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3 February 2021

The Hon Michael Sukkar MP
Assistant Treasurer and the Minister for Homelessness, Social and Community Housing
Langton Crescent
PARKES ACT 2600
Email: prebudgetsubs@treasury.gov.au

Dear Assistant Treasurer

2021/22 PRE-BUDGET SUBMISSION

The Australian Finance Industry Association (AFIA) appreciates the opportunity to provide this submission to the Assistant Treasurer for consideration in preparing the 2021 Federal Budget.

Further information about AFIA can be found in Attachment A.

OUR SUBMISSION

The COVID-19 global pandemic made 2020 the most challenging year faced by Australia and the world for generations. Australia's economy was one of the few that entered 2021 well placed for recovery.[1]

Immediate fiscal and non-fiscal policy responses by the Federal Government supported households and businesses. The effectiveness of these responses was enhanced by collaboration, coordination and cooperation through the National Cabinet. In addition, swift action by the Reserve Bank and financial regulators to steady financial markets and introduce temporary relief measures supported lenders to extend longer term support to their customers, by providing repayment relief to households and businesses.

The combination of these measures saw businesses then able to quickly make adjustments and retain employees. The leadership and credibility that governments showed in these actions no doubt enhanced the community's response to the calls for new social distancing practices and other health related measures.

All these efforts have contributed to Australia's health and economic position thus far.

The 2020 Federal Budget was an economic recovery plan intended to protect and create jobs, build momentum in the economic recovery, and secure Australia's economic future.

[1] Deloitte Access Economics Business Outlook

It is pleasing that many of AFIA's recommendations and proposals were reflected in the Government's economic support measures and budget announcements.[2]

AFIA's submission for the 2021 Federal Budget focuses on initiatives that further boost and embed economic recovery as well as increase employment and productivity with the goal of setting Australia up for long-term and sustainable growth above trend.

We believe fiscal and non-fiscal policy should focus on:

RECOMMENDATION 1: PROMOTING ACCESS TO AND CHOICE IN CONSUMER AND BUSINESS FINANCE

Access to and choice in finance is important for continued growth of our economy and the creation of financial wellbeing within our community. A key pillar of the Federal Government's economic response to the impact of the global pandemic was initiatives to support the economy.[3] Many of these initiatives have been very successful. We believe there are additional initiatives that would enhance the flow of credit.

AFIA makes the following recommendations:

1. Implement proportionate and scalable regulation to simplify access to credit for consumers and businesses by:
   - Legislating the proposed consumer credit reforms which will make lending more efficient.[4.]
   - Reviewing the recently legislated insolvency laws in 9-12 months to ensure this regime is fit-for-purpose.
   - Reviewing the commencement dates and transition timelines for the *Financial Sector Reform (Hayne Royal Commission Response) Bill 2020* and *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019* to ensure the implementation of the recommendations do not make it harder for businesses to fast-track economic recovery.
   - Making the temporary relief measures within financial services laws permanent, e.g. electronic signatures, remote witnessing and digital disclosures.
2. Develop alternative funding sources for lenders to more easily access competitively priced funding by:
   - Developing deeper and more liquid debt capital markets.
   - Creating a financial services and technology hub that is world leading and leverages Australia's position as a global pioneer in innovative finance.
   - Promoting equity markets as an alternative capital source.
3. Provide further targeted tax incentives to support investment and help small businesses access finance to grow by:
   - Broadening the Instant Asset Write-Off Scheme to include:
     - Lease-to-buy assets and assets subject to chattel mortgages.
     - A complementary GST refund element for non-GST registered businesses.
   - Introducing temporary measures to write-off tax debt for sectors most impacted by COVID-19.
   - Simplifying and promoting the Early State Innovation Company (ESIC) tax incentive.
   - Reviewing the performance of and simplifying access to the R&D Tax Incentive.

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[2] https://afia.asn.au/post/2020-21-Pre-Budget-Submission. January 2021
[3] Coronavirus SME Guarantee Scheme, the Reserve Bank Term Funding Facility and the Structured Finance Securitisation Fund initiatives.
[4] Consumer Credit Reforms – Treasury consultation

- Removing fringe benefit tax for all non-cash benefits provided by employers, e.g. childcare, carparking and entertainment.

Further details of these initiatives are set out in Attachment B.

RECOMMENDATION 2: DRIVING COMPETITION AND INNOVATION IN THE FINANCE INDUSTRY THROUGH SUPPORTING ACCESS TO CAPITAL FOR SMALLER LENDERS

Competition and innovation are important to economic growth. Competition in the finance industry creates incentives for providers to offer improved or higher-value financial products, services, and technologies at the best price and in the most convenient ways.

Understandably, during acute economic crises, the focus of governments, central banks and financial regulators is on maintaining financial stability and normalising financial markets. However, we note that the Productivity Commission recently expressed concern that the understandable emphasis on financial stability in the Global Financial Crisis (GFC) resulted in a decreased focus on competition to the detriment of the Australian community.[5]

While COVID-19 recovery efforts must maintain financial stability, there are initiatives, such as ensuring access to capital for smaller lenders, that can be simultaneously directed to support competition and innovation in the financial services industry. This will in turn provide better and cheaper financial products and services to customers.

