

"THE CENTRE OF REGTECH EXCELLENCE"

Senate Select Committee on Financial Technology and
Regulatory Technology

Response to Issues Paper November 2020

Supplement 2 to SUBMISSION

December 2020



RegTech

Contents

Section	Page
An overview: A Centre for Global RegTech Excellence	2
Summary of key facts and recommendations	3
Key fact 1: Australia is punching above its global weight for RegTech	4
Key fact 2: Australian RegTech still lacks sustainable investment	6
Key fact 3: Education of RegTech is key to the Australian economy	10
Issues paper Recommendations 1-4: Access to Capital	11
Issues paper Recommendation 1: Framework for ongoing consideration of FinTech policy issues	13
Reference materials	14

© The RegTech Association 2020

www.regtech.org.au

December 2020

A CENTRE FOR GLOBAL REGTECH EXCELLENCE

With a clear vision to be a global centre of excellence by facilitating the building of higher performing, ethical and compliant businesses through RegTech innovation and investment, The RegTech Association [RTA] was founded in 2017 as a non-profit organisation that focuses on what is needed to support the growth of the sector and to accelerate RegTech adoption. RegTech is sector agnostic.

ABOUT THE RTA

The RTA brings together government, regulators, regulated entities, professional services firms and RegTech companies to ensure collaboration between all parties, promoting the RegTech industry as widely as possible, resulting in action in the uptake of RegTech trials and proof of concepts and fully deployed RegTech solutions across the eco system.

Since establishing in 2017, the RTA has grown from small handful of RegTech vendors to now 150 organisations and become a leading promoter of RegTech globally.

REGTECH SOLUTIONS INCLUDE

Know your client
Identity
Financial crime
Conduct and culture
Marketing compliance
Product compliance
Voice data analytics
Regulatory and compliance reporting
Adaptive learning
Digital documents
Financial advice and wealth management
Customer onboarding
Compliance and workflow management
Cyber security
Responsible lending solutions
Income and expense verification
Data privacy

RTA PRIMARY ACTIVITIES

Training and showcase programs
Liaising with government and regulators
Industry research and collaboration
Export support
Speaking and advocating
Connectivity for members
Co-designed programs for collaboration
Membership support
Industry communication

HOW WE ARE FUNDED & GOVERNED

Non-profit
For industry by industry
Industry board of directors
Industry advisory committee
FTE executive 1.8
Revenue from subscriptions and sponsorships
1 Government grant

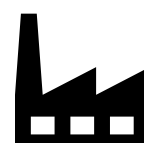
KEY FACTS



150 Organisational
Members

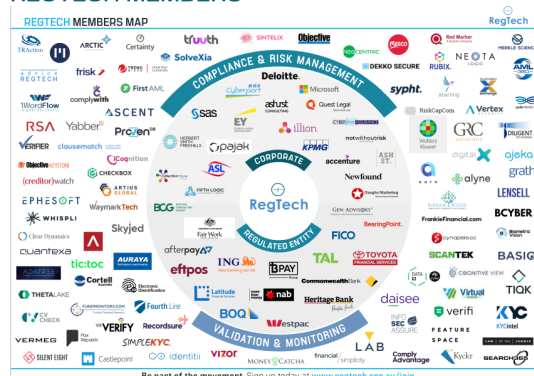


RegTech members 80%
Australian



RegTech is sector
agnostic

REGTECH MEMBERS



Source: The RegTech Association
As at December 2020

Summary of Key Facts



Australia is punching above its global weight in RegTech



Australian RegTech still lacks sustainable investment



Education of RegTech is key to the Australian economy

Summary of Key Recommendations

Issues Paper: Access to Capital

Recommendation 1:

[Establishing a patient capital fund for RegTechs and extend Australian Business Growth Fund](#)

Recommendation 2:

[Explore offshore markets and regulated sectors for Australian RegTechs](#)

Recommendation 3:

[Attracting established RegTechs to Australia alongside talent and skills](#)

Recommendation 4:

[Developing **or extending** programs where Government can more easily identify and buy from RegTechs](#)

Issues Paper: Framework for ongoing consideration of FinTech policy issues

Recommendation 1:

[Recommend a Digital Economy Advisory Committee](#)



Australia punching above its global weight in RegTech

Third highest concentration of RegTech product developers in the world

On one hand, RegTech, which applies technology to improve how businesses manage regulation and compliance, is in a position of strength. Australia is the world's third largest RegTech hub today, behind the US and the UK. Over 10 per cent of all RegTechs in the world are currently headquartered in Australia.

