Australian
Finance
Industry
Association

9 March 2026

Senator Andrew Bragg
Chair
Select Committee on Productivity in Australia
PO Box 6100
Parliament House
Canberra ACT 2600
By email: productivity.sen@aph.gov.au

Dear Senator

## SENATE SELECT COMMITTEE ON PRODUCTIVITY IN AUSTRALIA

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.[1] We appreciate the opportunity to submit to the Senate Select Committee on Productivity in Australia.[2]

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] Australian Finance Industry Association (afia.asn.au).
[2] Parliament of Australia, *Select Committee on Productivity in Australia*, (4 November 2025).

## INTRODUCTORY COMMENTS

AFIA is making this submission to the Committee to highlight the critical role the finance industry plays in supporting Australia's economic growth and productivity. AFIA's priorities focus on ensuring efficient, fair and sustainable access to finance; promoting innovation and competition across the financial services ecosystem; strengthening consumer outcomes and financial wellbeing; building a resilient, forward-looking and professional finance industry; and improving regulatory settings so they are fit for purpose, proportionate and supportive of investment, digitisation and sustainable business models.[3]

Productivity growth depends on businesses and households being able to adopt new technologies, invest in skills and capital, and respond to changing economic conditions—outcomes directly enabled by a well-functioning, competitive and innovative finance industry. Through this submission, AFIA seeks to contribute practical, industry-informed insights on how policy and regulatory reform can lift productivity, enhance consumer and business outcomes, and strengthen Australia's long-term economic resilience.

Australia's long-term living standards depend on reversing a decade-plus productivity slowdown. Official data shows labour productivity fell sharply in 2022-23 as record hours worked outpaced output, before only a modest recovery in 2023-24; market-sector multi-factor productivity (MFP) rose just 0.1% in 2023-24, with large divergences across industries.

The Reserve Bank and the Productivity Commission (PC) attribute persistent weakness to declining business dynamism and competition, slower technological diffusion, and lower capital deepening—challenges common across advanced economies but amenable to reform.[4]

More recently, the PC has announced that Australia's MFP declined by 0.5% in 2024-25, falling below the 20-year average.[5] In their recent productivity bulletin, the PC also noted that "governments can improve the ways that firms allocate and manage capital resources, including by strengthening competition and increasing access to finance".[6]

AFIA's submission is built around two pillars:

1. **Invest & Diffuse**: supercharge digital adoption, AI diffusion and capital deepening—especially among small and medium-sized enterprises (SMEs)—through tax settings and scalable finance.[7]
2. **Make Markets Work**: modernise competition and regulatory processes to revive firm entry, scale-up and technology investment.[8]

---

[3] AFIA Priorities.
[4] Productivity Commission (PC), *Annual productivity bulletin 2024*, (29 February 2024), and Australian Bureau of Statistics, *Estimates of Industry Multifactor Productivity*, (6 February 2026), and RBA, *Statement on Monetary Policy*, August 2025.
[5] PC, *Annual productivity bulletin 2026*, (19 February 2026).
[6] Ibid.
[7] PC, *Advancing prosperity: 5-Year Productivity inquiry report*, (17 March 2023).
[8] RBA, *Statement on Monetary Policy*, August 2025 and House of Representatives Standing Committee on Economics, Parliament of Australia, *Better Competition, Better Prices – Report on the inquiry into promoting economic dynamics, competition and business formation*, (2024), Chapter 2.

This agenda aligns with the PC's *Advancing Prosperity* roadmap and complements macro-stabilisation. It prioritises reforms with high productivity multipliers and short diffusion lags, while preserving safeguards for consumers and financial stability.[9]

## INVEST & DIFFUSE: TECHNOLOGY, DATA AND CAPITAL DEEPENING

Australia's capital-to-labour ratio fell a record 4.9% in 2022–23, reflecting a pattern where businesses expanded hiring but under-invested in modern equipment and digital tools—especially among the "long tail" of smaller firms with weaker technology uptake.

ABS data shows that while multifactor productivity (MFP) growth in 2023–24 was positive but sluggish, this momentum did not carry into 2024–25: the latest ABS release reports that market-sector MFP fell 0.5% in 2024–25, alongside a 0.2% decline in labour productivity, with MFP falling in nine of sixteen market-sector industries and only modest gross value added growth (0.9%).[10] This reaffirms the structural issue: diffusion of technology and capital deepening remains uneven, with wide dispersion in productivity performance across industries.

The finance industry fundamentally shapes the pace of capital deepening and technology diffusion—through lending, leasing, equipment finance, embedded finance, data-driven credit decisioning and platform partnerships. The PC has repeatedly highlighted "harnessing data and digital technology and diffusion" as a priority area for reform, and this is precisely where AFIA members can accelerate uptake, reduce frictions and help lift economy-wide productivity.[11]

### Reform Consumer Data Right (CDR)

The CDR should be narrowly targeted to demonstrable, high value use cases that deliver clear productivity and competition benefits, rather than expanded as a broad, compliance heavy data sharing regime. While well designed data portability can reduce information asymmetries and improve allocative efficiency, the current trajectory of CDR risks imposing disproportionate regulatory and technology costs on data holders and accredited recipients relative to realised uptake and economic impact.