AFIA makes the following recommendations:

1. Provide efficient and affordable access to capital to facilitate lending by:
    - Creating a permanent role for the Australian Office of Financial Management (AOFM) beyond being the Government's sovereign debt manager to retaining securitisation skills between crises.
    - Using the Australian Business Growth Fund not just as a source of equity capital for small businesses.
    - Introducing a Phase 3 of the Coronavirus SME Guarantee Scheme, which combines Phases 1 and 2 and removes various constraints, such as the imposition of a price cap.
2. Ensure that regulation is fit-for-purpose and not a barrier to competition by continuing to support self-regulation through industry codes.

Further details of these initiatives are set out in Attachment C.

RECOMMENDATION 3: SUPPORTING ECONOMIC AND SOCIAL PARTICIPATION ACROSS OUR COMMUNITIES

Policies to drive economic growth often focus on measures that are financial and quantifiable. As such, there is a focus on aspects of markets and regulation, investment and employment, tax and incentives, and reducing the 'red tape' burden on business. These are all important enablers of growth along with social and financial wellbeing as they drive overall economic welfare.[6] We believe initiatives to bring urban and non-urban communities closer together will enhance our economic recovery and build resilience throughout our communities.

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[5] Enhancing competition in Australia's financial system. June 2018

[6] Deloitte Access Economic Report: The Economic Benefits of Improving Social Inclusion. August 2019.

AFIA makes the following recommendations:

1. Modernise the Australian workforce through improved training and literacy, including financial and digital literacy.
2. Support social inclusion through the expansion of social housing initiatives.
3. Position our economy for eventual re-globalisation and support population growth through skilled and unskilled visa programs and a return of international students as soon as feasible.
4. Accelerate the adoption of emerging trends, including the digitisation of our economy, particularly in financial services and develop further Australia's telecommunications and digital infrastructure to support productivity across urban and non-urban areas.
5. Provide targeted support to industries that continue to be affected by measures to contain the spread of COVID-19.

Further detail of these initiatives is set out in Attachment D.

RECOMMENDATION 4: INCREASE RESILIENCE IN OUR COMMUNITIES

As COVID-19 infection rates decline and the vaccination program commences, it will be imperative that we capitalise on the momentum in the re-generation of business activity and improve our operational resilience against future economic, social and environmental risks.

AFIA makes the following recommendations:

1. Enhancing the scope and mandate of the Trusted Information Sharing Network (TISN)[7] and updating the Australian Government Critical Infrastructure Resilience Strategy. This should include exploring new forms of public-private partnerships on crisis preparedness through a national action plan in logistics, manufacturing and infrastructure renewal to ensure Australia continues to have reliable sources of energy, water, and communications infrastructure.[8]
2. Continuing to build on the 2020 Federal Budget initiatives to support growth in specific sectors in our economy - including mining and resources, agriculture, manufacturing, hospitality and tourism.
3. Supporting and developing sectors that are integral to a modern and energy efficient economy in particular mobility, including the rental, fleet, salary packaging and auto-finance sectors and support the transition to electric and hybrid vehicles and related manufacturing sectors.

Further details of our recommendations are set out in Attachment E.

CLOSING REMARKS

The Federal Budget is of critical importance to setting our economy up for recovery and growth.

Consistent with the World Economic Forum Global Risks Report published in January 2021,[9] the enabler to ensuring business and consumer confidence remains high and fuels this output is a national coordinated public health plan to ensure COVID-19 remains under control.

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[7] The Trusted Information Sharing Network
[8] The Global Risks Report 2020 (weforum.org)
[9] The Global Risks Report 2020 (weforum.org)

While challenging, given Federal and state/territory jurisdictions, we have seen the social and economic impact of a lack of coordination.

AFIA members, many of whom are smaller lenders, have stepped in to help households and businesses through this challenging time, including helping those households and businesses that continue to be most impacted by necessary restrictions.

The National Cabinet will continue to play an important role in agreeing a revised plan to support Australia through the next phase of the global pandemic. A revised plan should contain a nationally consistent approach to the initiatives required to contain COVID-19, such as:

1. Terms of key definitional requirements, e.g. hotspots.
2. How and when state borders are opened and closed.
3. Nationwide contact tracing programs.
4. International contact tracing programs, border management and quarantine.

As we have seen, a lack of coordination, consistency and notice of change of arrangements has a significant impact on households and businesses. Greater coordination and consistency will minimise financial and social risks, help support consumer and business confidence, and maximise our ability to manage through the next phase of COVID-19.

Thank you again for the opportunity to contribute to this year's Federal Budget.

Should you wish to discuss our submission or require additional information about our recommendations, please contact me or Karl Turner, Executive Director, Policy & Risk Management at karl@afia.asn.au or 02 9231 5877.