Compare Australia with its 80 established RegTech companies to markets like Canada and Singapore, with 26 and 21 RegTechs, respectively. And compare with the US and UK, the world-leaders in RegTech and major financial centres, we are truly punching above our weight.

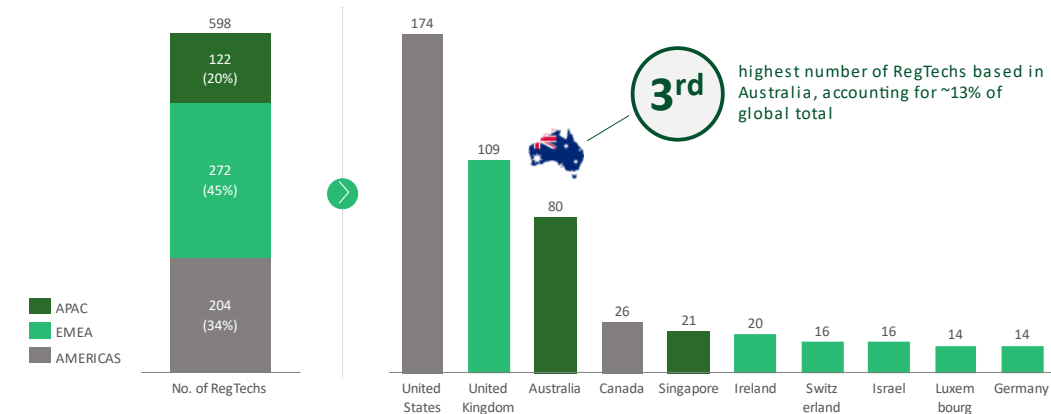
Since 2015, growth in the Australian sector of 15 per cent has significantly outpaced global growth of 6 per cent. On this metric, the RegTech sector is strong.

Australia is #3 in the world

Australia has emerged as a RegTech hub with 80 firms headquartered in the country

There are ~600 RegTechs globally...

...and 80 are based in Australia, making it one of the largest RegTech hubs in the world



1. RegTechs categorized by HQ location 2. Cumulative total as of end 2020 H1
Source: BCG FinTech Control Tower

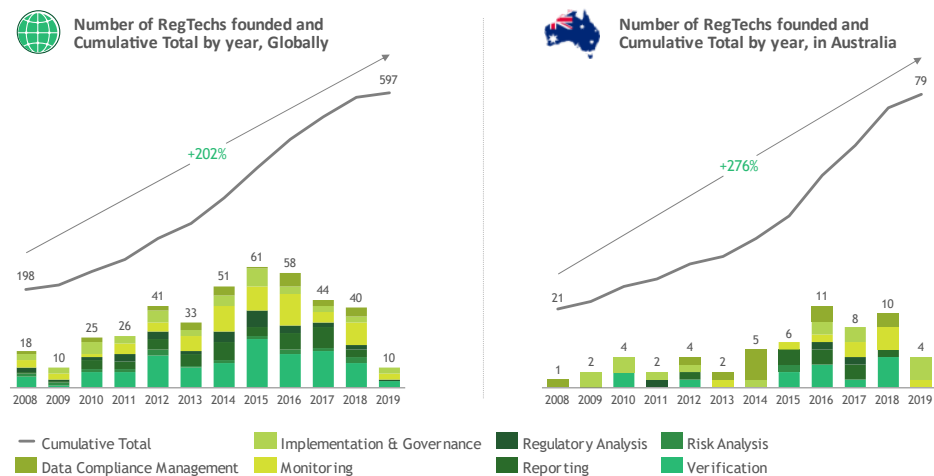
4

Copyright © 2020 by Expand Research. All rights reserved.

