set to increase, with new and exciting tech sector segments emerging with the potential to further enhance Australia's economy. The next round of Australian high-value companies are likely to come from areas where Australia has existing economic and industrial strengths, including Mining Tech, EdTech and Diversified FinTech.⁸ We also have emerging strengths in areas such as Quantum Tech among others.⁹

The tech sector is also a driver of productivity in the public sector by providing technologies which digitise interactions between the government and its citizens, streamline internal processes and enable the use of data analytics to improve decision-making and the administration of government programs and spending.¹⁰ Research by McKinsey & Company estimated that the application of digital technologies in the public sector could generate annual efficiency gains of 4 to 15 percent.¹¹

⁴ [TCA Turning Australia into a regional tech hub 5](#)

⁵ TCA, The Economic Contribution of Australia's Tech Sector, 36.

⁶ Ibid., 18.

⁷ Ibid., 17.

⁸ TCA, Turning Australia into a regional tech hub, 6.

⁹ Ibid., 7.

¹⁰ [McKinsey Digital Australia: Seizing the opportunity from the Fourth Industrial Revolution 9](#)

¹¹ Ibid., 9.



2. Startups and scaleups are an important source of dynamism and productivity

Tech startups and scaleups are a key productivity driver in the Australian economy. They tend to be more innovative and are more likely to create and adopt new technologies than more established firms.¹² They promote overall economic productivity by creating products that drive productivity among businesses, innovating in new tech verticals, and introducing competition into established markets, such as financial services.

Startups play a critical role in improving business productivity in all industries by improving business processes, reducing costs and supporting business innovation.¹³ For instance, many businesses use accounting tools such as Xero to manage business financials, workforce management tools such as Employment Hero for recruitment and payroll, and graphic design tools such as Canva to create marketing materials.¹⁴ The reduced time and costs enable businesses to focus on innovating new products and deliver better services to customers. This drives business productivity and improves productivity gains across the economy.

Australian startups are also innovating in new and emerging verticals such as AI, payments and Blockchain, creating products that have the potential to deliver outsized productivity gains for businesses compared to traditional products such as software-as-a-service.¹⁵ Generative AI startups have the potential to create products that support a variety of business functions such as IT and Engineering by enabling software developers to write, document and review code more efficiently. Similar tools are also being used in Marketing and Sales to enable teams to create personalised marketing content at scale.¹⁶ Blockchain startups are another major productivity driver. They create products that enable instant settlement of business transactions, reduced transaction costs and supply chain tracking.¹⁷

Startups also promote competition across the economy which drives firms to innovate and promotes productivity growth ([Appendix B](#) sets out a number of case studies on individual startups).¹⁸ For instance, FinTech startups promote competition in the payments system by introducing new and innovative products such as international payment transfers, real-time account-to-account payments, buy now, pay later (BNPL), digital wallets and digital assets as well as by competing directly in under-served markets and facilitating greater transparency in payments data through Open Banking.¹⁹

¹² [OECD Laggard Firms Technology Diffusion and its Structural and Policy Determinants 46.](#)

¹³ TCA, The Economic Contribution of Australia's Tech Sector, 17.

¹⁴ Ibid., 19.

¹⁵ TCA, Turning Australia into a regional tech hub, 7.

¹⁶ [McKinsey, Generative AI is here: How tools like ChatGPT could change your business](#)

¹⁷ [TCA Digital Assets in Australia 2](#)

¹⁸ [Treasury Competition in Australia and its impact on productivity growth 1](#)

¹⁹ [RBA Submission 29 - Reserve Bank of Australia \(RBA\) - Competition in the Australian Financial System - Public inquiry, 2](#)



Increasing innovation from FinTech startups has also forced financial incumbents to compete by introducing new payment technologies and better services for customers. For instance, banks and other financial institutions have started to launch products with BNPL-like features such as Commbank's Step Pay product and Apple's Apple Pay Later product.²⁰ This has resulted in a greater variety of choice, improved products and decreased transaction fees, especially for small and medium enterprises.²¹

3. Large tech companies also play an important role in dynamism

Large tech companies are critical to the health of the tech ecosystem and the broader economy and their ability to cultivate new businesses and technologies. These companies drive productivity gains in four key ways: 1) provide new products and services for businesses to operate more efficiently, 2) promote knowledge spillovers, 3) invest in and support ecosystem infrastructure, and 4) help attract investment from foreign companies.