Yours sincerely

Diane Tate
Chief Executive Officer

ATTACHMENT A: AFIA BACKGROUND

AFIA is a leading advocate for the Australian financial services industry. We support our members to finance Australia's future. We believe that our industry can best support Australia's economy by maximising choice in and access to consumer and business finance, fostering competition and innovation in financial services, and facilitating greater financial, and therefore social, participation across our community.

AFIA represents over 100 providers of consumer, commercial and wholesale finance across Australia. These banks, finance companies, and fleet and car rental providers, and fintechs provide traditional and more specialised finance to help businesses mobilise working capital, cashflow and investment. They are also at the forefront of financial innovation in consumer finance.

AFIA's role, as an industry association, is to provide leadership and represent members' views. We do this through engagement with governments, financial regulators, and other key stakeholders on issues important to our members and their customers. This includes advocating for balanced legislation, policy and regulation. We facilitate self-regulation through industry codes of practice and gather industry data to help support more evidenced-based decision-making.

We also support our members through ongoing communication, events and learning opportunities that ensure they are aware of and understand current and emerging developments relevant to our industry.

For further information about AFIA, please see here.

ATTACHMENT B: PROMOTING ACCESS TO AND CHOICE IN CONSUMER AND BUSINESS FINANCE

Implement proportionate and scalable regulation to simplify access to credit for consumers and businesses

Proportionate regulation is important to ensure that households and businesses have continued access to and choice in simple and affordable finance. In a paper responding to the expected increase in regulation as a consequence of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry, Grant Thornton noted that increased regulation comes with increased costs. They suggest that these can be absorbed by larger financial institutions but place undue pressure on smaller lenders as they strive to compete in an environment where the cost of compliance is already burdensome and a barrier to entry or survival.[10] Therefore, we suggest it is important to ensure that Federal Government policy initiatives focus on proportionate and scalable regulation.

1. *Legislating the proposed consumer credit reforms which will make lending more efficient*

Although the regulatory framework is not the only mechanism for addressing financial exclusion in Australia, it plays a vital role and reform of our corporations, financial services and consumer credit laws are needed.

On 25 September 2020, the Federal Government announced a suite of changes to Australia's consumer credit framework contained in the *National Consumer Credit Protection Act 2009.* The changes make the new standards system level obligations rather than focusing on individual loans originated by licensees. This reflects the government's decision to move away from a prescriptive framework for lenders and borrowers and support risk-based lending that is attuned to the needs and circumstances of the borrower and credit product. We support the Federal Government's efforts and have worked, and continue to work, closely with Treasury on this initiative, including to provide alternative mechanisms to deliver these reforms.

2. *Reviewing the recently legislated insolvency law reforms in 9-12 months to ensure this regime is fit for purpose*

On 1 January 2021, the Federal Government introduced major reforms to Australia's corporate insolvency laws including introducing a small business restructuring process and a simplified liquidation pathway. We support these reforms but note that they need to strike a balance that affords small and medium sized businesses an opportunity to be restructured or liquidated in a cost effective, efficient and streamlined manner while ensuring that there is no negative impact to the flow of credit to small businesses. Therefore, we propose that the laws be reviewed within 9-12 months to ensure they are working as intended.

[10] A case for proportionate regulation: A positioning paper August 2018

3. *Reviewing the commencement dates and transition timelines for the Financial Sector Reform (Hayne Royal Commission Response) Bill 2020 and Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 to ensure the implementation of the recommendations do not make it harder for businesses to accelerate economic recovery.*

These Bills were passed last year and many of the reforms will take effect in October 2021. To ensure that implementation does not impede economic recovery, we recommend that there is flexibility in commencement dates and transition periods.

4. *Making the temporary relief measures within financial services laws permanent, e.g. electronic signatures, remote witnessing, and digital disclosures.*

We congratulate the Federal Government for quickly enacting temporary relief provisions to the Corporations Act during the pandemic to allow essential transactions to occur electronically. These end on 21 March 2021. We recommend these arrangements become permanent because of the benefits they deliver to consumers, shareholders, and businesses through faster and simpler customer interactions and application turnaround times, improving accessibility options for people with disabilities, introducing additional security features and streamlining processes by using technology.

Develop alternative funding sources for lenders to more easily access competitively priced funding

Australia has a smaller and less mature corporate debt market than overseas jurisdictions with similar economies, which makes it more susceptible to larger economic shocks and reduces potential economic growth.[11]

1. *Developing deeper and more liquid debt capital markets*

All lenders have a role to play in our economic recovery. Smaller lenders provide specialised solutions for their customers, especially where others do not have the business infrastructure, technology, risk appetite or have chosen not to serve certain parts of the economy. Deeper debt capital markets (including corporate bonds and other instruments) would support expansion of fixed income for investors and assist diversification of funding, especially for smaller lenders. It may also be attractive to offshore investors who see the value and opportunity to diversify investment into the Australian market.