Diagram 1: Source: Australia's Global RegTech Hub Poised for Growth October 2020 by RTA and BCG Expand Research

RegTech product development in Australia has outpaced global growth

Growth in number of RegTechs founded in Australia has outpaced global growth since the 2008 financial crisis



6

Copyright © 2020 by Expand Research. All rights reserved.

Diagram 2: Source: Australia's Global RegTech Hub Poised for Growth October 2020 by RTA and BCG Expand Research



Australian RegTech still lacks sustainable investment

Today, only 1 per cent of the global investment in RegTech is in Australian companies

A report into the RegTech landscape, produced by The RegTech Association and Boston Consulting Group/Expand Research, has found a worrying decline in investment and Australia lagging comparable markets for investment. The report found the local market for RegTech to be small, typically risk averse, and often lacking an understanding of RegTech solutions.

Despite these vital applications, investment in local RegTechs has declined by 50 per cent since 2018, according to the report. At the same time, RegTech investment around the world has hit record levels, climbing from \$769 million to \$1.386 billion in 2019.

Over the same period, Australian investment went from \$32.7 million to \$16.4 million. Israel and Canada both succeed in attracting investment into RegTech despite not being world-leading RegTech hubs.

The funding mix in Australia skews towards early-stage seed and angel investments. This contrasts with international trends, where the funding mix is more balanced across early-stage funding and subsequent series.

In Australia, it is the founders themselves, angels and high net worth individuals funding RegTechs. Venture capital is prevalent in other markets, but not in Australia.

The decline in funding for RegTechs in Australia is in line with investment in innovation overall. In 2020, Australia was ranked #23 on the Global Innovation Index, down from #20 in 2018. As a result, growth and innovation in Australia's RegTech industry has outstripped funding.

Insufficient funding opportunities risk leaving Australia's RegTech companies at a disadvantage, constraining product innovation and their ability to scale.

In a less than promising investment landscape, there are opportunities for the public and private sectors to support Australia's RegTechs by becoming RegTech clients and by creating awareness and collaboration opportunities.

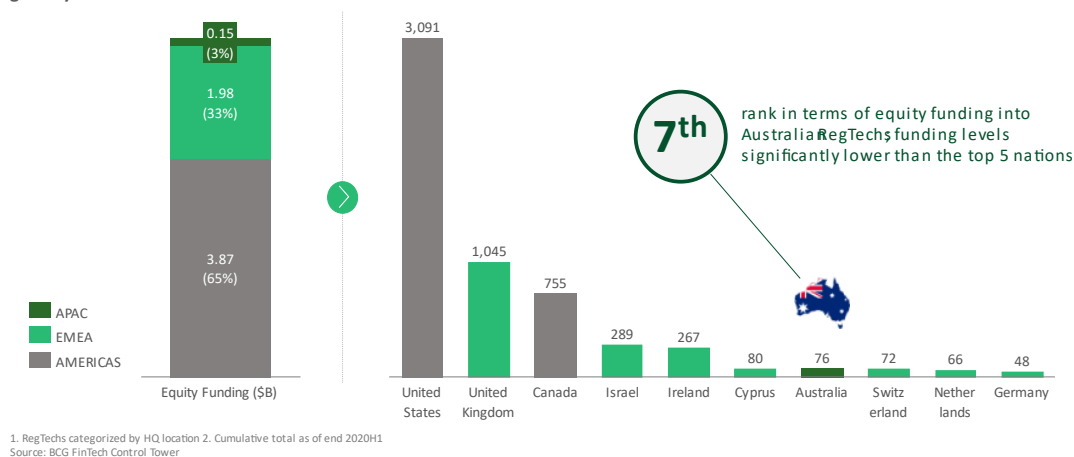
The RegTech industry can – and is – helping financial and other regulated institutions understand the benefits of the sector by coordinating industry-wide forums and benchmarks to address the investment deficit.

Australia attracts only 1% of total equity funding into RegTech

But Australian RegTechs have attracted only ~1% of equity funding

RegTechs have raised ~USD \$6B globally...