Firstly, large tech firms provide new products and services that help improve and streamline business processes and operations, innovate business models and product offerings, and grow revenue streams through improved customer interactions and service.²² One example of this is Xero, a cloud-based software company that connects businesses with accounting tools, applications and business datasets. It is one of the fastest growing software-as-a-service (SaaS) companies globally, and has over 3.5 million subscribers in more than 180 countries.²³ Through secure, direct data feeds with banks and other service providers, Xero automates critical businesses processes such as cash flow reporting, bank reconciliation and expense management, enabling businesses to operate more efficiently and make better and more informed decisions.²⁴ These services were particularly important for supporting small businesses during COVID-19. In addition to its usual product offerings, Xero released a COVID-19 Business Support Tool to help businesses determine grant eligibility and more easily access critical financial assistance such as COVID-19 business grants.²⁵

Large tech firms have also created digital platforms that enable consumers and businesses to access and sort through vast amounts of information, connect with others, and sell and purchase products on online marketplaces.²⁶ These services enable Australian businesses to provide innovative services, promote their products and quickly reach consumers and operate more efficiently, thereby increasing their productivity.²⁷ Secondly, large firms hold significant amounts of technical,

²⁰ [AFIA The Economic Impact of Buy Now Pay Later in Australia 11.](#)

²¹ Ibid., 3.

²² McKinsey, Digital Australia: Seizing the opportunity from the Fourth Industrial Revolution, 8.

²³ [Xero Changing the game for small business 1.](#)

²⁴ [Xero, Submission to the Inquiry into Future Directions for the Consumer Data Right, 1](#)

²⁵ [Xero Accountants and BAS agents: Xero has created a new tool to help your clients apply for lockdown support 1](#)

²⁶ [ACCC Digital Platforms Services Inquiry Discussion Paper for Interim Report No. 5 4](#)

²⁷ Ibid., 4.



operational and managerial expertise which allows them to establish themselves in markets globally. Interactions between large tech companies and their domestic customers and suppliers can generate knowledge spillovers, leading to improved productivity for startups and other firms.²⁸ Firms can benefit from this knowledge when they hire former employees and when they sell their goods and services to larger companies. This knowledge allows them to operate more efficiently, scale globally and create new products, platforms and services.

For instance, many large firms provide high-quality training programs for their employees and as well as opportunities for Australian employees to learn from overseas employees and work overseas. One example of this is Atlassian, which started in Australia but has since expanded globally with significant presence in the US. Former Atlassian employees have leveraged their homegrown and global experience to found several leading startups in Australia including Dovetail, Kinde and Sajari.²⁹ In fact, knowledge spillovers from the movement of workers between tech firms has been credited for spurring innovation and productivity in thriving startup ecosystems such as Silicon Valley.³⁰

In addition, large firms tend to have more stringent product quality and procurement standards that require high quality goods and services from suppliers.³¹ Large companies are often willing to provide direct assistance to suppliers to help them tailor their products to the required standards, for instance, by sharing and encouraging the adoption of best practices.³² This enables suppliers to develop more robust and globally competitive products, thereby improving their competitiveness and productivity.

Large firms also play a critical role in sharing industry expertise and knowledge, particularly in areas such as AI governance, data privacy and diversity and inclusion. For instance, companies such as Google and Microsoft, who are recognised globally for their efforts in Responsible AI, provide several resources to help organisations use and develop trusted and transparent AI systems such as principles, standards and impact assessment templates.³³³⁴

Thirdly, large firms provide significant investment in ecosystem infrastructure such as cloud infrastructure, which has supported Australian companies by reducing barriers to entry and making it easier to scale globally.³⁵ The adoption of cloud services has allowed startups and other smaller firms to readily access productivity

²⁸ Productivity Commission, 5-year Productivity Inquiry: Innovation for the 98%, 33.