2. *Creating a financial services and technology hub that is world leading and leverages Australia's position as a global pioneer in innovative finance.*

AFIA notes the reports prepared by Mark Johnson in 2009 and 2016 about making Australia a financial services centre and the initiatives, reforms, and investment incentives required to promote and export Australia's financial services.

[11] PwC Collaboration Series – The Debt Market Response

Australia is highly regarded for the innovative nature of our financial service providers – how they continue to adapt and improve the customer experience, move deeper into digital offerings and tailored solutions, and continue to meet customer demands, which are increasingly being focused on speed of service coupled with customer relationships.

A number of AFIA members are examples of success, with global expansion, recent domestic listings, and are regularly awarded and regarded for driving better customer outcomes through technology.

To position Australia's economy for accelerated growth, we support the recommendations made by the Australia as a Financial and Technology Centre Advisory Group.[12] We believe the Federal Government should make a commitment to continue to develop Australia as a financial and technology hub. This will require the formulation of a coherent strategy with clear objectives, timelines, and a process that integrates policy measures covering tax, international trade, innovation and business.

3. Promoting equity markets as an alternative source of capital

Confidence in critical infrastructure is imperative to the integrity of our markets and its attractiveness to both companies seeking listing, and to domestic and foreign capital. The outage last year of the Australian Securities Exchange (ASX) has raised questions about business continuity, cyber-security measures, and the integrity of our market infrastructures.

Competition is also fundamental to innovation, so there is an opportunity to evolve the Australian exchange industry and reduce barriers to accessing capital for smaller listed businesses, by leveraging alternative, lesser-known exchanges, such as the ChiX, the National Stock Exchange and Sydney Stock Exchange (where companies can float with 50 investors and cheaper listing fees), and other emerging platforms.

Provide further targeted tax incentives to support investment and business activity

1. Broadening the Instant Asset Write-Off Scheme

The extension of the Instant Asset Write-Off Scheme (Scheme) has been helpful to our members' customers seeking an outright and upfront purchase of assets that allows them to claim an immediate deduction.

There are many businesses that are not able to make upfront purchases because they do not have the capital or their business, tax or other arrangements means the Scheme is not beneficial or practical.

[12] Finance hub push extended to technology – AFR 2 February 2021

Therefore, we recommend a mechanism to allow the asset purchaser (i.e. lessor) to novate the tax benefit to the SME customer in the following example scenarios:

- Rent-to-buy or have leasing arrangements (where the cost of the asset is bundled with the lease payments),
- Chattel mortgage that provides funds to purchase an asset and the finance provider accepts that asset as security for the credit, or
- For non-GST registered businesses by providing a complimentary GST refund element.

2. Introducing temporary measures to write-off tax debt for sectors most impacted by COVID-19

In addition to sector specific support to replace the JobKeeper Program for the most impacted sectors, such as tourism and hospitality, these most impacted sectors should receive support to manage their liabilities, including tax.

The tourism and hospitality sectors are vital for urban and regional economic recovery during this next phase of COVID-19 and ongoing as travel and social distancing restrictions are eased, especially with the return of overseas travellers and students. These sectors have missed out on peak season revenues and been severely impacted by the imposition of necessary restrictions to contain COVID-19, particularly border closures imposed by Australian governments.

As the largest appointor of insolvency practitioners to small business, we recommend the Australian Taxation Office (ATO) be asked to consider writing off Business Activity Statement (BAS) liabilities for certain impacted industries. This would ensure their financial viability and reduce the likelihood of foreclosure due primarily to outstanding tax liabilities. This is particularly an issue for the tourism and hospitality sector that manage their tax liabilities through forward bookings. Many tourism and hospitality businesses are still holding tax liabilities as they rebuild their businesses, including resize and restructure to their new operating environment. We do not believe this creates a moral hazard issue and other tax or payment liabilities should not be included in this temporary and targeted initiative.

3. Simplifying and promoting the Early State Innovation Company (ESIC) tax incentive

The ESIC tax incentive was introduced in July 2016. It provides a tax offset that operates as a credit against other tax payable by an investor in a company that meets the requirements of an ESIC, as well as certain capital gains tax exemptions.

The requirements for ESIC are complex. Qualifying companies must, in addition to other eligibility criteria, meet a 100-point innovation test, which can be challenging because:

- the eligibility criteria are strict and exclude many early-stage start-ups, particularly those that claim R&D tax incentives and are part of accelerator programs, and
- if the start-up seeks to satisfy the principles-based test instead of the 100-point test, the company must be able to meet various documentation hurdles, which many start-ups lack.

We recommend a review and simplification of the key criteria for access to the ESIC tax incentive and a campaign to raise awareness and promote the incentive to startups.

4. Reviewing the performance of and simplifying access to the R&D tax incentive

Our members appreciate the range of R&D incentives offered by the Federal Government to the Fintech sector, i.e. incubator programs, international partnership programs, R&D grants and tax incentives. We welcome the additional $2 billion to the R&D tax incentive in the 2020 Federal Budget and note that consulting firm, EY Australia, believes it is a key reason for keeping Fintech businesses onshore.[13]

However, our members advise that the R&D tax incentive is administratively cumbersome and typically requires the engagement of external (and often expensive) resources, such as lawyers and accountants.

