THE SENATE

SENATE SELECT COMMITTEE ON FINANCIAL TECHNOLOGY AND REGULATORY TECHNOLOGY

Issues Paper

The Senate Select Committee on Financial Technology and Regulatory Technology has been established by the Senate to undertake a comprehensive inquiry into the current state of Australia's FinTech and RegTech industries, and investigate opportunities for government to promote effective and sustainable growth in these sectors in order to enhance Australia's economic competitiveness.

The committee's formal remit (its terms of reference) is to inquire and report on:

(a) the size and scope of the opportunity for Australian consumers and business arising from financial technology (FinTech) and regulatory technology (RegTech);

(b) barriers to the uptake of new technologies in the financial sector;

(c) the progress of FinTech facilitation reform and the benchmarking of comparable global regimes;

(d) current RegTech practices and the opportunities for the RegTech industry to strengthen compliance but also reduce costs;

(e) the effectiveness of current initiatives in promoting a positive environment for FinTech and RegTech start-ups; and

(f) any related matters.

The committee has called for written submissions to its inquiry by 31 December 2019 (http://www.aph.gov.au/senate_FinRegtech).

Section One: Chair's overview of national competitiveness issues

In recognising that many people and businesses do not find it easy to deal with government, the committee has determined to create an issues paper at the beginning of this inquiry.

An issues paper at commencement will improve the output of the inquiry especially as there is already a considerable agenda of work being undertaken.

Section 1 is a consideration of issues that determine our competitive position as a nation that seeks to attract global capital. This provides for a whole of government approach which recognises that not every factor is determined by government. In this section I have drawn upon publicly available information as well as initial feedback received from industry so that submissions are focused and smaller organisations can easily engage with the committee’s work.

Section 2 of this paper then goes on to detail specific sectoral issues and outlines additional questions for consideration by submitters.

The committee wants to hear directly from FinTech and RegTech start-ups operating in Australia, as well as from established financial services providers, investors, regulators, academics and the broader community.

Context

FinTech is central to ensuring Australia remains a nation that creates employment and technology creates new opportunities.

Australia's FinTech industry is undergoing rapid growth. In 2017, a report by KPMG and the Committee for Sydney found that the number of FinTech companies had grown from 100 in 2014 to 579 in July 2017. The same report found that there were around 10,000 FinTech-related jobs in Australia.[1]

Australian consumers are also embracing FinTech. The EY Global FinTech Adoption Index has shown the adoption rate rose from 13 per cent in 2015 to 37 percent in 2017 and 58 percent in 2019.[2]

Rapid improvements across a number of technologies has led to a step-change in the capabilities and products offered by organisations, and demanded by consumers across the globe. Countries, industries and organisations are adopting these technologies (at different paces) to transform what they produce, and how they manufacture and bring their products to market.

Depending on the industry these new capabilities and products are broadly being classed as 'X-Tech' – whether it be FinTech, RegTech, MedTech, or even AgTech.

Given the rapid pace, and potential impact of these X-Techs, there is a desire to see that Australia is prepared for, and able to take advantage of, the opportunities these present. The opportunity for Australia is to be able to:

- enhance customer and consumer value;
- increase productivity;
- enable job creation; and
- create export opportunities.

FinTech and RegTech are both forms of innovation and technology which all rely on Australia's collective national dynamics to determine whether this objective can be met.

FinTech provides an umbrella for this inquiry to look at sectors such as agriculture and medical which draw upon technology and innovation.

1 KPMG and The Committee for Sydney, Scaling the FinTech Opportunity: for Sydney and Australia, Issues Paper 17, July 2017, p. 10.

2 EY Global FinTech Adoption Index 2019, p. 8.

This inquiry is not about big or small businesses or start-ups; it is about all Australian businesses being as innovative as possible to create the next wave of employment growth.

Within the terms of reference, the inquiry will look to ensure the best Australian ideas can be taken to market in Australia and equally that Australia can attract global capital to generate future employment.

Australia still has much work to do to transition and advance our economy.

Australia ranked 22nd globally in the 2019 Global Innovation Index (GII), down from 20 in 2018. Switzerland, Sweden, United States of America, the United Kingdom and The Netherlands make up the top five innovation nations between 2015 and 2019.