To ensure CDR contributes meaningfully to productivity, AFIA recommends refocusing the framework on proven high value use cases relating to consumer finance—including credit assessments for core products in the lending ecosystem, account switching, personal financial management and fraud reduction—where consented data can materially reduce decision times and transaction costs. Outside these areas, new data sets and obligations should only proceed where there is strong evidence of net public benefit.

Furthermore, although the CDR framework applies to both individual and business consumers, its existing functionality has largely been shaped around individual use cases. As the regime expands to include business customers and non-bank lenders—who also fall within the definition of 'consumers' under the

[9] PC, *Advancing prosperity: 5-Year Productivity inquiry report*, (17 March 2023).
[10] Australian Bureau of Statistics, *Estimates of Industry Multifactor Productivity*, (6 February 2026).
[11] PC, *Advancing prosperity: 5-Year Productivity inquiry report*, (17 March 2023).

CDR framework—there remains a need for the system's functionality to evolve in order to better support the requirements of these groups. This would align with the Government's policy intent to focus on consumer-facing use cases and avoid imposing regulatory requirements on products and data sets where there is little or no consumer benefit or functionality.

Critically, the CDR framework must be streamlined and simplified, with clearer technical standards, pragmatic accreditation pathways, reduced duplication with existing obligations (including privacy, AML/CTF, and record keeping requirements), reduced entry hurdles for financial providers to access the CDR ecosystem, and fit-for-purpose regulations relating to the application of CDR to non-bank lending and business finance. Without a more proportionate and outcomes driven design, CDR risks becoming a regulatory cost centre and reinforcement of market power by dominant market participants, rather than a genuine productivity enabler for consumers, small businesses and the wider economy.

AFIA also reiterates its submission to the Treasury's 2023 consultation which discussed the implementation of CDR alongside the various options in the market for bank statement data retrieval services (or screen scraping).[12] These services are simple, available, well-established and effective technological solutions which enable customers to make use of their data today, and are widely used by non-bank lenders and their customers.

AFIA submits that productivity is enhanced by offering multiple market options for customers to provide access to their data, decreasing entry costs for market participants, and increasing access to finance for customers (as further discussed later in this submission). Furthermore, we believe the adoption of CDR could be enhanced by looking to the advantages of these current market alternatives. It is important that all services remain available at current levels until the CDR is fully rolled out and mature. Prematurely limiting access to data retrieval services (either by regulators or dominant market participants) would risk locking out many financial firms from competing in all sectors of the finance industry, and therefore, risk reducing competition and productivity.

### Recommendation 1 – CDR Reform:

The Australian Government should refocus and streamline the CDR so that it operates as a targeted, proportionate framework centred on high-value, evidence-based use cases, rather than expanding as a broad, compliance-heavy data sharing regime.

Furthermore, the scheme should be amended to:

a) Include Australian Taxation Office (ATO) data sets within the CDR to support high-value use cases, by enabling secure, consented access to verified income and tax information that reduces friction and improves accuracy in credit assessment processes.
b) Clearly exclude asset finance from mandatory CDR obligations, or alternatively make participation voluntary, consistent with the Government's policy intent.

[12] AFIA, *Submission to Treasury consultation: Screen scraping – policy and regulatory implications*, 25 October 2023.

c) Explicitly exclude commercial products and business customers, including sole traders acting in a business capacity, from mandatory CDR obligations.
d) Make white-label products voluntary in the NBL sector due to their unique complexity, low customer volumes, and structural differences from white-label arrangements in banking.
e) Exclude products with fewer than 1,000 customers from consumer data sharing obligations.
f) Reduce entry costs and promote the use of intermediated access.

### Accelerate responsible AI diffusion for productivity at the coalface

Artificial intelligence (AI) is emerging as one of the most significant levers available to lift Australia's long-term productivity, and the finance industry is already demonstrating how responsible deployment can translate directly into economic gains.

AFIA's Impact of AI on the Australian Finance Industry report, undertaken with King & Wood Mallesons and Sapere, shows that generative AI and other machine-learning systems have the potential to add $48.9 billion to GDP by 2035, delivering an annual uplift of $690 per capita by that year.[13] These gains reflect real use cases—automation, fraud reduction, workflow optimisation, improved risk modelling—that are already emerging across the financial system.

This evidence reinforces the core argument AFIA presented to the PC's Five Pillars inquiry: technology diffusion, data access and digital infrastructure are now primary determinants of Australia's productivity capacity, not peripheral enablers.[14]

Across the finance industry, narrow AI systems are already embedded in fraud detection, cyber monitoring, credit risk assessment, document processing, collections and identity verification. These tools have supported productivity and safety for over a decade, and regulators have confirmed that these systems are already governed by Australia's extensive financial-sector regulation.

AFIA's research shows that generative AI adoption, though more recent, is accelerating quickly: while only 5% of deployed AI use cases are currently generative, 22% of all new development activity involves generative systems. Early adopters report significant gains—such as 9–12% frontline staff productivity improvements from internal AI assistants and over 40% increases in coding efficiency from generative developer tools. Rather than displacing workers, these gains enable the workforce to focus on higher-value, relationship-driven and judgement-based tasks.