Therefore, to improve the incentive, we recommend:

- Retain and increase the incentive in the upcoming 2021 Federal Budget to continue to support economic recovery and innovation in the financial services industry and broader economy.
- Provide clarity on the eligibility of software development.
- Simplify the application process and make it more accessible to companies.

5. Removing fringe benefit tax for all non-cash benefits provided by employers, e.g. childcare, carparking, and entertainment

Changes to the fringe benefit tax (FBT) treatment of employee training as well as to specific start-up expenses and prepaid expenditure were introduced in the 2020 Federal Budget. FBT is paid on many items which employers use as a method to retain and recognise the efforts of their employees (e.g. meals and gym memberships). We believe extending FBT exemptions to those areas will encourage more employers to provide those services as benefits to employees, thereby stimulating demand for those services, many of which are provided by sectors severely impacted by COVID-19.

ATTACHMENT C – DRIVING COMPETITION AND INNOVATION IN THE FINANCE INDUSTRY THROUGH SUPPORTING ACCESS TO CAPITAL FOR SMALLER LENDERS

Provide efficient and affordable access to capital to facilitate lending by:

1. Creating a permanent role for the Australian Office of Financial Management (AOFM) permanent

The Australian Office of Financial Management (AOFM) manages the Australian Government's borrowing needs (sovereign debt management) and ensures that there is enough money in its bank account (the Official Public Account) to meet its payment obligations at all times (cash management).[14]

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[13] EY Fintech Australia Census 2020

[14] About | AOFM

The AOFM administers two funds, which are used for investing in securitisation products – the Australian Business Securitisation Fund (ABSF) and the Structured Finance Fund (SFSF). The ABSF was announced in November 2018 to support the provision of, and develop the market for, finance to lenders for small to medium enterprises (SMEs), particularly equity finance.

A key barrier to SME lenders accessing securitisation financing is a lack of a public track record on the performance of pools of SME loans over time. The ABSF assists SME lenders to establish a track record of performance, which makes these products more attractive to other investors.

The Structured Finance Support Fund (SFSF) was established in March 2020 as part of the Federal Government's economic response to COVID-19. The AOFM can invest up to $15 billion in securitisation products which finance mortgages and other loans to businesses and consumers. The SFSF was specifically set up for the purpose of supporting the Australian securitisation market during the COVID-19 crisis and to ensure access to finance for smaller lenders.

Maintaining access to finance for small lenders during the impact of COVID-19 supported competition in the lending market and helped keep borrowing costs low for businesses and consumers. We recommend that the AOFM retains securitisation skills ongoing and between crises. This mechanism being available to leverage at the beginning of the COVID-19 crisis and to put in place immediately was critical to Australia's whole of financial system approach, with overseas jurisdictions rushing to set up a similar model.

2. Using the Australian Business Growth Fund not just as a source of equity capital for small business

As we move into the next recovery phase, further sources of capital will become important, especially for small businesses to rebuild, expand and grow. We welcome the announcement in October 2020 of the creation of the Australian Business Growth Fund (BGF).[15]

The BGF will be a good alternative source of capital to provide liquidity to small business and support their access to debt markets. It is important from both a competition and innovation perspective that the BGF's risk appetite for investing in small business is clearly articulated so small businesses know how and where it differentiates from the existing marketplace and helps them build capacity towards the next phase of their business development, including potentially domestic listing.

While we anticipate that lenders will continue to play an important role in servicing the debt capital needs of small businesses, the BGF could play a key role in building business acumen from startup to listed company. The BGF could facilitate the intermediation not just between banks, superannuation funds and other investors, but also with business expertise, advice, and guidance. Such facilitation could be administered via a platform, connecting small businesses with others.

[15] Launch of the Australian Business Growth Fund October 2020

3. *Introducing a Phase 3 of the Coronavirus SME Guarantee Scheme which combines Phases 1 and 2 and removes various constraints, such as the imposition of a price cap*

AFIA welcomed Phase 1 and 2 of the Coronavirus SME Guarantee Scheme (SMEG), which provides unsecured and secured loans of up to $1 million for a maximum term of five years. We note that there are still eligibility rule constraints, such as the imposition of a price cap in SMEG II, which has impacted take up and favoured larger financiers (i.e. the major banks) with adverse effects on competition for smaller lenders and specialised lenders. Therefore, we recommend that the Federal Government continue to evolve the SMEG to reflect customer demand, such as building on the success of the two schemes to date, removing various constraints, such as the imposition of a price cap, and combining the features of the Scheme for maximum access to and benefit for small businesses facing very different business operational risks and uncertainties.