The 2019 GII found Australia to be weak across knowledge and technology outputs, creative outputs, and business sophistication, relative to the top 25 innovation nations globally. Australia is seen as underperforming in the production of science and engineering graduates domestically. Additionally, Australia is seen as lagging with respect to the ease of protecting minority investors, an important function of attracting capital investment.[3]

Key components of national competitiveness

Arguably there are around five key factors which collectively determine Australia's competitive position to attract and maintain investment in technology, including FinTech and RegTech. These are: capital and funding; tax; skills and talent; culture; and regulation.

Capital and funding

Access to funding and capital can be a life or death issue for an organisation engaging in innovation. There are several issues to consider in this section which include:

- Schemes and structures available to attract private equity and venture capital:
  - globally low levels of superannuation investment in private and venture capital asset classes;
  - bringing Australia's tax and legal framework for private capital investment into line with international best practice;
  - characterisation of capital gains from venture capital Limited Partnerships for non-super fund domestic investors; and
  - capability and investment capacity to support new ventures and innovative businesses located in regional and rural areas of Australia.
- The nature of the investment vehicles in Australia was documented by the 2009 report *Australia as a Financial Centre*[4] where issues relating to the

3 Cornell SC Johnson College of Business, INSEAD and WIPO, Global Innovation Index 2019, Creating Healthy Lives – the Future of Medical Innovation, p. 222.

4 Commonwealth of Australia, Australian Financial Centre Forum, *Australia as a Financial Centre: Building on our Strengths*, November 2009.

limitations of unit trust structures were raised. Advice provided to me by FinTech Australia has also flagged issues with these existing structures.

- General access to capital issues. Advice provided by RedCrew states that the capital issues facing start-ups include:
  - **Idea:** Initially, all new start-ups begin life as an idea. The vast majority of good ideas never see the light of day. This first phase where someone with an idea decides, or decides not, to commit to that idea is a key failure point for a potential business.
  - **Formation:** Once one or more founders believe in an idea to the point that they have made a commitment the real work of forming the business begins. This is often when the risks and requirements of creating a business become real and founders become discouraged.
  - **Growth:** Once a fledgling business has survived long enough to have a real product, real customers and some sustaining investment, the start-up will enter into a growth phase. If the business is able to grow fast enough to generate returns that justify the investment then it will survive. If growth is too slow it will likely face closure or be acquired or subsumed by another business.
  - **Stability:** The business is now of moderate size and operating sustainably. Businesses will sometimes stay in this phase for a long time depending on the aspirations of the founders. Most businesses have not reached their full potential, however, if they remain in this phase and they will not be internationally competitive.
  - **Expansion:** In the Australian context, due to the relatively small local market, for a business to expand it must move into international markets sooner than would be the case in other jurisdictions. This is a process that requires significant capital and management capability and can represent significant risk to the business.
  - **Maturity:** The business has expanded to the point that it is no longer a start-up. It is now a relatively large and sophisticated business generating significant economic activity.
  - **Exit:** At any stage of this lifecycle the business may cease to exist in its current form. This could be through a positive event such as a sale of the business or a negative event such as liquidation. This is a critical stage in the lifecycle that must be considered as most entrepreneurs will start many businesses over their career and will sometimes have multiple failures before final success. Managing the exit phase well could result in more successful businesses being started as a consequence.
- Advice provided by the RegTech Association points to costs associated with procurement and IT security as a significant stumbling block for RegTech start-ups. The RegTech Association also note a long sales cycle impacts on these start-ups, as access to returns can be slow.

- Government as a customer, and how procurement contracts work in terms of complexity and local content requirements.
  - Advice provided to me by RedCrew notes that technology procurement for some Federal Government departments typically involve large contracts which are beyond the scope of smaller businesses to deliver.
  - RedCrew suggests that in technology procurement, a large single contract is often unnecessary, with the same benefits able to be obtained more efficiently through a series of smaller, co-ordinated investments. RedCrew notes this is sometimes referred to as the tension between 'best of breed' and 'single provider' approaches. As technology evolves and changes these two approaches become more or less relatively attractive over time.