These technologies are also driving improved customer outcomes. Financial institutions using generative-AI-enhanced monitoring tools have reported up to a 50% reduction in scam losses, alongside 30% reductions in customer-reported fraud and materially shorter customer wait times due to AI-supported triage and messaging platforms. These benefits demonstrate that AI is not merely a cost-reduction tool—it can materially enhance service quality, reduce risk, and support inclusion.

[13] AFIA, *AFIA urges government to adopt supportive AI frameworks to unlock billions in economic growth*, (22 May 2025).
[14] AFIA, *AFIA submission to Productivity Commission Five Pillars Interim Reports*, (15 September 2025).

AFIA's submission to the PC highlighted that gains from AI are maximised when paired with strong digital foundations: a trusted national Digital ID system, secure and interoperable payments rails, and data-sharing regimes—such as the Consumer Data Right—that improve data quality and reduce friction in consented access to information. Together, these elements form the "productivity backbone" that allows AI technologies to be deployed safely and at scale.

This approach aligns closely with the objectives of the Commonwealth Government's National AI Strategy (National AI Plan), which seeks to accelerate safe and responsible AI adoption across the economy, build sovereign capability, foster innovation, and ensure that AI enhances productivity while protecting consumers. AFIA strongly supports the Strategy's emphasis on risk-proportionate governance, uplift in organisational capability, and the development of trusted AI infrastructure.

The finance industry is already a leading exemplar of these principles: AFIA members have established robust AI governance frameworks, undertaken substantial risk and compliance assessments, and adopted internal policies aligned with the Government's AI Ethics Principles and voluntary AI Safety Standards. As the National AI Plan is further operationalised, AFIA encourages the Government to ensure that implementation focuses on enabling innovation and diffusion—particularly in sectors like financial services that are already heavily regulated—rather than duplicating existing legislative controls or imposing economy-wide obligations unsuited to sector-specific risk profiles.

The PC has warned that "knee-jerk approaches to regulating AI threaten to stifle uptake and squander potential benefits," a view AFIA strongly endorses.[15] Given the extensive regulatory regime already governing financial services—privacy, credit, conduct, prudential, consumer law and data obligations—additional broad AI-specific legislation risks creating overlap, inconsistency, and significant compliance costs without clear evidence of regulatory gaps. Our AI Report found that industry respondents want clarity, coordination and proportionality in the regulatory approach. AI should be addressed where genuine risks and harms arise, while ensuring that innovation is not limited by overlapping obligations or divergent regulatory expectations.

### Recommendation 2 - AI and Productivity:

**a). Align the National AI Plan with existing financial services industry regulation**

- Ensure the National AI Plan complements, rather than duplicates, existing obligations under privacy, credit, conduct, consumer law, and prudential standards.

**b). Prioritise an innovation-friendly, risk-proportionate regulatory approach**

- Embed the following principles: regulate outcomes and risks, not technologies; use existing regulatory levers where possible; avoid overlapping or inconsistent requirements.
- Support a regulatory environment that encourages responsible experimentation, adoption, and scaling of AI.

[15] Productivity Commission, *Submission to Senate Select Committee on Adopting Artificial Intelligence (AI)*, May 2024, p. 5.

**c). Integrate AI policy with Australia's digital productivity infrastructure**

- Accelerate Digital ID implementation to strengthen identity verification, reduce fraud, and support AI-enabled service delivery.
- Reform the CDR to improve data quality, reduce friction in AI-assisted credit assessment, and support consented data sharing.
- Modernise payments infrastructure to enable real-time analytics, richer AI-enabled fraud prevention, and improved service speed.

**d). Support safe, responsible and scalable AI adoption**

- Provide clear, practical AI-governance guidance aligned with the National AI Plan, AI Safety Standards, and ISO 42001.
- Develop uplift programs to help smaller institutions build AI capability and avoid disproportionate compliance burdens.
- Encourage government agencies to model best-practice AI governance and transparent risk-assessment processes.

**e). Promote competition and sovereign capability in AI markets**

- Avoid regulatory settings that entrench reliance on a small number of global AI vendors.
- Support development of sovereign compute capacity and diverse model availability consistent with the National AI Plan.

## Small Business Finance as a Productivity Enabler

The PC's *Advancing Prosperity* report highlights that Australia's productivity challenge increasingly lies in the "hard-to-reach" parts of the economy, particularly services industries and smaller firms that struggle to adopt new technologies at scale.[16] The PC emphasises that many productivity improvements in modern economies—especially in services—take the form of quality enhancements, digital capabilities, and new business models, rather than simple cost reductions. These improvements require upfront investment in technology, systems and equipment, yet diffusion is uneven and adoption is often slow among small businesses that face higher financing constraints and limited internal capability to absorb new technologies.

Within this context, small business finance is a critical productivity enabler. In his submission to this inquiry, the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) has confirmed that "access to finance is seen as a key constraint on efforts by small business to improve their productivity".[17]

The PC's report underlines that while digital tools, data, and technologies such as AI, cloud services and automation offer significant potential productivity gains, these benefits will only materialise if firms can

[16] PC, *Advancing prosperity: 5-Year Productivity inquiry report*, (17 March 2023), pp. 22-24.