For example, many tourism and hospitality businesses are unable to access longer term finance because of the uncertainty surrounding their business. Therefore, shorter terms are more appropriate to match their business liabilities – right-sized and best priced credit will serve their needs. Whereas small businesses in other sectors may be in the position to take out a longer term loan and invest in rebuilding and expanding their operations. The multi-speed economy means more flexibility with SMEG will better meet customer demands.

Ensure that regulation is fit for purpose and not a barrier to competition by continuing to support self-regulation through industry codes

In his final report for the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Financial Services Royal Commission), Justice Hayne noted that industry codes offered a form of self-regulation by which industry participants set standards on how to comply with, and exceed, various aspects of the law. As we have previously noted in our response to Treasury's Consultation Paper – the Enforceability of Financial Services Industry Codes, AFIA and our members are strong advocates for the establishment of industry codes.

We believe industry codes are an effective form of regulation, particularly for emerging industries, and are an important part of the overall regulatory architecture, by raising standards of practices, which go above and beyond the law, where it makes sense, and establish boundaries for new participants. Industry codes can also provide a dynamic means of ensuring there are appropriate standards for offering new products and services and addressing emerging customer expectations. Industry codes can balance the needs of financial services providers to operate prudently and commercially while optimising consumer protection. A good example is AFIA's Buy Now Pay Later (BNPL) Code, which will come into effect on 1 March 2021.

We are pleased that AFIA's recommendations in relation enforceable code provisions were adopted in the passing of the *Financial Sector Reform (Hayne Royal Commission Reform) Bill 2020* in December 2020, including to allow industry to establish voluntary codes in the first instance.

ATTACHMENT D - SUPPORTING ECONOMIC AND SOCIAL PARTICIPATION ACROSS OUR COMMUNITIES

The 2020 Federal Budget made investments in the areas of housing, education, skills and apprenticeships, programs to support women's leadership, and support for parents including childcare. These investments are crucial to ensure economic, social and financial participation for all Australians.

The World Economic Forum Global Risks Report 2020 notes that gaps in public health, digital inequality, educational disparities, and unemployment may fray social cohesion. Barriers to education and technology, long-proven channels to economic advancement, have grown higher,[16] which then require government focus.

1. *Modernise the Australian workforce through improved training including financial and digital literacy*

Workforce education and training will assist SMEs and other businesses to build their digital capability, improve management skills and understanding of overseas markets.

AFIA worked closely with the Australian Small Business and Family Enterprise Ombudsman and others on a Small Business Funding Guide.[17] We recommend providing support to extend the reach of this resource and to ensure it is kept up-to-date with relevant information related to the conditions of the COVID-19 crisis. This will allow SMEs to be better equipped with knowledge on growth opportunities, risk areas, financial viability, and ideas about how to innovate to expand. It would also assist SMEs to get information and advice on the use of the new insolvency laws and access the benefits of the new debtor-in-possession framework.

Accessing and managing money is one of the biggest challenges for Australians living in remote and regional areas and Australians living in poverty. Support and funding for financial literacy programs, financial counselling centres and digital literacy programs (including access to digital technology) will therefore be important in modernising Australia.

2. *Support social inclusion through the expansion of social housing initiatives*

To support social inclusion and greater access to housing for all Australians, we recommend that the HomeBuilder Program is extended to build homes for those in our community who need them most. Extending the program would also continue to support employment in the construction sector.

[16] The Global Risks Report 2020 (weforum.org)
[17] ASBFEO Business Funding Guide

3. *Position our economy for eventual re-globalisation and support population growth through skilled and unskilled visa programs and a return of international students as soon as feasible*

Australia has relied on population growth – mostly through migration – to assist economic growth for the past three decades. Australia's estimated resident population continued to rise in the June quarter of 2020, but the growth rate (0.1%) was the slowest since quarterly population estimates began in June 1981.[18] Australia's population is expected to be 550,000 lower in 2022 than pre-COVID forecasts.[19] The June 2020 quarter was the first full quarter subject to international travel restrictions which saw limiting international arrivals to Australian citizens and permanent residents (including New Zealanders usually resident in Australia). Migration is likely to partially return by mid-2022.[20]

We recommend the Federal Government facilitate its return with:

- A more flexible skilled working migrant visa regime to allow for the attraction and engagement of overseas skilled workers where there is an absence of such in Australia, and
- A measured plan for the return of international students to Australia.

4. *Accelerate the adoption of emerging trends, including the digitisation of our economy, particularly in financial services and develop further Australia's telecommunications and digital infrastructure to support productivity*

A widening digital gap can undermine our economic recovery as well as financial, economic and social participation of Australians.[21] The new normal has seen digital transformation accelerate.[22] We believe governments have a critical role in enabling the future, not just through investment, but also through regulation, policy and legislation as well as through their own digital transformation projects.

Australia must have the skills and innovation ecosystem to support a globally competitive economy as this step change into digital transformation occurs. Inward investments into Australia needs to be fostered to secure both local capability and economic growth. The Australian Information Industry Association (AIIA) has noted that collective investments in digital infrastructure (ATO and Centrelink payment systems) enabled the Federal Government (through the JobKeeper scheme) to quickly get cashflow boosts to businesses to pay wages.

