



NATIONAL AUSTRALIA BANK SUBMISSION

Senate Select Committee on Financial
Technology and Regulatory Technology

December 2019

Overview

NAB welcomes the opportunity to make a submission to the Senate Select Committee on Financial Technology and Regulatory Technology. A competitive and innovative financial services industry is critical to ensure good customer outcomes and growth of the economy more broadly, with opportunities for new businesses and business models.

NAB invests substantially in technology to provide improved products and services for its customers and seeks to leverage innovative developments to do so, particularly in areas such as cyber security.

NAB also provides funding for Fintech and Regtech companies through traditional debt financing as well as equity investments through its venture capital arm – NAB Ventures. Launched in 2016, NAB Ventures aims to support entrepreneurs in Australia and offshore to build leading technology companies. Through NAB Ventures, NAB has met with approximately 3000 companies, and invested in 18.

Opportunity for Fintechs and Regtechs

Fintechs and other new entrants are using the increasing digitisation of financial services to segment and modularise the sector, targeting specific aspects of the traditional end-to-end role of banks.

The competitive effect of new entrants such as Fintechs is most evident in the payments and unsecured consumer and small business lending sectors. These new entrants are using technology (Artificial Intelligence (AI), automation, user experience design) to offer an improved customer value proposition or reach new customers (where once branches were a requirement to enter the market). This is ultimately for the benefit of customers, with existing industry participants adapting to meet this competition.

The increasing use of data analysis and emerging technologies will also better enable industry participants to identify, understand and manage many types of risk, including using predictive models and AI.

NAB's collaboration with Fintechs delivers new capabilities and efficiencies for the benefit of its customers and also enables these smaller companies to scale more rapidly and access NAB's customer base. For example, in October 2019 NAB launched a new digitised receipt product, developed in partnership with Slyph. This allows customers to digitise a paper receipt, through the NAB app, and assists customers in keeping invoice records by enabling them to scan and store receipts.

The benefits of new capabilities and efficiencies also drive collaboration and partnership more broadly, such as the launch of Xero NAB Payments in December 2019. Businesses using the Xero platform and NAB Internet Banking can instruct multiple bill payments at a time through Xero and approve their bill payments directly in the NAB app. This development leverages the adjacencies between banking and accounting to integrate systems between NAB and Xero, eliminating time consuming processes and providing greater visibility for businesses making payment instructions.

As systems become more integrated it is critical that there is consistency in regulation across the industry, particularly to ensure safety and security of data and information. As more players enter the market it is important that all participants are required to adhere to all existing relevant laws, in order to ensure an even standard of protection for consumers.

Key factors to promote investment in technology

NAB notes the five key factors outlined in the Committee's Issues Paper, being capital and funding; tax; skills and talent; culture; and regulation. NAB agrees these are factors of critical importance in maintaining a competitive and growing innovation sector. In addition, NAB considers customers to be a sixth key factor.

Capital and funding

NAB agrees capital and funding are important and the options for new, innovative companies are growing. In addition to established avenues of venture capital, private equity, IPOs and debt finance, there is an increasing number of financing models being developed in Australia, particularly with a focus on innovative businesses. This has been aided by both public and private sector intervention, including through the 27 November announcement by the Commonwealth Government of an in-principle agreement to establish an Australian Business Growth Fund (BGF). NAB, the other three major banks and the Commonwealth Government will each contribute \$100 million towards the BGF's establishment, and Macquarie Bank and HSBC Australia will each contribute \$20 million. The Australian BGF will make long-term minority equity investments in established small and medium businesses that will help these businesses grow, invest in new technology and create more jobs.

In June 2019, NAB announced it would allocate \$2 billion of funding over five years to help emerging technology companies build and grow their businesses by providing loans, facilitating access to capital markets and supporting companies with transactional banking and risk management.

Reflecting the needs of businesses, NAB has also seen growth in its Quickbiz unsecured lending product, with 47 per cent of new small business lending accounts originating via Quickbiz as at FY19.¹ Customers are able to apply via a fast and simple digital application process, with conditional credit approval granted in minutes and cash delivered within 24 hours. Since launching, 40 per cent of customers taking up a QuickBiz loan have grown their turnover by greater than 10 per cent in the six months following.

Tax

The feedback NAB has consistently received from small businesses that invest in new technologies, as well as from NAB Ventures' meetings with start-ups, is that the Research & Development (R&D) tax regime has been extremely effective in bringing innovative companies and business models to Australia.

¹ New QuickBiz loan and QuickBiz overdraft accounts as a percentage of total new term lending and overdraft accounts in the Small Business division

Skills and talent

NAB agrees the demand for skills and talent is significant in Australia and requires long-term pipelines to cultivate and attract innovative thinking.