[17] ASBFEO, *Submission to Senate Select Committee Inquiry into Productivity in Australia (Submission 20)*, 18 February 2026.

fund the transition. Small businesses often operate in labour-intensive sectors where productivity gains are harder won, quality improvements are incremental, and digitalisation or process innovation requires access to working capital and asset finance. The PC notes that services providers must invest in new digital workflows, customer systems, and capital equipment in order to lift productivity—but many face higher borrowing costs, collateral constraints, and administrative burdens that limit investment appetite.

AFIA's small business lenders play a central role in overcoming these barriers by providing fast, fit-for-purpose, and data-enabled finance solutions tailored to the needs of SMEs. AFIA members offer unsecured business loans, equipment and technology finance, invoice and cashflow finance, fleet and asset leasing, and embedded finance products that support digital adoption, quality improvements, and procurement of modern tools. These lenders specialise in serving firms that may not meet traditional bank credit criteria, enabling SMEs in sectors such as retail, health, logistics, hospitality and professional services to invest in digital systems, e-commerce capability, point-of-sale upgrades, modern equipment and productivity-enhancing technologies.

This aligns directly with the PC's finding that technology diffusion—not frontier innovation—is the primary driver of productivity uplift for the 98% of firms that are adopters, not inventors, and that better access to capital is essential to support this diffusion.

Small businesses account for roughly one third of Australia's GDP and nearly half of private sector employment, yet they consistently face higher financing costs and greater barriers to accessing capital for productivity enhancing investment than larger firms. This matters for national productivity because the aggregate slowdown is increasingly driven by weak technology adoption and capital deepening among smaller, service sector firms. Improving access to timely, appropriately structured finance—particularly for digital systems, equipment upgrades, and working capital smoothing—can materially accelerate productivity diffusion across the "long tail" of the economy. Evidence from the PC shows that capital shallowing and slow uptake of new technologies have been key contributors to weak productivity outcomes in recent years, especially among smaller firms with limited balance sheets. Expanding competitive, data enabled small business finance would support faster investment decisions, reduce reliance on personal collateral, and enable SMEs to adopt efficiency enhancing technologies earlier in their growth cycle.

The Reserve Bank's October 2025 Bulletin signals a marked shift in how small businesses access finance.[18] In its detailed review of Small Business Economic and Financial Conditions, the Reserve Bank notes that a growing ecosystem of non-bank lenders, fintech providers and innovative credit models is reshaping the lending environment for SMEs—long regarded as the backbone of the national economy. Although conditions for small businesses have steadied, they remain softer than those experienced by larger firms. Profit margins have generally held, yet insolvency pressures have intensified in sectors like hospitality and construction.

[18] Nick Harvey, Sharon Lai and Josh Spiller, 'Small Business Economic and Financial Conditions', *RBA Bulletin – October 2025*, (23 October 2025).

Against this backdrop, the Bulletin points to a meaningful improvement in financing options, driven by sharper competition on price, quicker credit decisions and wider availability of unsecured and alternative lending products. Since early 2022, non-bank lenders have rapidly expanded their presence, now accounting for around 26% of smaller SME loans—and close to 30% once larger loans are included.[19] Their flexibility, sector-specific expertise in areas such as equipment and automotive finance, and ability to operate without the prudential constraints that apply to banks have positioned them to support customers with unique borrower profiles and/or borrowers with limited or no collateral, with innovative finance products and services.

AFIA believes it is important that Government embeds SME finance considerations into national productivity strategies, recognising that capital deepening, digital capability, and innovation diffusion depend on finance availability, especially for small businesses operating outside traditional banking channels and models.

### Deregulation to Improve SME Finance Access and Small Firm Productivity

Improving Australia's productivity requires addressing the structural barriers that limit SMEs from accessing timely, flexible, and fit-for-purpose finance. A core constraint is the accumulation of regulatory obligations—many of them designed for consumer credit products or large banking models—that unintentionally restrict the ability of non-bank lenders and fintech providers to provide fast, unsecured working capital and investment finance to SMEs. Deregulation, pursued in a targeted and proportionate manner, would deliver material productivity benefits by reducing compliance burdens, lowering costs of lending, and accelerating credit flow to the "long tail" of small firms that drive employment and service-sector output.

A more proportionate regulatory framework for SME lending would ensure that obligations reflect the risk profile of business credit, rather than mirroring consumer-protection frameworks that are not fit for purpose. Streamlining documentation requirements, reducing duplicative reporting, and simplifying AML/CTF verification for low-risk business lending would allow lenders to process applications more quickly and at a lower cost. For SMEs, this means faster approval times, improved access to unsecured loans, and greater ability to invest in digital tools, automation, customer-facing technology, equipment upgrades, and other productivity-enhancing assets.

Deregulation would also strengthen competition by enabling non-bank lenders and fintech providers—who are often the primary source of unsecured capital for small firms—to scale their offerings without regulatory barriers that disproportionately disadvantage smaller market entrants. This increased competition would reduce financing costs, expand product choice, and support earlier adoption of productivity-enhancing technologies across the economy. Better access to capital for SMEs accelerates

[19] Sarah Jennison, Josh Spiller and Peter Wallis, 'Recent Changes in Credit Markets and Their Implications for Monetary Policy', *RBA Bulletin – February 2026*, (26 February 2026).

technology diffusion, supports business model innovation, and enables firms to lift service quality and operational efficiency.