Tax

Taxation complexity and schemes to promote tax competitiveness can be difficult for firms to negotiate. Schemes which are designed to promote tax competitiveness are reliant upon the successful design of the regulatory structure.

In this section the issues to consider include:

- Access to the research & development (R&D)tax regime; and
- Tax treatment for early stage innovation companies and investment vehicles.

R&D business spending is already lower than in many other countries – less than 1.88 per cent of gross domestic product, compared with an OECD average of 2.38 per cent.[5]

The EY FinTech Australia Census has found that 'providing better access to R&D tax incentives is a key policy priority for FinTech companies' growth and promotion'.[6]

> With the majority of respondents citing accessibility of the R&D tax incentive as one of their biggest sources of funding and growth, R&D incentives and grants are often the lifeline that provides the runway for FinTechs as they head towards a capital raise or a launch date.[7]

Significant R&D tax changes have been slated following a review during the last Parliament but have not yet been legislated in Australia.

The Australian Investment Council (AIC) has noted:

> Australia's legal and tax framework for private capital investment is inconsistent with international best practice. It currently necessitates duplicate and complex structures and deters higher levels of foreign investment.

5 OECD Science, Technology and R&D, *Gross domestic spending on R&D*, 2019.

6 EY, *EY FinTech Australia Census 2018*, p. 28.

7 EY, *EY FinTech Australia Census 2018*, p. 28.

> In order to grow domestic and offshore funds available for investment into unlisted assets such as high-growth Australian businesses, a new best-in-practice limited partnership (LP) collective investment vehicle (CIV) must be created. This would allow Australia to compete globally for capital and would be transformative for the domestic private capital industry.[8]

The AIC also noted that:

> Consistency and certainty in the tax treatment of investors committing capital through existing vehicles should be provided in order to encourage domestic investment into high-growth businesses and attract offshore capital. This should apply to investors that provide capital through a number of different investment vehicles such as Venture Capital Limited Partnerships (VCLPs), Early Stage Venture Capital Limited Partnerships (ESVCLPs) or Managed Investment Trusts (MITs).[9]

Skills and Talent

Access to the best minds and skills is critical to our success as a nation.

The AIC has noted that 'startups and scale-ups that are seeking to accelerate their growth can only do so by tapping into a deep pool of talent, both locally or globally'.[10] Currently a talent gap exists for many high growth companies, resulting in strong demand for skilled migrant workers in Australia.

The AIC added that a 'world-class innovation ecosystem needs to be supported by a world-class education system. The nature of work itself is evolving, driven by technological transformation'.

The AIC advised that 'Australia is a net importer of not only capital but talent. Skilled migration has been a key component of Australia's migration system, playing an important role in generating economic growth for a number of decades'. The AIC suggests that the visa program for skilled migrants should promote the flow of talent to Australian companies, particularly in the tech sector.[11]

Several visa pathways are currently available for workers in the tech sector and may help attract FinTech talent to Australia. Some roles (such as Software Engineer) can be filled under the Temporary Skills Shortage (TSS) visa. For positions that cannot be filled through the TSS pathway, the Global Talent Scheme aims to 'bring globally mobile, highly-skilled and specialised individuals to Australia who can act as "job multipliers" in Australian businesses, helping them to hire more local staff and fill

8 Australian Investment Council, *Investing for Growth, Policy Proposals for the incoming Federal Government,* April 2019, p. 6.

9 Australian Investment Council, *Investing for Growth, Policy Proposals for the incoming Federal Government,* April 2019, p. 6.

10 Australian Investment Council, *Investing for Growth, Policy Proposals for the incoming Federal Government,* April 2019, p. 9.

11 Australian Investment Council, *Investing for Growth, Policy Proposals for the incoming Federal Government*, April 2019, p. 9.

critical areas of need.'[12] The introduction of entrepreneur visas is also intended to help attract the brightest minds from overseas to grow the local tech sector.