Continued digital government investment in IT capability should be seen as nation-building infrastructure to support growth and provide operational resilience against future environmental risks.

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[18] Population and COVID-19 Australian Bureau of Statistics December 2020
[19] Deloitte Access Economics Business Outlook: We got this January 2021
[20] Deloitte Access Economics Business Outlook: We got this January 2021
[21] The Global Risks Report 2020 (weforum.org)
[22] Building Australia's Digital Future in a Post-COVID World AIIA 2020

Therefore, we recommend:

- Building a 'Digital Australia' that is secure and resilient by extending Australia's 2020 Cyber Security strategy to include business resiliency and cyber awareness and cybersecurity skills, in particular the area of operational technology security.
- Digitising and modernising government infrastructure by developing and integrating systems to streamline business applications. For example, continue to fund initiatives such as the upgrade of the ASIC Business Portal as well as further initiatives that will make it simpler, easier, quicker and more efficient for businesses to communicate with government.[23]
- Developing a consistent nationwide Digital ID Framework. AFIA has been working closely with the NSW Government through a series of workshops on its Digital Driver's License. This is a good first step to developing a Digital ID framework. Our members are supportive of a comprehensive ID framework because it will reduce cost, simplify compliance with regulatory requirements (such as Anti Money Laundering laws), drive payment innovation and further support the rapid pace of digitisation.

5. Provide targeted support to industries that continue to be affected by efforts to contain the spread of COVID-19

The tourism and hospitality (cafes, restaurants, catering, events) sectors continue to suffer sustained losses due to the halting of interstate and international travel and the imposition of restrictions by governments as efforts to contain COVID-19 outbreaks continue. This disruption is likely to continue until at least the end of 2021 and the completion of Australia's vaccination program and potentially beyond and until more certainty with the re-opening of other countries.

We support the Australian Chamber of Commerce and Industry (ACCI)[24] and Restaurant and Catering Australia's recommendations for further tailored support to be provided post-March 2021 in a targeted way to these most impacted industries.

RECOMMENDATION 4: INCREASE RESILIENCE IN OUR COMMUNITIES

As COVID-19 infection rates decline and the vaccination program commences, it will be imperative that we capitalise on the momentum in the re-generation of business activity and in doing so, increase Australia's operational resilience against future environmental risks. We note the Prime Minister's comments on 1 February 2021 in his National Press Club speech, for Australia to participate in a low to zero emissions economy by 2050, progress will depend on advances made in science and technology.

[23] Building Australia's Digital Future in a Post-COVID World AIIA 2020
[24] Australian Chamber of Commerce and Industry Letter 25 January 2021

1. Enhancing the scope and mandate of the Trusted Information Sharing Network (TISN)[25] and updating the Australian Government Critical Infrastructure Resilience Strategy

Increasing Australia's operational resilience against future environmental risks, including protection of the nation's critical infrastructure requires coordination and communication between the public and private sectors. The World Economic Forum 2021 Global Risk Report[26] notes that the countries that had better success in managing the impacts of the coronavirus were those countries that had good risk communications. The Report recommended that countries explore new norms of public-private partnerships on risk preparedness.

The TISN is Australia's primary engagement mechanism for business-government information sharing and resilience building initiatives on critical infrastructure. We recommend lifting and expanding the role of the TISM to include exploring new forms of public-private partnership on risk preparedness through a national coordinated action plan.[27]

2. Continuing to build on the 2020 Federal Budget initiatives to support growth in specific sectors in our economy - including mining and resources, agriculture, manufacturing, hospitality and tourism

The 2020 Federal Budget adopted many of AFIA's recommendations including specific sector funding in mining and resources, infrastructure, Fintech, agriculture and manufacturing planning, property and infrastructure, and water and energy policy. We continue to advocate for further investment in these sectors including a deeper focus on:

- Agriculture and manufacturing – i.e. robotics in the medical industry, 3D printing in manufacturing household goods, and AI to provide real-time customer service within various sectors, including financial services.
- Water and energy policy – sustainable water and energy supplies are essential to support more efficient economic activity as well as new ways of living for citizens with energy policy being crucial to lower energy costs to support the re-emergence of the Australian manufacturing sector. Securing supply of affordable energy for the domestic market will be integral in the revitalisation of many domestic industries.
- Leveraging technology to support the recovery and produce lasting change – Investment in technology and technology policy to support workers, consumers and supply chains will need to continue to accelerate the recovery. Focus and investments should be on enhancing digital innovations and presence, modernising customer support operations, scaling automation pilots, and creating resilient IT architecture. As part of this, it will be important for the Federal Government to provide support and create an environment where both the public and private sectors are making those integral investments.