In addition to accessing global pools of talent, NAB also believes Australia's tertiary education system offers significant opportunity to leverage existing technical knowledge in many scientific and technological fields over the long term. NAB continues to see greater investment of time and money to close these gaps through several models:

- the Federal and State Governments continue to facilitate the commercialisation of R&D through programs such as the Cooperative Research Centres, the CSIRO's Innovation Fund, and state based innovation policies focused on both the public and private sectors.
- the private sector is driving commercialisation of concepts in start-up companies through seed funding and innovation or acceleration hubs to promote the scaling of new ideas.
- academic institutions are also driving innovation through venture catalyst models that involve the input of the private sector, largely with a focus on applied science, engineering and technology – areas of expertise.

The Government and private sector need to enhance their collaboration on these issues. NAB prioritises its partnerships with the university sector, particularly those that focus on R&D, and welcomes recent initiatives by the Government to enhance collaboration between industry and the university sector. For example, earlier in 2019, NAB extended its partnership with Western Sydney University's Launch Pad Business Incubator for a further three years. The Launch Pad program provides business and innovation support for start-up and high growth technology businesses.

Culture

As outlined in *Backing Business – Australia's Growth Engine: Innovation Lessons from Israel*,² NAB believes a greater emphasis on innovation and entrepreneurship can drive important shifts in Australia's economy and global competitiveness. For Australia's businesses, innovation can see better access to and competitiveness in global markets and increased productivity and risk mitigation, ultimately improving resilience and opportunity for many businesses.

A greater awareness of global innovations can bring greater adaptability and assist in the development of future skills across the economy. In this sense, an innovative culture can help many companies scale and find competitive advantages – not only those focused on high technology or applied R&D.

Regulation

NAB agrees that regulation is important in facilitating new technologies, business models and customer propositions. Regulatory relief such as ASIC's 'fintech regulatory sandbox' are important mechanisms to assist new entrants in developing their ideas.

More broadly, the regulatory settings and technology architecture of Australia's financial services industry creates an important national infrastructure to build and improve products, services, customer experience as well as risk management. Developments such as the New Payments

² See <https://business.nab.com.au/wp-content/uploads/2019/07/NAB-Backing-Business-Innovation-Lessons-from-Israel.pdf>.

Platform, Comprehensive Credit Reporting and the Consumer Data Right will drive greater innovation and opportunity for incumbent firms and new entrants over time.

Customers

Another critical factor in new entrants creating sustainable businesses is the development of a customer base. NAB often hears from companies about the importance of customers – often more so than sourcing funding or appropriately skilled ‘talent’. Large corporations (and indeed government) can be important mechanisms for Fintech and Regtech companies seeking to establish their businesses and grow their customer bases. As noted above, there is often mutual benefit for both the start-up company and a large incumbent in doing so, which will ultimately benefit end-customers.

Open Banking/Consumer Data Right

NAB supports Open Banking as it will give customers greater control over their own data, offer the potential for new ways for banks to innovate and drive more competition in financial services. NAB is undertaking significant work on the current implementation of read-only access for Open Banking under the Consumer Data Right (CDR) which is due to commence from 1 July 2020. In implementing Open Banking, NAB is focused on getting this right for customers and ensuring that safety is prioritised over speed; this is critical to ensure long term success and confidence in the system.

The infrastructure being developed for CDR and other initiatives, such as Digital Identity and the NPP, offers the potential to be transformative for Australia. Innovative technology infrastructure should be considered holistically to ensure that ongoing investment is made in areas that will deliver enhanced outcomes for customers, and promote the development of an innovation ecosystem.

Any expansion of the scope of Open Banking to areas such as ‘write access’, as canvassed in the Issues Paper, should only occur after an assessment of whether the initial Open Banking regime is working as expected. This assessment should consider whether the intended outcomes are being achieved and the value that customers are deriving from Open Banking. For example, the existing governance structure and accreditation requirements for CDR would need to be considered in the context of an extension to write access.

A fundamental overarching principle in considering whether to expand the CDR is the importance of ensuring a level playing field for all participants under the CDR. Authorised deposit-taking institutions (ADIs) should not be placed at a competitive disadvantage to benefit other industry participants, but instead be required to compete with others under the same regulatory and legislative framework.

In relation to extending the CDR to superannuation, NAB believes that increased digitisation of superannuation will be a positive contributor to member and client engagement in assessing and understanding product suitability and enabling product portability. MLC (NAB’s wealth business) is committed to modernising its architecture to promote the safe accessibility of data for the benefit of members and customers.