²⁹ [Sydney Morning Herald Atlassian alumni launch next generation of startups 1](#)

³⁰ [Anna Lee Saxonians Regional Advantage: Culture and Competition in Silicon Valley and Route 128](#)

³¹ Productivity Commission, 5-year Productivity Inquiry: Innovation for the 98%, 29.

³² [Gorg Do Domestic Firms Really Benefit from Foreign Direct Investment? 7](#)

³³ [Google Responsible AI practices 1](#)

³⁴ [Microsoft Empowering impactful responsible AI practices 1](#)

³⁵ TCA, Turning Australia into a regional tech hub, 9.



enhancing software that previously were only able to be developed and accessed by larger businesses.³⁶

Cloud infrastructure and services has also enabled the software as a service industry, exemplified by local technology companies such as Xero, Deputy and Employment Hero, and global companies such as Salesforce. These products enhance flexibility in the operating models of smaller enterprises because they tend to have lower up-front costs and lower switching costs, enabling them to be more agile in an ever evolving and dynamic market.³⁷ This has resulted in significant productivity benefits, with a 2019 Deloitte Access Economics study finding that the cumulative productivity of the adoption of cloud services by Australian businesses was estimated to be in the order of \$9.4b in the preceding five years.³⁸

Fourthly, the presence of large firms helps attract new foreign investors and companies looking to establish themselves in new markets and develop closer relationships with new and existing clients.³⁹ This signals to other investors that Australia is a destination with attractive features such as high skilled labour, infrastructure and favourable policy framework. Foreign investment brings expertise, new business models, technologies and processes as well as global connections which can spread knowledge and good management practices.⁴⁰ It also helps address financing gaps, with almost 30% of Australian businesses engaged in innovation citing access to external financing as a barrier to innovation in 2019-21 2021.⁴¹

4. Australia needs to ensure policy settings support greater economic dynamism.

The TCA has identified three policy pillars that can meaningfully impact the growth trajectory for young, dynamic tech companies in Australia: 1) tax and investment settings; 2) skills, talent and migration; and 3) cross-cutting regulation that impacts the ability of firms across the economy to innovate, invest, adapt and grow.

a. Promoting investment and growth

To grow more companies and ensure our startups can continue to drive productivity gains across the economy, Australia needs to increase the amount of investment in tech activity. Research undertaken by Accenture's Economics Insights team shows that founding and growing more local tech companies can deliver 95,000 new jobs by 2030 and \$21bn in new economic growth.⁴²

³⁶ [Deloitte Access Economics The economic value of cloud services in Australia 9](#)

³⁷ Ibid., 9.

³⁸ Ibid., 5.

³⁹ Productivity Commission, 5-year Productivity Inquiry: Innovation for the 98%, 29.

⁴⁰ Ibid., 33.

⁴¹ Ibid., 28.

⁴² TCA, Turning Australia into a regional tech hub, 37.

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While Australia's venture capital environment has grown considerably in recent years, it is still small by international standards.⁴³ Existing venture capital tax incentives and improvements in Employee Share Schemes have been instrumental in creating a more attractive investment environment in Australia, but there is more that can be done to catalyse investment in the tech sector.

Key measures Australia could take include:

- **Creating effective direct-funding instruments that can stimulate co-investment and provide patient capital in areas of comparative advantage with identified funding gaps.** Our research shows that Australia is particularly under-investing in critical technology areas such as AI, cyber security and robotics, due to the higher commercial risks, longer development times and higher up-front capital needs.⁴⁴ The National Reconstruction Fund provides an excellent opportunity to address this by filling funding gaps requiring patient capital (where the private sector is less inclined to invest due to longer development times, high up-front costs and higher risks) and crowding-in further private investment in critical technologies and enabling capabilities. We note that the NRF is premised on co-investment, which will come in part from specialised overseas investors given existing data shows that around two thirds of tech deals involve FDI.
- **Making it easier for trusted foreign investors to invest in high-potential firms** by improving the administration of Foreign Investment Review processes, and by attracting more global firms to locate high-value regional activities in Australia e.g. product development, local R&D and APAC regional service and sales hubs. Currently, Australia has the 34th least efficient foreign investment review process amongst 38 OECD countries. That places Australia behind allies like the US and UK, and countries such as Turkey, Poland and Chile. This is a major issue for the tech sector given the importance of FDI. Improving the administration of Foreign Investment Review processes will also help support the success of the National Reconstruction Fund (as outlined above).
- **Creating a tax environment that rewards investments in innovation and technology,** including examining how to improve the tax treatment of intangibles, and exploring an investment allowance to allow for accelerated depreciation in priority areas of the economy, noting Australian businesses and SMEs lag peers globally in digital investment.⁴⁵
- **Reforming the administration of the Research and Development Tax Incentive (RDTI) for software.** R&D tax incentives are critical to directing investment into longer-term, higher-productivity projects and levelling the playing field between SMEs and large companies. However, software companies find the application process overly complex and face a high