Culture

As Churchill Scholar Dr Toby Heap has written:

> Culture covers things such as risk appetite, openness, frankness, and the degree to which people have a global outlook. Some important drivers of culture in ecosystems such as Israel, with its sense of constant threat, cannot be recreated…[13]

Promoting a culture of start-up success is a factor that cannot be created by government, but government can promote ingenuity. Israel, Singapore, the UK and the US state of California are seen as stand outs.

According to the Deloitte Israel FinTech Landscape Report:

> Over 350 multinational companies have set up various innovation or R&D centres in Israel, and its VC density is one of the highest in the world – owing much to government endorsement, which in turn draws angel investment to the field…Israel, therefore, is becoming a cardinal FinTech hub, in line with Silicon Valley, Singapore and London.[14].

The most recent Global Innovation Index shows Australia has weaknesses in a range of measures (including knowledge and technology outputs, creative outputs, and business sophistication). These areas provide opportunities for growth and development. The same study shows Australia also has several areas of strength relative to other top 25-ranked GII economies (including: overall level of tertiary enrolments; access to credit; regulatory quality; and ease of starting a new business). These strengths can be capitalised on when looking to grow Australia's innovation culture and support the FinTech and RegTech industries.[15]

Developing Australia's local FinTech culture is imperative to help foster innovation and make Australia a world leader in FinTech. We want our neighbours to look to Australia for technological innovation. This requires existing national champions in the tech space, such as Atlassian, as well as emerging players to help drive industry culture forward in Australia and ensure that we are not simply copying what has worked elsewhere. Local FinTech unicorns like AirWallex, Afterpay, and Zip Money have proven they can compete on an international scale – and more FinTech and RegTech companies must be supported to do the same.

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12 Department of Home Affairs, *Global Talent Employer Sponsored (GTES)*, https://immi.homeaffairs.gov.au/visas/working-in-australia/visas-for-innovation/global-talent-scheme

13 Dr Toby Christopher Heap, Churchill Fellow, *2017 Churchill Fellowship to investigate and lean from startup accelerators and innovation ecosystems – Israel, Netherlands, Sweden, Germany, UK, India, China, Singapore*, p. 23.

14 Deloitte, *Israel FinTech Landscape Report 2018*.

15 Cornell SC Johnson College of Business, INSEAD and WIPO, *Global Innovation Index 2019: Creating Healthy Lives – the Future of Medical Innovation*, p. 222.

EY notes that in terms of Australian FinTech culture, 'the employee profile of FinTech companies operating in Australia continues to show a marked gender imbalance'. While female representation has improved over the last few years (22 per cent in 2016 to 28 per cent in 2018), the FinTech industry in general recognise that more needs to be done to improve culture.[16]

> Asked how we can improve participation of women in the Australian FinTech industry, members of the FinTech community suggest: encouraging young women to follow STEM career paths (25%); changing company culture / policies (11%); and promoting awareness of the industry to women (11%).[17]

Regulation

Regulation provides the ecosystem necessary for Australia to be a successful nation in technology, including FinTech and RegTech.

This includes the key national regulatory infrastructure, such as:

- Data, including the Consumer Data Right (CDR) and how the CDR could be applied into:
  - Energy;
  - Telecommunications; and
  - Superannuation.
- CDR cost issues.
- Comprehensive credit reporting.
- Payments, including the New Payments Platform.
- Technology neutral laws.
- Anti-Money Laundering / Counter-Terrorism Financing.
- Government property data.

Consumer Data Right

The CDR was introduced following the *Review into Open Banking*, commissioned by the then Treasurer, the Hon Scott Morrison MP. The CDR gives Australians more control over their data, and allows consumers to direct their information be shared with transferred to accredited, trusted third parties of their choice. The CDR will allow consumers to access data about themselves held by companies, in a format that is readily usable. It will also allow consumers better access to information on the products available to them.[18] Introduction of the CDR will commence in the banking

16 EY, *EY FinTech Australia Census 2018*, p 17.

17 EY, *EY FinTech Australia Census 2018*, p 17.

18 The Treasury, Commonwealth Government of Australia, *Consumer Data Right Overview*, September 2019, p. 1.

sector, and be introduced into the energy and telecommunications sectors, with further sectors to follow over time.

