Digital disruption and data: An ASIC update

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Introduction

Last week, we released *ASIC's Corporate Plan for 2017–18 to 2020–21*. I encourage you all to read it.

The corporate plan outlines ASIC's vision, which is to allow markets to fund the economy, and, in turn, economic growth. In doing so, we contribute to the financial wellbeing of all Australians.

We do this by:

- promoting investor and consumer trust and confidence
- ensuring fair and efficient markets
- providing efficient registration services.

The corporate plan also outlines our long-term challenges and the key risks that warrant attention in 2017–18.

You will see that digital disruption and cyber resilience in financial services and markets is one of our long-term challenges.

We have also identified digital disruption and inadequate risk management of technological change as some of the immediate risks we need to look at.

Today, I would like to talk about two issues related to these risks:

1. the issue of accountability when businesses use technology and algorithms to provide products and services

2. how regulators need to embrace data, technology and machine learning to improve regulatory outcomes – and how ASIC is doing just that.

Accountability for technology

We are now in the fourth industrial revolution.

We live in a technology-driven world with innovation happening at an unprecedented pace.

Increasingly, this means that products and services, including financial products and services, are being delivered using technology, with limited involvement of human beings.

As we move into ever-increasing automation and machine-based decision making, we need to make sure we do not neglect the issue of accountability.

No matter how far technology and innovation goes, and how intelligent machines become, we need to be conscious of accountability and where risk is placed.

Principles for accountability

There are three principles to keep in mind to make sure there is appropriate accountability for technology platforms and algorithms:

1. *Responsible person*: for any algorithmic system, there needs to be a person who is responsible for its design – and its outcomes.

2. *Capable of explanation*: automated decisions must be able to be meaningfully explained to customers, to the regulator, and to any other interested stakeholders.

3. *Redress*: if and when algorithms make mistakes, whether because of data errors in their inputs, or because of issues with their design, there need to be avenues for redress.

We cannot use technology platforms or algorithms to simply shift risk to the consumer or other areas of society.

Regulators embracing data, technology and machine learning

As the financial services industry becomes more data driven, so too do regulators need to embrace the opportunities and efficiencies that data can bring.

The Toronto Centre recently released a report entitled *FinTech, RegTech and SupTech: What they mean for financial supervision* (PDF 1.08MB).

The report outlines the potential for new data collection techniques to be a building block in an emerging paradigm shift in financial supervision for regulators.

However, the report also acknowledges the need for the right mindset, leadership and culture change within regulatory agencies for this to happen.

ASIC embracing data

ASIC is getting ready for this paradigm shift.

Last year, at this event, I spoke about how ASIC is using data to be a more pre-emptive and proactive regulator.

Today, I'd like to update you on what we have been doing on this front.

'One ASIC'

We have been working hard on a program of transformation, which we call 'One ASIC' – connecting the dots to ensure ASIC can achieve our goal of being a proactive fit-for-the-future regulator.

One ASIC is about building our capability to better 'connect the dots' to get more focused outcomes faster. It is about working together seamlessly to use our data, resources and regulatory tools in the most effective way possible across our organisation.

One ASIC brings together initiatives around our people, our processes and technology, and our culture and governance.

ASIC's data strategy

We have also developed a data strategy, to be launched shortly. This strategy describes:

- why data is important to ASIC
- how we want to capture, share and use data
- our approach to delivering our vision for data
- and our plan for implementation.

Specifically, the data strategy's objectives are about transitioning ASIC to becoming a more data-driven, intelligence-led law enforcement agency.

Central to our strategy is our 'Capture – Share – Use' approach. This is based on a number of principles:

- We start by *determining data needs* – we consider why we need data and have an ASIC-wide appreciation of this, rather than just at a team level.
- When we *capture data*, our requests for data are always well considered and proportionate. We know that our data requests, particularly bespoke requests, can

involve costs for industry, and so we are exploring new ways to capture standardised, recurring data, to reduce the number of bespoke requests. This includes exploring the use of:

- – a portal

- – regulatory nodes using a distributed ledger

- – increased use of third party data sets.

- When we *share data*, we know what data we are sharing, and we stipulate how others can access that data and that they ensure it is secure and private.

- We ensure we *use data appropriately*. We make sure we know who is using it and for what purpose it is being used. I should also mention that the way we use data is also changing. We have established data labs – one on premises, and one cloud – to enable ASIC's data analysts to access and test regtech tools for data analysis. This includes using artificial intelligence and machine learning software for e-investigations and e-surveillances.

- We *manage data* by treating our data as an asset. Our data is catalogued, fit for purpose, high quality and well governed.

- On *data governance*, we govern the capture, sharing and use of data through our data and information governance framework, which is part of ASIC's wider governance frameworks.

- Finally, our *national and international liaison* is critical to understanding new developments: We engage widely to improve data collection and to better our service delivery, including the establishment of the International Organization of Securities Commissions (IOSCO) data analytics forum.

Conclusion

All of this together enables us to better detect risks, even emerging risks, so that we can respond faster and more effectively.

This in turn helps us to achieve our vision.