### Recommendation 3 - SME access to finance:

The Australian Government should implement a program of targeted deregulation in the SME lending market—focused on proportionate regulation, simplified compliance obligations, and streamlined verification processes—to reduce barriers to unsecured finance, enhance competition, and accelerate productivity-enhancing investment across the SME sector.

### Small Business RLO Exemption

The Small Business Responsible Lending Obligations (RLO) exemption has become a critical mechanism enabling small businesses to access timely, appropriate credit without being unduly burdened by consumer-focused responsible lending requirements. As outlined in AFIA's 2024 submission, the existing framework for mixed-purpose loans—where a sole trader or small business may borrow for both business and incidental personal purposes—would normally trigger the "predominant purpose test," pulling many genuine business loans into the scope of consumer responsible lending obligations.[20] The exemption introduced in April 2020 replaced this test with a more practical "genuine purpose test," ensuring that mixed-purpose loans are treated as business credit where the business component is real and not incidental. This shift has materially improved small-business access to capital over the past four years, as lenders have been able to rely on a clearer and more workable threshold when assessing mixed-purpose credit.

Since its introduction, the exemption has been extended multiple times and is currently due to expire on 3 October 2026. AFIA notes that the repeated extensions—originally intended as a six-month temporary measure—demonstrate both its ongoing relevance and the strong policy rationale for maintaining the exemption during a period of heightened economic pressure on small firms. Its continued operation has supported faster and more flexible access to unsecured finance, particularly for sole traders and microbusinesses that commonly rely on mixed-purpose borrowing for working capital, equipment, and digital investment. Ensuring small businesses have access to easily available and appropriately offered credit is essential given the current operating environment, where cost pressures, cashflow volatility and digital transition needs are placing greater demands on small-business finance.

Importantly, the exemption has also facilitated greater competition and innovation in the small-business lending market. AFIA's members—including fintech providers, equipment financiers and non-bank lenders—have been able to offer faster, data-enabled lending solutions because they are not forced to apply consumer-credit obligations that are neither proportionate nor aligned with business-finance risk profiles. The RLO exemption has allowed lenders to focus on conduct, suitability and fair treatment within a commercial-credit context, rather than complying with consumer-specific processes that increase cost, complexity and delays. It has also supported the development of improved industry standards, with AFIA

[20] AFIA, *Submission to Treasury consultation: Extending the small business responsible lending obligations exemption*, 19 August 2024.

actively collaborating with key stakeholders—including financial regulators, ombudsmen, and customer representatives—and progressing a new **AFIA Finance Industry Code of Practice**, covering both consumer and small-business lending.

Given this track record, AFIA believes there is a strong policy case for moving beyond temporary extensions and establishing the exemption on a permanent basis. A permanent framework would provide regulatory certainty for lenders, clarity for small businesses, and stability in the mixed-purpose lending environment. It would remove the recurring administrative burden associated with short-term renewals and allow lenders to invest confidently in technology, product development and improved processes for SMEs. Most importantly, permanence would ensure that small businesses continue to benefit from faster and more accessible credit at a time when investment in digital capability, equipment and working-capital resilience is vital to improving national productivity.

### Recommendation 4 – Permanent Small Business RLO Exemption:

A permanent small business RLO exemption would preserve the practical and effective "genuine purpose test," ensure ongoing access to timely and appropriately offered small-business credit, support competition and innovation in SME finance, and provide long-term regulatory certainty for both lenders and borrowers.

### Instant Asset Write Off

The Instant Asset Write Off (IAWO) initiative has proven successful in supporting small businesses. Making the $20,000 IWAO permanent would materially improve small business access to finance, cashflow management and operational resilience by reducing investment risk, strengthening cash flow predictability, and improving borrower credit profiles for productivity enhancing assets.[21]

For many small businesses, especially those reliant on non-bank lenders or equipment finance, uncertainty around short term write off thresholds undermines confidence to invest and complicates lender assessments of repayment capacity and asset viability. A permanent write off would allow financiers to more accurately price and structure loans by improving after-tax cash flows in the critical early period following investment, reducing reliance on personal guarantees and other security. This would be particularly impactful for asset backed lending and chattel finance, where immediate deductibility enhances both borrower serviceability and lender risk management. By lowering effective financing costs and smoothing cash flow at the point of purchase, a permanent instant asset write off would support faster capital deployment, improve credit availability for small businesses, and accelerate the uptake of productivity enhancing equipment and technology across the economy.

### Recommendation 5 – Permanent IAWO:

Making the $20,000 IAWO a permanent feature of the tax system to eliminate annual uncertainty and support long-term investment planning for SMEs.

[21] AFIA, *Inquiry into Treasury Laws Amendment (Strengthening Financial Systems and Other Measures) Bill 2025 Inquiry into 2025*, 6 November 2025.