[25] The Trusted Information Sharing Network

[26] The Global Risks Report 2020 (weforum.org)

[27] The Global Risks Report 2020 (weforum.org)

3. *Supporting and developing sectors that are integral to a modern and energy efficient economy such as mobility, including funding support the transition to electric and hybrid vehicles and related manufacturing sectors*

Mobility is becoming increasingly important to the efficiency of our economy, particularly in the development and support of supply chains and the transition and development of living spaces for citizens. The interconnectivity between urban and regional areas and their importance to progressing sustainable solutions to mitigate environmental risks is another driver for investment in this area. Experts say that, as we design our economic recovery plans, we have a once-in-a-lifetime opportunity to simultaneously boost economic growth, create sustainable jobs, and steer global emissions into structural decline. [28]

There have been a number of research studies that indicate Australia is lagging globally in this area. Furthermore, a focus on mobility can make large impacts on jobs and growth and mitigate future environmental risks. The New Zealand Government recently passed the Clean Car Standard legislation[29] which includes only purchasing zero emission public transport vehicles and providing New Zealanders with incentives to make the switch to 'clean cars'. The New Zealand Government is confident the legislation will create jobs and open up new industries for its economy.

AFIA's members, particularly motor finance, salary packaging, car rental and fleet members, will be pivotal in supporting Australia's mobility future. Other AFIA members are also focusing their businesses on finance for, and investment in, 'clean energy', including renewable and alternative energy, such as solar and wind, and 'clean cars'.

There are a number of key things that the Federal Government can do to support Australia's transition to a future modern economy, reduce our emissions, support future mobility, and benefit our manufacturing, motor and energy sectors:

- Removing Fringe Benefit Tax (FBT) for hybrid and electric cars – FBT is paid on many items' businesses use to retain and recognise efforts of employees. Removing FBT for electric cars will incentivise employers to purchase electric cars, furthering the Federal Government's investment in protecting our environment and upgrading our mobility and transport sectors.
- Removing the luxury car tax for hybrid and electric cars – There is no longer an economic rationale for the luxury car tax (LCT). This tax is simply an additional cost for consumers that impacts their decision on the type of vehicle to purchase. Despite the increase in the threshold for the LCT being lifted by relatively more for 'fuel efficient' cars, it is still leading to perverse outcomes as most electric and hybrid vehicles are more expensive than their petrol and diesel competitors and exceed the LCT threshold. Many vehicles used for business purposes, such as four-wheel drives and utes used by farmers and tradies, are also subject to the tax. The contribution of the LCT to the overall tax take is negligible ($688 million in 2018-19 or 0.15% of total tax revenue) yet its impact on car purchases and customer behaviour is substantial. At a time when the motor sector is being severely affected by the global pandemic, removal of the LCT would provide an important boost for the sector and our

[28] A new choice Australia's climate for growth Deloitte Access Economics November 2020
[29] NZ Government Moves on Climate Promises 28 January 2021

economy as well as promote transition in the mobility and transport sectors. It will also help reduce transport emissions by increasing the adoption of low emissions vehicles and 'clean cars', and thereby deliver better economic and environmental outcomes.

- Providing targeted sector support for new vehicle purchases – The car rental sector plays a critical role to both urban and regional economies, directly and indirectly, through transport supply chains, fleet management for public and private enterprise, and the tourism sector across Australia. With the impact of COVID-19, the car rental sector has significantly reduced the size of their fleet – which services supply chains in travel, aviation and transport and is also a key component in the motor, agriculture, mining and resources and construction sectors. We recommend specific sector support as part of the Federal Government's support for the mobility industry and targeted support post the JobKeeper Program for the most impacted sectors from COVID-19, including:
    - Federal Government support for Australian government to provide relief on registration, stamp duty, and taxes for new car registrations until 30 June 2023, noting various States and Territory governments introduced limited and temporary relief in 2020, with the exception of the NSW Government, and
    - A government-backed initiative to encourage re-fleeting so that the car rental sector may cope with increased customer demand and can continue to operate services, promote growth across various sectors, and ensure supply chain continuity across Australia.
- Continuing investment in mobility-related manufacturing and infrastructure projects – Manufacturing is forecast to grow slowly given a lack of international customer demand. We note the continued focus of the National COVID-19 Commission (NCC) on strategies to support and invigorate Australia's manufacturing. We recommend that, as part of the Federal Government's modern manufacturing strategy and developing a sustainability platform, the 2021 Federal Budget provide funding support to the domestic production of electric and hybrid car infrastructure, including electric car charging stations and high-end manufacturing for electric and hybrid car components[30].
- Delivering cost effective energy solutions **–** The transition from petrol-based to electric and hybrid vehicles will require the development of cheap, secure, and sustainable energy sources. The focus of the Federal Government's energy security policies should be on targeting practical, market-based solutions that stimulate private sector investment, promote and support a competitive market, and ultimately delivers cost-effective energy to Australians and Australian businesses.

[30] We note that the NSW Government has announced a new $700million zero emission facility dedicated to the local production of electric cars. Further investment in the space is beneficial both to Australia's manufacturing sector creating jobs and growth and to building Australia's operational resilience to future environmental risks.