CDR cost issues

Australian FinTech organisations have stated that the cost to become accredited under the proposed CDR legislation would be a large impediment to uptake, with FinTech Australia providing feedback that the average cost is estimated to be from $50,000 – $100,000 in annual compliance fees.

FinTech Australia's general concern with the Open Banking licencing costs is that a FinTech (consider, for example, the sole developer that comes up with an idea for an app), would have to provide this money upfront—before they have even validated the idea and identified that there is a market for it, i.e. before there is a single user on their platform.

FinTech Australia argues that the CDR should be easier to access and cheaper than screen scraping, a technique currently used by some companies to acquire and use consumer financial data. For many FinTech companies, the cost, time and effort to become accredited and maintain the CDR 'rails' does not make sense given screen scraping 'rails' already exist and are relatively less complex to access for new FinTech companies.

'Write-access' for CDR data in Open Banking

To date, the CDR legislation in Australia legislates only for "read-access" for banking data. This position stands in contrast to most other implementations of open banking in jurisdictions like the UK, Japan and the European Union.

Feedback from Finder notes that enabling write-access in Open Banking would allow accredited data recipients to make changes to a customer's financial data held by other institutions and to use this access for activities such as account switching or even payment initiation. Finder argues that write-access CDR could act as an antidote to the inertia seen today in the retail banking market.

CDR in superannuation

The Productivity Commission recommended in January 2019 that the Australian Government should roll out the CDR for superannuation.[19] FinTech Australia notes that unlocking other data including superannuation and insurance under CDR would be of great value for FinTech companies, as these are often complex areas for consumers to navigate and understand. Unlocking consumer data from these service providers will help customers with a greater understanding of their own products, how much they cost them and whether there are better or more appropriate deals for them.

Feedback from Finder also supports rolling out the CDR to superannuation. It notes that rolling out CDR for superannuation would lead to benefits including: improving the availability of information on fees charged by super funds in a consistent format; and improving understanding for consumers of insurance cover provided by super

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19 Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, Inquiry Report Overview, December 2018, p. 70.

funds. Finder suggests that making product reference data in relation to superannuation funds publicly available in a machine-readable format would be a good first step towards implementing CDR in the sector.

Anti-Money Laundering / Counter-Terrorism Financing (AML/CTF)

Initial feedback from the FinTech sector indicates that AUSTRAC, Australia's AML/CTF regulator, is consultative and maintains excellent relations with the sector. While strongly supportive of the purpose of the AML/CTF regime to ensure an environment hostile to the effects of crime, FinTech Australia considers there are two areas of regulation which need improvement:

1. Shared Know Your Customer (KYC) checks (that is, sharing verification records of the same customer between regulated entities) should be introduced in order to reduce duplication in the system.
2. International funds transfer instruction (IFTI) reporting innovation:

   FinTech companies must report transactions in far more lengthy and detailed reports to AUSTRAC than a bank would for the same transaction. This is costly to support and unfair to FinTech companies and their customers who must furnish more information to make a transfer.

   FinTech Australia states it is difficult to innovate at speed and report IFTI where the Act does not cater for FinTech business models or products, such as debit cards or digital currency exchange.

Government property data

FinTech Australia states that there is a significant discrepancy in the pricing between the various States and Territories with respect to accessing Government Property Data.

There is an obvious benefit to FinTech companies of having this data freely available, as property underlies the Australian mortgage industry in a critical way, necessitating the creation of indices and Automated Valuation Models. At the same time, open data has assisted PropTech (Property Technology) firms and is becoming increasingly valuable to KYC and AML obligations faced by financial institutions.

Access to affordable Government Property Data is critical to fostering innovation in the FinTech start-up community. FinTech organisations should play a critical role in furthering market competition.

The committee would appreciate any feedback, comments, views or suggestions on the above information on national competitiveness.

Senator Andrew Bragg
Chair

Section Two: Specific sectoral issues - FinTech and RegTech in Australia

Context

FinTech, or financial technology, refers to the technology or businesses that enable, enhance, and disrupt traditional financial services. FinTech companies offer products and services in areas including: money transfers and payments; savings and investment; borrowing; and personal finance management. FinTech solutions are typically innovative and responsive to changing customer needs.