⁴³ [Treasury Venture Capital Tax Concessions Review - Final report 7](#)

⁴⁴ TCA, Turning Australia into a regional tech hub, 38.

⁴⁵ [KPMG, Australian organisations lagging global peers in IT budgets](#)



degree of uncertainty around whether they are eligible for funding due to outdated definitions of how R&D is conducted.

- **Maintaining favourable tax settings that are working**, such as the Early Stage Venture Capital Limited Partnership arrangements, the Early Stage Investment Company (ESIC) tax incentive and Employee Share Schemes.
- **Maintaining an environment that supports continued investment by global tech companies** in the Australian tech sector, particularly in Cloud and Data Centres.

Overall, these reforms have the potential to improve investment in new industries and innovations and are critical to addressing Australia's productivity crisis and facilitating Australia's transition into a new and more productive economy.

b. Boosting tech jobs and talent

To support the growth of large and small tech companies and the productivity gains they bring, Australia needs to address skills shortages in the tech sector, particularly in highly technical roles. Addressing these gaps will enable companies to attract and retain the talent they need to scale and operate efficiently. This remains the biggest policy concern of our members.

From our research, tech occupations experience vacancy rates about 60 per cent higher than the economy-wide average.⁴⁶ The largest skills gaps are in experienced and technical roles such as software engineers and cyber security specialists. The Tech Council and the Australian Government have a shared goal of employing 1.2 million tech workers by 2030, requiring an additional 653,000 individuals to join the tech workforce in the next seven years, which is an additional 186,000 tech workers above business as usual projections.

Growing our skills pipeline is not just important for the growth of tech companies, it is also important for the future of the next generation of Australian workers. Despite tech jobs being amongst the fastest growing in the economy, with growth rates triple the national average, there are around the same number of domestic Australian students in higher education IT courses as there were in 2002.⁴⁷

There are four key measures Australia could take to improve the tech jobs pipeline.

I. Raise awareness of tech jobs and careers and the pathways into them among Australians of all ages

Many Australians do not understand what tech jobs are, the opportunities they represent or how to get into them. This is particularly the case for young Australians, with 1 in 2 students indicating they had never been taught about digital careers.⁴⁸ Increasing awareness and understanding of tech jobs is critical to developing a tech workforce in Australia.

⁴⁶ [TCA Getting to 1.2 million 2](#)

⁴⁷ Ibid., 2.

⁴⁸ Ibid., 16.

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Key measures Australia could take include:

- **A nation-wide campaign to demystify the tech sector and tech jobs** for Australians, with industry leading the design and implementation of the campaign.
- **A national work experience program** for secondary school students providing virtual work experiences for priority tech roles (noting the Tech Council is currently developing a pilot program).

II. Reform training products and pathways to ensure they are relevant and responsive to learner and industry needs

The skills needs of tech jobs have changed rapidly as new technologies are adopted by industry. However, training models and qualifications have not kept pace with the needs of industries. For instance, new occupations such as Product Manager and User Experience Designer have no accredited courses or programs despite being some of the highest shortage roles.⁴⁹ In addition, there is a need to improve ICT qualifications, particularly those offered through the VET system, with only 1 in 2 VET students in ICT courses able to secure better job opportunities upon completing their studies.⁵⁰

Key measures Australia could take include:

- **Defined and managed skills standards and pathways:** Industry should define and manage skills standards and pathways for tech roles. These can be used as a reference point to inform position descriptions and workforce capability assessments and align accredited and non-accredited training.
- **Digital Apprenticeship Model:** Industry and government are currently working on the co-design of a modern digital apprenticeship model at scale for entry-level technical roles such as Data Analyst and Cyber Analyst, following a commitment made at the Jobs and Skills Summit. Implementation of a digital apprenticeship model would provide critical pathways for young Australians into tech jobs, as well as opportunities to support reskilling.
- **Innovative learning and recognition options:** Improving pipelines into tech jobs will require innovative learning options and greater recognition and integration of industry certifications and existing skills that individuals already possess.

⁴⁹ Ibid., 17.

⁵⁰ Ibid., 17.

III. *Improve the productivity of the skilled migration system*

Economic benefits are created by skilled migrants increasing Australia's economic capacity, bringing new skills and experiences which make Australian businesses more productive and being net contributors to the tax system.⁵¹ Skilled migrants also bolster Australia's national security by bringing the skills and experience required to develop critical technologies and improve our cyber security.⁵²

Australia has some of the best tech talent in the world, but we just don't have enough to meet demand. Further, shortages are concentrated in highly technical roles requiring experience – a gap that only skilled migration can meet in the short term while also training up junior Australian staff to prevent future shortages.⁵³

But the inefficient administration of Australia's migration system has constrained our ability to attract these experienced tech workers. Long processing times and limited paths to permanency make Australia far less attractive than countries like the UK and Canada, which have expedited paths for tech workers.

To maximise the economic benefits from skilled migration, we recommend the Government:

- **Prioritise employer-sponsored skilled migration, with fast pathways to permanency and increased labour mobility:** Employer sponsored migrants have better employment outcomes and earn higher-incomes than other skilled migrants which means that they contribute higher levels of taxation and have higher skill levels which increases the likelihood of technology spillovers.
- **Streamline arrangements for visa holders earning more than the average full-time salary for accredited sponsoring employers, by removing occupational specification, labour market testing and skills assessments.** Removing occupation-related requirements would allow employers to address skills shortages more efficiently. To address integrity risks for workers on lower salaries, we recommend only removing occupation-related requirements for visa holders above a certain salary threshold.
- **Ensure the administration of the skilled migration program is internationally competitive:** This recommendation would be implemented through three specific actions:
 - Commit to a service standard of visa processing within 10 days, on average
 - Modernise the accreditation pathways for sponsoring employers
 - Better target the use of SAF levy funds.

⁵¹ Productivity Commission, 5-year Productivity Inquiry: Innovation for the 98%, 41.

⁵² Ibid., 5.

⁵³ TCA, Getting to 1.2 million, 6.



IV. *Increase the diversity and representativeness of people working in the sector*

Increasing the diversity and representativeness of people working in the tech sector is not only beneficial for the sector, it is critical to improving economic productivity. Tech jobs are an important new source of economic opportunity for Australians, particularly women and older Australians. They are some of the most well-paid jobs in Australia, with workers earning 64% more than the economy-wide average.⁵⁴ Compared to jobs in other high-paying industries, tech jobs offer more secure and flexible working conditions. Tech jobs have half the gender pay gap of other high paying industries, and tech employees are much less likely to face discrimination because of gender or educational background.⁵⁵

However, there are significant groups that are under-represented in the tech sector, whose talents and interests are not being identified and promoted. The starkest example of this is the underrepresentation of women in tech jobs. Just 1 in 10 people studying a university qualification in tech are women, and only 1 in 4 people working in the industry are women.⁵⁶ More equal representation in training pathways would significantly grow the tech workforce in Australia.

To improve the diversity of the tech workforce, we recommend:

- **A public commitment to improving diversity within the tech workforce** through company specific targets / statements and reporting. Tech employers represent a broad range of business sizes and industries, at varying levels of maturity. This means company specific commitments will vary, but will be supported by ongoing reporting of progress, tools and advice within the industry to improve women's employment in tech.
- **Improved support for women considering a transition into tech** through information campaigns, reskilling and mentoring to improve attraction and retention of women in tech. Women are significantly under-represented in the tech workforce, and research has shown that twice as many women join after the age of 25 as they do prior to age 25.⁵⁷ Supporting more women to transition into tech roles will require a dedicated program to communicate the benefits of mid-career transitions into tech jobs for women and provide advice and reskilling options to enable more women to make the switch to deliver 1.2m tech jobs by 2030.