...of which only ~1% has gone to Australian RegTechs



5

Copyright © 2020 by Expand Research. All rights reserved.

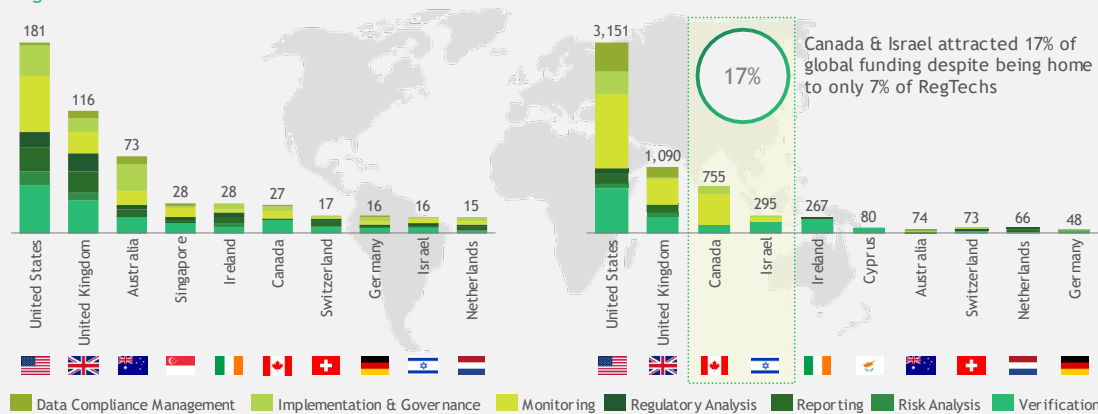
Diagram 3: Source: Australia's Global RegTech Hub Poised for Growth October 2020 by RTA and BCG Expand Research

Canada and Israel successfully attract investment into RegTech

UK and US are top RegTech hubs with the US attracting 52% of global funding, while Israel and Canada 'punch-above-their-weight' in attracting investors

Top 10 RegTech hubs in the world by number of RegTechs and cluster 2000-20H1

Top 10 RegTech hubs in the world by equity funding and cluster 2000-20H1



22

Copyright © 2020 by Expand Research. All rights reserved.