RegTech is the use of new technology in regulatory monitoring, reporting, and compliance. RegTech companies typically provide software-as-a-service (SaaS) to help businesses comply with regulations efficiently and cost effectively. RegTech is sector agnostic and its technology solutions can be applied in any industry with regulatory and compliance requirements. Significant RegTech market segments have been identified as: profiling and due diligence; reporting and dashboards; risk analytics; dynamic compliance; and market monitoring.[20]

As noted in the Chair's overview, Australia has a rapidly developing and robust national eco-system of FinTech companies, with nearly 700 FinTech companies operating in Australia in 2018.[21] Some of these companies seek to directly disrupt and compete with traditional financial service providers, while others enter collaborative partnership arrangements with incumbents. Traditional financial service providers are also seeking to integrate FinTech solutions into their general business practices.

The Australian RegTech sector is likewise a growing area of development and innovation. The 2019 EY Global RegTech Industry Benchmark Report noted Australia as one of the top ten global RegTech markets, with 5 per cent of RegTech companies responding to its survey reporting they are headquartered in Australia, and 23 per cent offering services within Australia.[22]

General questions for FinTech and RegTech companies in Australia

The committee is very interested in hearing first-hand about the 'lived experience' of entrepreneurs and small businesses operating in the FinTech and RegTech space in Australia. In particular, the following questions may be helpful for those businesses making written submissions to the inquiry.

Questions

- What area of technological innovation does your company specialise in?
- In general terms, how would you describe the operating environment for FinTech and RegTech start-ups in Australia?

20 Cambridge Centre for Alternative Finance and EY, *The Global RegTech Industry Benchmark Report*, September 2019, p. 9.

21 Ernst and Young, *EY FinTech Australia Census 2018*, October 2018, p. 11.

22 Ernst and Young, *EY Global RegTech Industry Benchmark Report*, September 2019, p. 8.

- What are the biggest opportunities and challenges for your business in the short-to-medium term? In particular, you may wish to comment on any of the following issues:
  - Capital and financing arrangements (including access to venture capital and other forms of finance).
  - Staffing, recruitment and talent retention.
  - Collaboration and partnerships with other nascent firms and traditional financial services firms.
  - Opportunities to expand into overseas markets.
  - Issues affecting your business that may be specific to your product niche or area of specialisation (rather than affecting the FinTech and RegTech sectors as a whole).
- What are your views on recent and forthcoming changes to policy settings and regulatory initiatives affecting the sector (e.g. implementation of the new Open Banking framework; introduction of the NPP in 2018; and ASIC's FinTech regulatory sandbox)?
- Do you have any suggestions on how the Australian Government can best facilitate the continuing growth of the FinTech and RegTech industries in Australia?

Regulatory settings in Australia

The Australian Government has undertaken a number of initiatives in recent years that have impacted the financial services industry broadly, and the emerging FinTech sector specifically. These include:

- the consumer data right (CDR) reforms facilitating the introduction of Open Banking;
- the New Payments Platform (NPP);
- the ASIC FinTech regulatory sandbox;
- tax incentives for early stage venture capital limited partnerships (ESVCLP) and venture capital limited partnerships (VCLP) to improve access to capital and make the regimes more attractive to investors;
- removal of the double GST on digital currency;
- the introduction of Restricted Authorised Deposit-Taking institution (ADI) licences;
- the introduction of entrepreneur visas and the Global Talent Scheme to attract international talent to Australia;
- the introduction of a digital identity for people using government services online;
- the creation of the FinTech Advisory Group to work with the industry to ensure Australia has an internationally competitive environment for FinTech; and

- the establishment of a National Data Commissioner to support a new data sharing and release framework for public sector data.

Several reforms in this space are ongoing: for example, policy around the application of the consumer data right in additional sectors of the economy (e.g. energy, telecommunications) is being developed; and legislation to expand the regulatory sandbox was introduced to Parliament in July 2019.

The Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), Australian Competition and Consumer Commission (ACCC) and Australian Transaction Reports and Analysis Centre (AUSTRAC) have interactions with the FinTech and RegTech providers through licensing and establishment, reporting and compliance requirements.