⁵⁴ [TCA Cracking the Code to Australia's Best Jobs 12](#)

⁵⁵ Ibid., 2.

⁵⁶ Ibid., 3.

⁵⁷ Ibid., 7.

5. Making Australia a digital economy regulatory leader

To support the growth of Australian tech companies, Australia needs a regulatory environment that is proportionate and predictable, interoperable with other jurisdictions and that consistently follows a set of best practice regulatory principles (as set out at [Attachment A](#)). Well-designed regulation can be an enabler of innovation and growth in the digital economy and promote public sector productivity, while poorly designed regulation can harm the capacity of Australia to compete, grow and attract investment.

These reforms also have the potential to improve public sector productivity by promoting the innovation and diffusion of technology which digitises interactions between the government and its citizens, streamlines internal processes and enables the use of data analytics to improve decision-making and the management of administered spending.⁵⁸

Key areas of regulatory reform that we need to get right to stimulate dynamism, innovation and productivity in the economy include:

- **Modernised privacy laws** that better protect and empower individuals, while continuing to encourage the adoption of digital and data technologies that will drive business productivity and consumer outcomes. Our priorities for the Privacy Act review include improving international interoperability and domestic harmonisation, creating the right incentives through the compliance and enforcement regime, and ensuring the detailed design of any new requirements (e.g. in areas such as automated decision-making, direct marketing/targeting and consent) achieve desired outcomes without imposing unnecessary costs and inefficiencies on businesses.
- **Positioning Australia as a world leader in cyber security**, including by simplifying and clarifying the complex regulatory framework that currently applies to businesses. Key priorities for reform include improving governance and administration, reducing overlap and duplication (e.g. in reporting and disclosure requirements), and creating the right standards and incentives for firms to improve their cyber practices.
- **Informed, targeted and proportionate regulation of emerging technologies**, such as Artificial Intelligence, which is underpinned by evidence-based assessment of the benefits of risks of these technologies, the current state and gaps in the Australian regulatory framework, and best practices internationally.
- **Economy-wide competition and consumer protection laws, underpinned by effective enforcement**, that reflect the highly dynamic nature of digital markets (where business models are rapidly evolving and new entrants can

⁵⁸ [Digital Australia: Seizing the opportunity from the Fourth Industrial Revolution, McKinsey](#)

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quickly disrupt existing models) and that reject a one-size-fits-all approach given the radically different structures, purposes and business models of digital businesses.

- **An industrial relations system** that upholds the rights of workers while enabling flexible forms of employment that can deliver better productivity and wage outcomes, and that do not prevent workplaces from innovating and adopting new forms of technology.
- **Targeted and risk-based security regulation** that reflects the national security benefits of growing our tech sector. This means ensuring Australian tech firms can maintain and grow access to trusted forms of foreign investment, global talent and overseas markets, and that any negative impacts of security regulation that inhibit this are “offset” elsewhere to ensure a net neutral impact on the sector.
- **Payments system reform** to update and strengthen Australia’s payment system to ensure it is fit-for-purpose, reflects new and emerging technologies and business models, promotes competition and can continue to serve consumers and businesses and drive economic growth and productivity.

Case study: Fintech regulation

One specific area that holds a great opportunity for Australia is financial services and fintech regulation. FinTechs play an important role in payments systems, particularly in promoting competition and innovation among payment service providers which leads to reduced costs and greater choice for consumers and businesses.

There is a significant opportunity for Australia to be a leader in PayTech, and FinTech more broadly. Our research shows that PayTech is one of the top 5 tech segments in Australia and an area where we already have a comparative advantage globally. Australia has a disproportionate share of global PayTech startups (2.6%) relative to our contribution to global GDP (1.6%).⁵⁹ FinTech more broadly is one of the top 3 areas for venture capital funding in Australia, alongside business and consumer software.⁶⁰ It is also an area where Australia attracts relatively more investment than global peers, demonstrating the advantage we currently have in this part of the tech sector.⁶¹

However, there are concerns that innovation and competition is being stifled by the current regulatory framework which was designed more than two decades ago, during a time when large financial institutions were the main providers of payment services.