### Recommendation 6 – Business investment incentive

Introducing a 20% business investment incentive for small businesses would complement the IAWO by supporting firms for whom the IAWO is not always suitable or accessible. A broader incentive of this kind would enable a wider range of productivity-enhancing investments—such as digital transformation, cyber capability, research and development, and net-zero initiatives—consistent with AFIA's view that small business innovation is a core driver of national productivity growth. Lifting technology adoption, improving digital capability and supporting earlier capital deepening across the small-business sector will be essential to reverse Australia's long-term productivity slowdown and prepare the workforce for the rapid deployment of AI and other advanced technologies. A permanent, broad-based business investment incentive would give small firms the certainty and confidence needed to invest, scale and modernise, helping to accelerate economic growth, strengthen competitiveness, and ensure Australian businesses can fully participate in an increasingly digital and AI-enabled economy.

## MAKE MARKETS WORK: COMPETITION, DYNAMISM AND BETTER REGULATION

Australia's productivity challenge is rooted in the way regulation shapes the allocation of capital, labour and technology.

AFIA's submission to the Treasurer's Economic Reform Roundtable argues that regulation is where Australia's productivity manifests, because it determines whether innovation is enabled—or unnecessarily restricted—across the economy.[22] Rather than regulating for risk alone, AFIA urges government to regulate for growth, ensuring that policy settings empower firms to innovate, adopt new technologies and compete effectively. This involves shifting away from compliance-heavy regulatory models towards smarter, proportionate and outcomes-focused rules that support innovation while safeguarding consumers and market integrity. A modern regulatory architecture must support contestability, investment and technological progress if Australia is to lift its productivity trajectory.[23]

Competition and dynamism are central to a productivity reform agenda. Well-functioning markets rely on strong competitive forces that reward innovation and allow new entrants to challenge incumbents. Expanding the Council of Financial Regulators to include the ACCC would embed competition, and thus innovation, alongside stability and efficiency as core system objectives, ensuring regulatory coordination aligns with productivity goals.

This includes simplifying regulatory processes, reducing duplication across agencies, improving technical clarity and ensuring that interventions are evidence-based and proportionate to risk. AFIA calls for a productivity-focused Statement of Regulatory Expectations to ensure regulators explicitly consider the growth, efficiency and wellbeing impacts of regulation in addition to safety and stability objectives. AFIA supports reforms to capital markets—such as deepening the corporate bond market, streamlining public and private market issuance, and improving credit data access—to support more efficient capital

[22] AFIA, *AFIA submission to Economic Reform Roundtable consultation*, 25 July 2025.
[23] AFIA, *AFIA calls for policy reform to regulate for growth not risk*, 29 July 2025.

allocation, lower funding costs and greater innovation across the economy. These reforms enhance the ability of financial markets to channel resources to their highest-value uses, strengthening competition and lifting productivity.

### Recommendation 6 - Better Regulation:

a) A productivity-focused Statement of Regulatory Expectations for financial regulators to specify expectations and outcomes for regulation to deliver productivity, growth and wellbeing outcomes.
b) Expanding the Council of Financial Regulators to include the ACCC so competition and innovation can be prioritised alongside financial stability, market efficiency and consumer protection.
c) Reforms aimed at creating more efficient capital markets to ensure resources are allocated to their greatest benefit while increasing the stability and resilience of the financial system and economy.

### Reduce frictions and costs in credit reporting

Australia's credit reporting framework remains a critical but under-optimised component of a competitive and dynamic financial system. We note that uncertainty in the current framework—particularly around soft enquiries, access seeker provisions and the treatment of alternative credit data—limits the ability of smaller lenders, fintech providers and non-bank providers to participate on equal footing with incumbents. This weakens competitive neutrality and restricts consumers' and small businesses' ability to shop around for better credit products, ultimately dampening market efficiency.

AFIA believes a modern, well-functioning credit reporting system must facilitate fair access to data, remove unnecessary frictions, and ensure clarity for both lenders and borrowers, enabling faster decisioning, improved credit allocation and a more contestable lending market. With clearer rules and improved data portability, the credit reporting system could better support innovation, reduce switching costs, and help direct capital to productive uses across the economy.

### Recommendation 7 – Respond to Credit Reporting Review:

Respond to the recommendations of the Independent Review of Australia's Credit Reporting Framework, including creating a clear legislative basis for soft enquiries and clarifying the Access Seeker provision, to reduce uncertainty for lenders and enhance consumer ability to compare products.

### Promoting new entrants and reducing barriers

The Australian Prudential Regulation Authority's (APRA's) licensing framework plays a central role in determining whether new banking models can emerge and whether competition in the finance industry can grow. New entrants—often smaller, specialised, and technology-enabled institutions—have historically driven innovation in the Australian banking system. Examples such as ING Direct, Judo Bank and 86 400 demonstrate how new business models can expand service accessibility, improve SME lending approaches, and lift customer experience in ways that drive innovation across the broader sector. A recent submission by AFIA has noted that a licensing framework that is overly complex, slow or opaque

risks suppressing this dynamism, reducing competitive pressure on incumbents and ultimately limiting the finance options available to households and small businesses.[24]

AFIA strongly supports Action 6 of the Council of Financial Regulators' Small and Medium-Sized Banks Review, which calls for APRA to make licensing expectations more transparent and introduce formal timeframes for licensing decisions.[25] We note that clarity, speed and proportionality in licensing processes are essential for enabling new entrants to invest, plan, and bring new banking models to market. When regulators provide unambiguous expectations and predictable decision-making, prospective entrants can more effectively raise capital, test operations and build sustainable business models—activities that ultimately contribute to innovation and productivity improvements across the economy.