Some FinTech services are not subject to the same level of regulation as traditional providers. For example, buy now/pay later services such as Afterpay, which offers some credit-like products, are not considered to be credit providers under Australian law and therefore their services are not covered by the *National Consumer Credit Protection Act 2009*.[23]

The committee notes the importance of getting regulatory settings right, to facilitate innovation and growth in the FinTech industry in Australia, while maintaining appropriate safeguards for Australian consumers. The committee is seeking input on key reform priorities for the sector.

As noted in the Chair's overview, X Tech can apply to virtually any industry. As well as some of the more obvious sectors outlined above, the committee is expecting to hear how innovative technical approaches can be applied to superannuation, legal and professional services sectors.

Questions

- Do current regulatory settings support the growth of local FinTech and RegTech companies in Australia?
- What are the key reform priorities that will enable FinTech and RegTech innovations to flourish in Australia?
- To what extent should government encourage or incentivise the disruption of existing financial services business models by new market entrants, as opposed to promoting partnerships between new and incumbent players? Are these aims mutually exclusive?
- How should Australia to take a prominent role in supporting and developing international blockchain standards?
- How can the FinTech and RegTech sectors link into the Australian digital identity ecosystem reforms?

23 ASIC is monitoring the buy now/pay later industry to determine if legislative changes are required. See: ASIC, *Report 600: Review of buy now pay later arrangements*, November 2018.

- Can Australian regulators do more to support FinTech and RegTech companies to develop digital advice services? How can the Australian digital advice sector be supported to grow?
- Are there any impediments to ensuring that the benefits Open Banking offers for consumers and FinTech firms are maximised?
- Following the implementation of the CDR in the banking sector, how quickly should government seek to implement CDR reforms in related financial sectors such as superannuation?
    - What specific considerations need to be given to the implementation of CDR in the superannuation sector?
- Is the New Payments Platform accessible enough for FinTech start-ups and scale-ups? If not, how should this issue be addressed?
- Is ASIC's FinTech regulatory sandbox useful for start-ups? Will the recently proposed expansion to the sandbox be sufficient to support growth in the sector?
- Do the tax incentives offered for ESVCLP and VCLP support growing FinTech start-ups? Should the government consider further work to support VC investment in FinTech start-ups?
- Are there measures that can be taken to support the FinTech sector's ability to raise capital from other types of institutional investors (e.g. superannuation funds)?
- Is the R&D Tax Incentive adequately assisting companies in the FinTech and RegTech space? If not, how should it be reformed to encourage innovation in these sectors?
- Are the existing visa settings for entrepreneurs and workers in the tech industry succeeding in attracting overseas talent into Australian FinTech and RegTech companies? Are changes needed to make this process more straightforward?
- Is the FinTech Advisory Group meeting its goals? Could the group be doing more to assist the development of the industry?
- How can public sector data be made more accessible and useful for FinTech and RegTech companies seeking to deliver innovative products and services?

Integrating FinTech and RegTech solutions across the economy

The Australian Government noted in 2016 that the growth of financial services and FinTech in Australia 'will help drive growth in related professional services such as legal, accounting, and other broader technologies. It will also help foster innovation in, and the development of, technology skills and capabilities that benefit the broader economy.'[24]

The committee is interested in exploring how FinTech and RegTech solutions can be developed and applied in a range of sectors across the Australian economy,

24 Australian Government, *Backing Australian FinTech: The changing face of financial services*, March 2016, http://FinTech.treasury.gov.au/the-changing-face-of-financial-services/.

particularly in areas where Australia holds a natural comparative advantage. Examples of this already occurring include:

- technological innovations in the agricultural sector (termed AgTech), such as the use of blockchain technology to increases transparency and efficiency in the management of grain supply chains;[25] and
- trials involving the use of 'smart money' (also referred to as programmable money) to better enable conditional payments, such as those for services delivered under the National Disability Insurance Scheme.[26]

Possible sectors of interest to the committee include (but are not limited to): agriculture; high-tech manufacturing; medical technology; mining and minerals; and energy.

Additionally, the committee is interested in examining how financial and related technological innovations can be utilised to improve services and social integration in underserved segments of the Australian community (for example, those living in regional and remote areas with poor access to traditional financial services).