Diagram 4: Source Boston Consulting Group Expand Research December 2020

Many Australian RegTechs are self-funded and face challenges

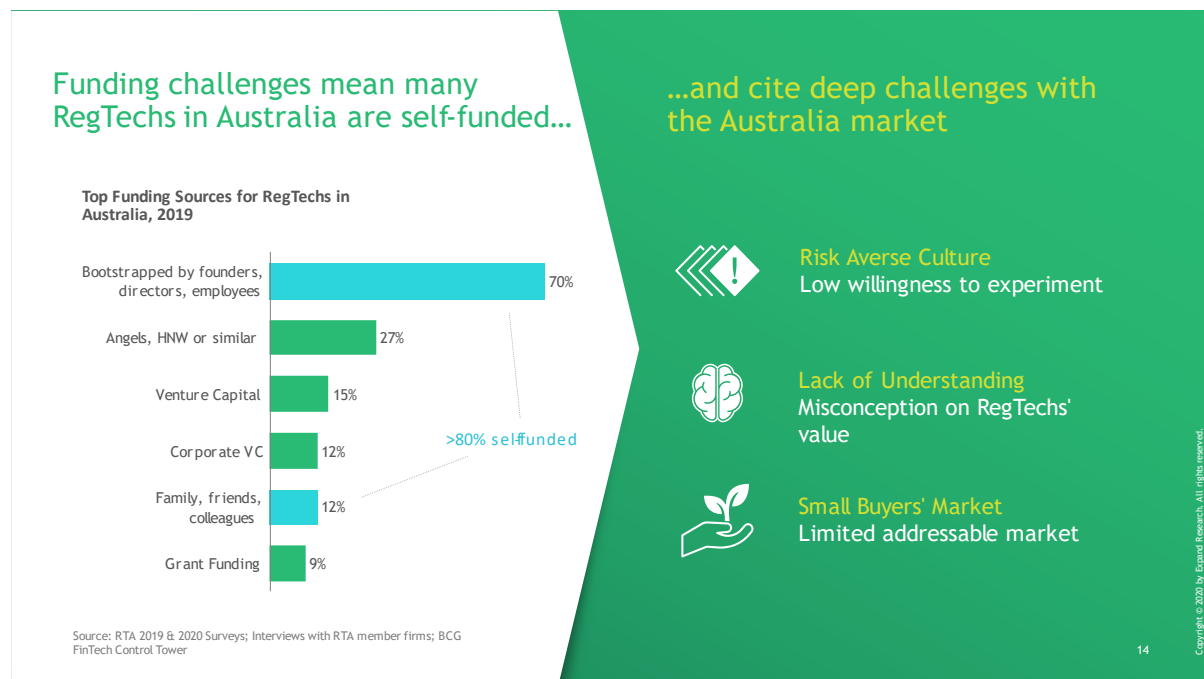


Diagram 5: Source: Australia's Global RegTech Hub Poised for Growth October 2020 by RTA and BCG Expand Research

Growth in RegTech numbers has outpaced global growth

Growth in number of RegTechs founded in Australia has outpaced global growth since the 2008 financial crisis

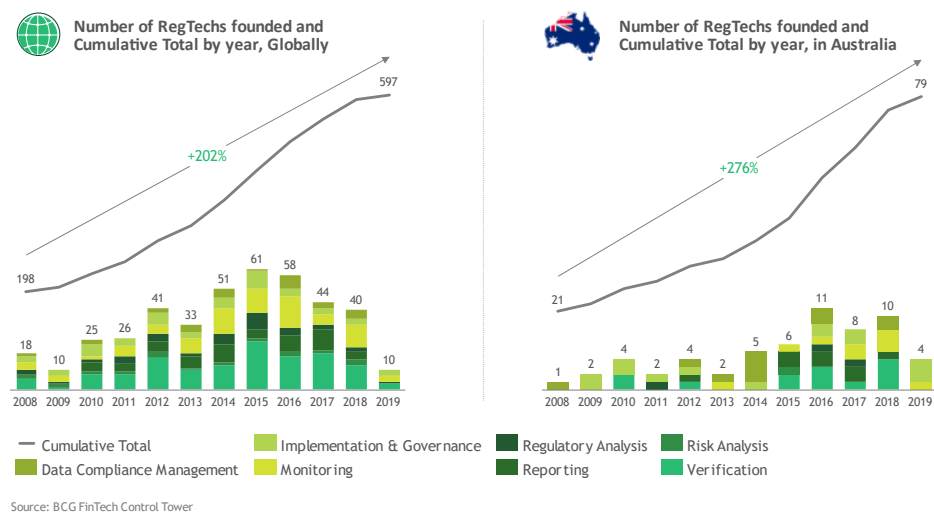


Diagram 6: Source: Australia's Global RegTech Hub Poised for Growth October 2020 by RTA and BCG Expand Research

Global RegTech equity funding has outpaced funding of Australian firms

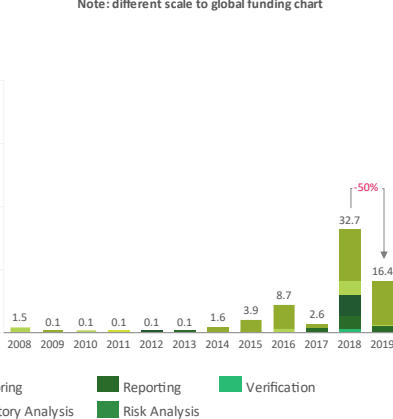
Over the same period, global RegTech equity funding has drastically outpaced funding for Australian firms

Equity Funding by year for RegTechs globally (USD \$M)



Equity Funding by year for Australian RegTechs (USD \$M)

Note: different scale to global funding chart



Between 2018 and 2019, RegTechs globally experienced an 80% growth in annual funding

In the same period, Australian RegTechs experienced a 50% decline in funding

Source: BCG FinTech Control Tower

7

Copyright © 2020 by Expand Research. All rights reserved.