⁵⁹ TCA, Turning Australia into a regional tech hub, 7.

⁶⁰ Ibid., 7.

⁶¹ Ibid., 15.

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As highlighted in the Farrell Review of the Australian Payments System, the current regulatory framework is no longer fit-for-purpose and does not reflect the needs and concerns of new and emerging service providers such as FinTech companies and their growing customer bases.⁶² There are concerns that the current framework consolidates the position of large incumbents rather than promoting competition and innovation, to the detriment of new entrants as well as consumers and businesses. For instance, new entrants must often cooperate with incumbents to obtain access to payments systems, which places new entrants at a competitive disadvantage as larger incumbents may not have the incentive to cooperate and may offer competing services at much lower prices to out-compete new entrants.⁶³

There are also concerns that incumbents have played an outsized role in shaping the regulatory framework and continue to own and guard access to critical infrastructure such as the New Payments Platform (NPP), at the expense of new entrants and smaller providers. As noted in the RBA's Conclusion Paper on NPP Functionality and Access, the slow and uneven roll-out of NPP services by major banks has slowed the development of new functionality that would have improved consumer experiences and made transactions more efficient.⁶⁴

The increased use and sharing of data and widespread innovation in new technologies such as digital assets have also presented challenges for Australia's regulatory frameworks.

For instance, while financial service providers are becoming increasingly data-driven and cognisant of the need to provide greater data transparency and control to customers, adoption and use of the Consumer Data Right (CDR) has been low despite being launched nearly two years ago in the financial services sector.⁶⁵ Organisations, especially small businesses, are finding it difficult to comply with the scheme, while other accredited organisations are yet to be fully compliant or using the scheme. This has limited the number of vendors and consumer services offered in the market, and restricted data flows in the CDR ecosystem.

Like data innovation, innovation in digital assets is also expected to bring significant consumer and economic benefits. With the appropriate policy and regulatory settings, digital assets could add up to \$60B per year to GDP while enabling easier, better and safer interactions for businesses and consumers.⁶⁶ Australia is already home to a thriving ecosystem of digital assets businesses including network infrastructure providers, trading platforms and code auditors among many others.⁶⁷ However, as mentioned in the Farrell Review, digital assets also present new challenges for Australia's regulatory frameworks as they can differ significantly in

⁶² [Treasury Review of the Australian Payments System](#) 10.

⁶³ *Ibid.*, 8.

⁶⁴ [RBA NPP Functionality and Access Consultation: Conclusion Paper 36](#)

⁶⁵ [AFR Open banking still has teething problems after two years 1](#)

⁶⁶ TCA, Digital Assets in Australia, 2.

⁶⁷ [Treasury, Token Mapping Consultation Paper, 9.](#)



design, which means different types of products may interact with (or be outside of) the regulatory framework in different ways.⁶⁸

To encourage the productivity and growth of the payments system and the economy more broadly, we recommend the Government adopt several measures including:

- **A more ambitious vision for the future of Australia's payments system**, aimed at promoting innovation and positioning Australia as a global leader in delivering choice and lower costs for consumers and businesses through payments innovation, safety and transparency, supported by a regulatory framework that promotes competition and the growth of the FinTech sector.
- **Reduce barriers to direct access to payments infrastructure such as the NPP**, for example, by enabling pathways for businesses that do not hold an ADI license and explore the need for potential amendments to NPPA Shareholding Requirements (such as payment graduation and creating additional lower bands).
- **Ensure transparency in the payments system** by ensuring regulators provide clearer and more transparent rules and requirements for payments service providers.
- **Ensure the CDR is fit-for-purpose** by increasing de minimis thresholds for new trial products and mandatory sharing of CDR data to reduce unnecessary regulatory and compliance costs for smaller entities, and allow businesses to innovate in established product categories and build consumer momentum without the pressures of regulatory compliance.
- **Work with industry to progress regulation on digital assets** such as the development of a fit-for-purpose and transparent licensing and custody framework for digital assets to ensure Australia can capture the opportunity presented by responsible digital assets innovation.