Of key importance is retaining and reforming the Restricted ADI (RADI) pathway. Discontinuing RADI would signal that new, unbacked entrants are not supported, thereby narrowing the diversity of future banking models. The RADI framework provides an essential "sandpit" that allows new players to test operations, refine models and build capability before progressing to full ADI status. However, the current design—particularly the two-year time limit, capital requirements, and restrictions on offering products to the public—has limited its effectiveness.

AFIA proposes extending the RADI timeframe, introducing phased or guided capital accumulation requirements, and gradually expanding permissible product offerings so that new entrants can demonstrate viability, raise capital and evolve sustainably. These reforms would allow early-stage banks to validate models and attract investment, supporting competitive neutrality and fostering innovation.

Reforming the licensing framework has direct implications for productivity. A more contestable banking sector—supported by proportionate licensing pathways—enables more lenders to serve SMEs, expand unsecured finance offerings, and tailor products to emerging technologies and business models. Competition encourages innovation in credit assessment, customer experience, and digital delivery. This in turn expands access to capital for small businesses, which are central to national productivity growth. In short, a modern, efficient licensing regime that reduces unnecessary barriers would not only support finance industry innovation but also facilitate faster diffusion of technology, capital and new ideas across the real economy.

Mechanisms that encourage and enable new entrants into the finance industry are central to strengthening competition, driving innovation, and lifting productivity across the economy. New and emerging financial providers—whether fintechs, non-bank lenders, or specialist digital platforms—play a critical role in expanding choice, lowering prices, and accelerating the adoption of modern technologies. For these benefits to materialise, it is essential that regulatory settings support responsible

[24] AFIA, *AFIA submission to APRA Licensing consultation*, 31 October 2025.
[25] Council of Financial Regulators, *Review into Small and Medium-sized Banks: Report to Government by the Council of Financial Regulators, in consultation with the Australian Competition and Consumer Commission*, August 2025.

experimentation and provide clear, structured, and proportionate pathways for new entrants to develop, refine, and scale their business models.

When entry pathways are complex, uncertain, or overly restrictive, they can inadvertently stifle innovation by diverting resources away from product development and toward navigating compliance requirements.[26] This slows the commercialisation of new financial technologies, including embedded finance, AI-enabled lending, digital identity tools, and advanced payments capabilities—all areas with significant potential to enhance consumer outcomes and improve operational efficiency across the sector. These frictions also risk locking in incumbent advantages, reducing competitive pressure and limiting the pace at which consumers and small businesses benefit from new and improved financial services.

Experience in comparable jurisdictions shows that enabling frameworks for new entrants—such as proportionate licensing pathways, clear supervisory expectations, and risk-based oversight—can materially accelerate innovation and economic dynamism. By contrast, where regulatory signals are unclear or burdensome, innovators can struggle to raise capital, secure partnerships with banks and payments providers, or test new products at meaningful scale. As a result, Australia risks falling behind global peers in attracting fintech investment and commercialising new financial technologies.

Ensuring that our regulatory architecture remains growth-enabling and future-focused will be vital as the finance sector undergoes rapid transformation driven by digitalisation and AI. Proportionate entry mechanisms not only support competition and innovation but also help maintain a pipeline of new firms capable of responding to emerging risks, consumer preferences, and market opportunities. These settings form an important part of the broader productivity agenda, as they enable the finance sector—one of Australia's most innovation-intensive industries—to continue delivering the capital, technology, and financial products that underpin growth across the broader economy.

By embedding regulatory mechanisms that support responsible entry, experimentation, and scale-up, Australia can ensure its financial system remains globally competitive, dynamic, and capable of driving the productivity gains needed to support long-term economic prosperity.

### Recommendation 8 – Retain and strengthen RADI pathway:

That APRA retain and strengthen the Restricted ADI (RADI) pathway, to support new entrants to develop viable models and improve competition in SME banking.

### Recommendation 9 – Improve mechanisms to encourage new finance entrants:

Redesign the Enhanced Regulatory Sandbox as a productivity-focused regulatory on-ramp by replacing the current exemption model with a conditional "Licence Lite" framework that provides regulatory status

[26] AFIA, *Review of the Enhanced Regulatory (FinTech) Sandbox – AFIA submission*, 17 February 2026.

from day one, supported by objective entry criteria, functional and tech-neutral scope definitions, and automatic milestone-based graduation.

### Reforming AFCA and CSLR to Lower Costs and Improve Outcomes for Consumers

Reforming AFCA is essential to ensuring Australia's consumer dispute-resolution framework remains fair and proportionate without diminishing productivity.

While AFCA performs a critical consumer protection role and AFIA engages regularly and constructively with AFCA on dispute trends and implications for complaints and disputes processes, rising complaint volumes, procedural complexity and increasing fee structures have heightened operational and compliance costs for financial firms without corresponding improvements in dispute timeliness or quality of outcomes.