Diagram 7: Source: Australia's Global RegTech Hub Poised for Growth October 2020 by RTA and BCG Expand Research



Education of RegTech is key to Australian economy

The Productivity Commission recognised the application of RegTech to a broad range of industries

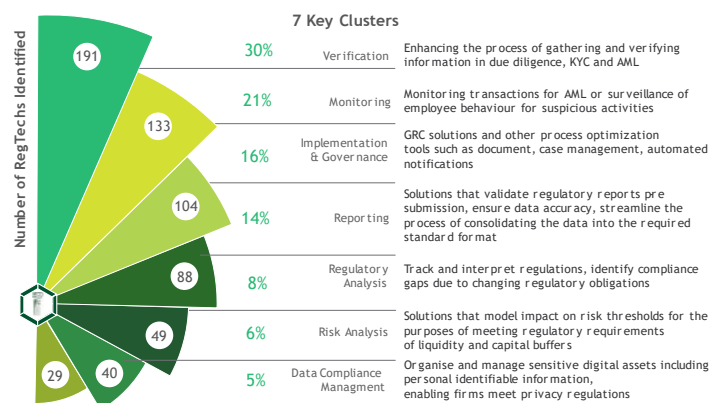
The RegTech Association's position is one of collaborating with FinTech and all other customers of RegTech, but this needs a well-understood and holistic approach to industry engagement.

For those unfamiliar with the sector, RegTech solutions aren't just about satisfying bureaucratic red tape. RegTech allows businesses to make better business decisions through having access to superior data analytics, risk management information and reporting. This could come in the form of technologies such as Natural Language Processing, Artificial Intelligence or Blockchain that are packaged into solutions solving for financial crime, counter-terrorism financing, digital identity, verification, regulatory reporting, risk management and a myriad of other applications. RegTech can be applied to regulated industries outside of financial services as well including Telco, Energy and Healthcare, making it a highly versatile range of solutions benefiting a wide sector of the economy.

For the reasons of the breadth of the benefits that RegTech can bring to a range of industries, we need the right vehicles for collaboration and to educate.

The Productivity Commission published a RegTech information paper in October 2020¹ that recognised the widespread application of RegTech solutions beyond financial services making it highly versatile in reducing the barriers to regulation and compliance. Key to education is the development of a common language and categorisation of RegTech. We are advocating for a global taxonomy to be introduced to facilitate a standard that can be adopted globally across 7 key clusters. Our international RegTech directory will be aligned to these clusters from 2021. Australia will lead this promotion through media and the global industry event, #ACCELERATERegTech2021 in March.

7 clusters of RegTechs emerged to help financial institutions meet regulatory obligations and improve compliance effectiveness



1. RegTech defined as technology solutions that primarily facilitates effective regulation or regulatory compliance
Source: BCG FinTech Control Tower

20

Copyright © 2020 by Expand Research. All rights reserved.

Diagram 8: Source: BCG Expand Research December 2020

¹ <https://www.pc.gov.au/research/completed/regulatory-technology/regulatory-technology.pdf>

Recommendations

Issues paper: Access to capital

Access to capital – the single most pressing issue

In our submissions dated December 2019, July 2020 and this one, we are raising that access to capital is the single most pressing issue facing the RegTech industry.

We make the following points to underline the urgency of the current investment situation. We have used the term capital from both an investment capital perspective but also from a buying and adoption perspective.

Recommendation 1:

Establish a patient capital fund for RegTechs and extend Australian Business Growth Fund

The RTA's first submission to the Senate Select Committee in December 2019 supported the idea of alternative sources of capital and the RTA/BCG report found other much-needed advances would be for authorities to divert a small proportion of penalties and fines for compliance failures and breaches into funding RegTechs and establishing grant programs for immediate access to funds.

This recommendation concurs with the RegTech Association's view that facilitating access to funding by establishing 'patient capital' funding pools with long-term perspectives, and access to grant programs that support high quality RegTech firms to scale-up is very badly needed.