We appreciate the opportunity to provide evidence to the Inquiry into Economic Dynamism, Competition and Business Formation and look forward to ongoing dialogue.

Yours sincerely,

Kate Pounder
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⁶⁸ Treasury, Review of the Australian Payments System., 102.



Appendix A: Our guiding principles for regulatory design

The TCA recommends the following five guiding principles for best practice regulation in the digital economy:

- **Informed and coordinated** – technology regulation and policy development inherently addresses novel concepts and issues. For this to be effective, it requires us to have sufficient time, stakeholder input, and expertise to make informed policy decisions. Rigorous analysis and industry engagement, with thoughtful consideration of the interrelationships with other policies and regulation, helps us avoid the pitfalls of technical infeasibility and enhances regulatory compliance.
- **Proportionate** – a risk-based approach targeted at clearly defined problems enables regulation to achieve the objectives that are sought, while also avoiding unintended consequences such as increasing barriers to entry for others, or inadvertently capturing other parts of the tech sector.
- **Timely** – premature regulatory intervention can disproportionately impact emerging startups, business models, and technologies. To ensure Australia maintains a competitive place in the global market, we should be proactive in considering a range of potential policy levers, ensure that industry is given appropriate clarity and guidance, while enabling the appropriate opportunity and space for innovation.
- **Consistent and interoperable** – the technology industry is global by nature and few policy questions are unique to Australia. Regulation should consider and align, where appropriate, with domestic and global regulation to strive towards harmonisation and interoperability.
- **Has a bias to innovation and growth** – becoming a leading digital economy means that Australia should aim to encourage the responsible and early introduction and deployment of technology, this means avoiding prescriptive technical requirements that may become quickly outdated or inhibit innovation.



Appendix B: Startup case studies

Australian FinTech startup Airwallex is a leading payment provider delivering better outcomes for consumers and businesses. The company enables businesses to open local and global business accounts, create multi-currency payment and undertake low-cost and high-speed international payments among many other benefits.⁶⁹ By investing in building leading online payments infrastructure, Airwallex was able to lower its transaction fees on online payments, reducing the transaction cost from 1.65% to 1.20% per payment which is significantly lower than major providers who charge between 1.75% and 2.20% per payment.⁷⁰ Under this scheme, businesses could save up to \$12,000 each year in reduced transaction costs.⁷¹

Stripe is an end-to-end payments platform that helps businesses improve their digital commerce services by enabling international transactions, delivering seamless checkout experiences for end customers, preventing fraud and significantly lowering the costs needed to support online marketplaces.⁷² Businesses using Stripe generate 6.7% higher revenue from online transactions on average due to faster onboarding of customers and partners, improved payment acceptance and faster entry into new markets.⁷³

In addition, Stripe helps businesses be more productive by consolidating multiple payment processors and providing effective security functionality for payments, enabling businesses to spend less time on managing and securing their payment processing environments.⁷⁴ On average, businesses using Stripe spend 39% less time on managing payment environments and 20% less time on security compared with their previous payment environments.⁷⁵

Brighte is a decarbonisation enablement platform that allows vendors and partners to accelerate household adoption of solar, batteries and energy efficient homes. The company offers 0% interest payment plans and fixed interest loans to customers through its vendor and partner network. Affordability is the biggest barrier to the purchase of new energy technology (NET), like solar. Brighte enables Australian households to invest in NET products, producing significant benefits for consumers, the economy and Australia's transition to a renewable energy future, while increasing competition in the FinTech and renewable energy industries.

⁶⁹ [Airwallex, Leveraging deep collaboration with Google Cloud to provide a global payments platform that powers cross-border business 1](#)

⁷⁰ [Australian FinTech Airwallex slashes costs for domestic payments processing 1](#)

⁷¹ Ibid., 1.

⁷² [Stripe The Business Value of the Stripe Payments Platform 19](#)

⁷³ Ibid., 1.

⁷⁴ Ibid., 14.

⁷⁵ Ibid., 12.