Questions

- In addition to traditional financial services, which sectors of the Australian economy could benefit most from the integration of innovative FinTech and RegTech technologies? Why?
- Are there current examples of innovations in this area that the committee could explore during its inquiry?
- What changes are required in order to create a better enabling environment for the transfer of technological innovations across sectors of the economy?
- Noting the lengthy sales cycle (approximately 2 years) for RegTech products to be adopted by companies, how can government assist emerging RegTech providers to ensure that this time lag does not preclude innovative technology solutions from being brought to market?
- How can technology solutions be used to improve access to financial and other services for geographically isolated or other marginalised groups in Australia?

Global comparisons and investment

The FinTech industry is a significant sector of the global economy. KPMG found global investment in FinTech companies reached US$37.9 billion in the first half of

25 Department of Industry, Innovation and Science, 'Australian start-up AgriDigital embraces blockchain to make agricultural supply chains simple', December 2018, https://www.industry.gov.au/data-and-publications/australian-start-up-agridigital-embraces-blockchain-to-make-agricultural-supply-chains-simple.

26 Data61 and the Commonwealth Bank of Australia, 'Making Money Smart', https://www.data61.csiro.au/en/Our-Research/Our-Work/SmartMoney.

2019.[27] Of this, investment in Australian FinTech companies totalled around US$101.1 million.[28] The committee is interested in the lessons that can be learnt from overseas industries in growing Australia's FinTech sector.

Policy and regulatory approaches introduced in Australia in recent years have, to some extent, followed similar innovations in international jurisdictions. In implementing these solutions in Australia, the government has been able to learn from international experiences and develop solutions tailored to the local market.

The committee notes the developed FinTech industries in jurisdictions such as the UK and Singapore. A common factor in these locations is strong government interest and support in the sector.

United Kingdom

The UK supports its FinTech industry with strong government policy supporting start-ups. The UK government set out its FinTech Sector Strategy in 2018, outlining the opportunities for developing and growing the sector – including growing the RegTech sector to support FinTech companies to scale their operations while meeting regulatory requirements. Australia and the UK signed a FinTech Bridge in 2018 to strengthen cooperation and collaboration between governments, financial regulators, and the FinTech industry.

Singapore

Singapore's central bank and financial regulator, the Monetary Authority of Singapore (MAS), supports the FinTech industry with innovation grants, regulatory concessions (including a regulatory sandbox), IP protection, and other government initiatives to support the industry to grow. Singapore has signed 31 FinTech cooperation agreements with other countries (including with Australia, which was signed in 2016) to foster closer cooperation on FinTech and to promote innovation in financial services in their respective markets.

Australia's international FinTech agreements

In addition to agreements with the UK and Singapore, Australia has FinTech information sharing agreements with four countries, and FinTech cooperation agreements with a further nine countries.[29] The latter agreements allow ASIC and the partner regulators to assist innovative businesses hoping to make ventures into each other's' markets by providing referrals for advice and support.

27 KPMG, *The Pulse of FinTech 2019 Biannual global analysis of investment in FinTech*, July 2019, p 4.

28 KPMG, *The Pulse of FinTech 2019 Biannual global analysis of investment in FinTech*, July 2019, p 71.

29 Australia has FinTech information sharing agreements with Kenya, Indonesia, China, Luxembourg, and cooperation agreements with Singapore, Hong Kong, Japan, Malaysia, Abu Dhabi, Switzerland, Dubai, some Canadian regulators, and the USA.

Questions

- What learnings and opportunities can Australia glean from international FinTech and RegTech industries?
- What innovations from other countries could have a positive impact on the Australian FinTech industry?
- Are there any pitfalls Australia can avoid in growing its FinTech industry by learning from international experience?
- How can Australia take advantage of its geographical proximity to the rapidly growing markets in the Asia-Pacific and increase its financial services exports in the region?
- What measures can the Australian Government take to directly support FinTech businesses seeking to expand internationally?
- Should Australia seek more formal international FinTech agreements? Are there particular countries that Australia should look to for partnership?

Contact information

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