AFIA supports targeted reforms that strengthen AFCA's early-stage triage, filtering and case-management processes to quickly identify and resolve speculative, duplicative or low-merit complaints, allowing resources to be directed to matters involving genuine consumer detriment. Enhancing proportionality in evidentiary requirements, remedies and fee allocation—particularly in low-value or neutral-risk disputes—would reduce unnecessary administrative burden while protecting access to justice.

AFIA believes a more streamlined and risk-based AFCA framework would lower dispute-handling costs across the financial system, enabling firms to redirect capital and management time toward innovation, competition and productivity-enhancing activities, ultimately delivering faster and fairer outcomes for consumers.

Likewise, the Compensation Scheme of Last Resort (CSLR) requires structural reform to ensure it remains targeted, proportionate and financially sustainable.

While AFIA supports a last resort compensation scheme as an important part of the regulatory framework, without changes, escalating and unpredictable levies threaten to become a permanent tax on well-regulated and governed financial firms, as industry groups have warned, noting that initial FY27 levy estimates have reached $137.5 million, which the CSLR Operator has already described as "conservative" due to potential claims stemming from the collapses of Shield and First Guardian.[27] Without scheme redesign, the scheme is being asked to do more and across a broader cohort of "failures" than the original policy intent and concept was envisaged, and thus special levies are likely to recur indefinitely, placing unnecessary cost burdens on financial firms, and ultimately consumers. For example, managed investment schemes (MIS) are not covered by the scheme, yet past failures have resulted in calls on the scheme.

[27] CSRL, *Compensation Scheme of Last Resort releases FY2027 initial levy estimate*, 17 November 2025.

AFIA supports reforms that better align CSLR scope and funding with risk causation and regulatory failure, including clearer eligibility thresholds, limiting compensation to actual (not hypothetical) losses, and preventing multiple payments for the same loss—problems that current CSLR modelling shows are inflating scheme payouts significantly. The scheme must be truly last resort, and supported by regulation and oversight that minimises the moral hazard associated with the scheme and the consequent poor behaviours and/or operational and governance practices of certain firms.

AFIA believes a more disciplined CSLR framework—incorporating risk-weighted or prefunded levies, strengthened governance and transparency, and caps on administrative charges—would reduce inefficiencies and cost pass-through to consumers, while preserving essential protections for victims of actual misconduct. Together, reforms to AFCA and the CSLR would reduce systemic friction and compliance overheads, supporting a more competitive, productive financial services industry and enabling firms to allocate capital and managerial capability toward innovation, service quality and customer-focused growth.

### Recommendation 10 - AFCA and CSLR reform:

a) Introduce enhanced triage and filtration processes to quickly identify speculative, duplicative or low-merit AFCA complaints.
b) Apply proportional evidentiary and remediation requirements for low-value or neutral-risk AFCA claims to reduce unnecessary burden on firms.
c) Review and rebalance AFCA fee structures to ensure cost allocation reflects case complexity and merit.
d) Implement performance benchmarks for timeliness, efficiency and consistency of decision-making.
e) Limit CSLR compensation to actual quantifiable financial losses and prevent duplicate claims.
f) Introduce means testing to ensure the CSLR prioritises consumers most in need.
g) Establish clearer eligibility thresholds and strengthen boundaries around covered claims to ensure the scheme remains a genuine last resort.
h) Use risk-weighted, prefunded or hybrid levy mechanisms to improve predictability and fairness of industry CSLR contributions.
i) Impose fee caps and streamline AFCA, CSLR and ASIC administrative processes, noting that administration currently accounts for around 20–21% of levy costs.
j) Prohibit the CSLR from underwriting investment risk by excluding compensation for managed investment scheme-related losses not tied to actual misconduct.

## CLOSING COMMENTS

AFIA appreciates the opportunity to contribute to this important national conversation on lifting Australia's productivity. The evidence is clear: smarter, more proportionate regulation—combined with competitive, dynamic financial and capital markets—is essential to unlocking the investment, innovation and technology adaptation and adoption required for a more productive economy.

The finance industry plays a foundational role in capital deepening, digital diffusion and business formation, and many of the recommendations outlined in our submission would accelerate these drivers across the economy and particularly the sectors that need them most. By streamlining regulatory frameworks, reducing duplication, strengthening competition, and enabling responsible innovation, government can create the conditions for small businesses and industry to invest with confidence, scale new ideas and adopt modern tools sooner.

AFIA and its members remain committed partners in shaping a regulatory system that supports growth, safeguards consumers and empowers markets to function efficiently. We look forward to working with government, regulators and industry stakeholders to ensure the policy architecture keeps pace with economic change, investment needs, and customer expectations, and positions Australia to capture future productivity gains, economic growth benefits, and financial wellbeing for our citizens.

I would appreciate the opportunity to discuss our recommendations and provide the Committee with further information about the specialised products, services and technologies offered by smaller lenders. Should you wish to discuss our submission or require additional information, please contact AFIA Senior Policy Advisor, David Delprat, at david.delprat@afia.asn.au.

Yours sincerely



**Diane Tate**
Chief Executive Officer