Like in medical research, the idea of patient capital is needed to recognise the longer sales cycles for deeply embedded and integrated RegTech solutions that traditionally take longer to adopt because of the often deep and complex nature of deployments.

Consider extending the remit of the Australian Business Growth Fund² initiative to loosen the requirement for \$2million in revenue to further facilitate inclusion of Australian RegTech. The investors in this fund have everything to gain from investing in RegTech solutions that protect their businesses, their customers and supporting innovation in doing so.

Recommendation 2:

Explore offshore markets and regulated sectors

To assess offshore markets and regulated sectors that can best benefit from RegTech, the industry requires partnered research collaborations with Government agencies such as AUSTRADE and Department of Foreign Affairs and Trade. These programs can support and facilitate opportunities for local RegTech solutions from new markets and regulated sectors both existing and emerging. Initiatives such as Free Trade Agreements between economies, APEC digital programs and UK/Australian FinTech bridge all present opportunities to explore.

² <https://www.afr.com/companies/financial-services/business-growth-fund-to-aid-recovery-20200427-p54nju>

Recommendation 3: Attracting established RegTechs to Australia alongside talent and skills

High on the Prime Minister's agenda is the attracting of offshore high growth companies entering the Australian market and bringing with them the investment, talent [the brain gain]³ and maturity of their global industry experience. To ensure that Australia is seen as an attractive destination for establishing an APAC presence for leading global RegTech companies to bring their skills, experience, investment capital and global market experience, there is a need for supportive programs from the Australian Government and peer agencies around the world. This comes in the form of research and collaborations. Note that UK Trade and Investment and Invest Hong Kong are both sponsors of the RTA's global annual conference to be held in March 2021 and are amongst the first to support what will be a global RegTech collaboration established by The RegTech Association – an Australian headquartered and founded NFP.

Recommendation 4: Developing or extending programs where Government can more easily identify and buy from RegTechs

The Government have committed to an \$11.4 million investment over four years to deliver a RegTech Commercialisation initiative to streamline Government administration and simplify regulatory compliance. We are champions of Government becoming a RegTech buyer.

We draw attention to the medium-term nature of this program and that it may be suited to mature players who have the resources to commit and participate in the program over an extended period of time. The majority of the members that we represent in the RegTech category are five years or less in vintage with very small teams. An endeavour such as this program would be a considerable drain on scale-up resources who are already heavily investing their own funds into their businesses. We are actively seeking to improve the 'time to value' that is currently, depending on complexity, somewhere between 13 months to 2 years to deployment.

The Productivity Commission's inaugural report on RegTech was published in October 2020 in part to start a discussion about the potential opportunities for RegTech and the various applications. We'd like to provide further input to this \$11.4 million program to further aid understanding and promotion of the opportunities. Included in this will be the all-important understanding of how small businesses can do business with large and complex organisations and what it takes to successfully overcome the hurdles and barriers to entry.

In addition, The RegTech Association has already created targeted commercial opportunities around specific problem statements from buyers to RegTechs and we can do this in a matter of weeks. This is successful as it is driven out of a genuine desire by all parties to do the business, the best RegTech in the world are curated and presented to the buyer, feedback provided to all sellers within a fortnight of the program and second round interactions are then facilitated directly between the parties. The RTA is currently running one such program with a Big 4 Australian bank. So far, we have curated 60+ opportunities for RegTech firms and one bank.

We would encourage adjunct programs to existing Government initiatives that can help identify RegTech opportunities.

³ <https://www.afr.com/politics/federal/brain-gain-pm-makes-the-pitch-for-australia-as-fintech-hub-20201207-p56ldq>

Issues paper: Framework for ongoing consideration of FinTech policy issues

Recommendation 1: Recommend a Digital Economy Advisory Committee

In 2020, the RTA have been engaged by various Government agencies including Digital Transformation Agency, Attorney General's Office, Office of the Small Business and Family Enterprise Ombudsman, Department of Innovation Science Energy and Research, Productivity Commission, Office of Prime Minister and Cabinet, AUSTRADE, Department of Foreign Affairs and Trade, NSW Treasury, NSW Customer Service and Fair Work Commission and other policy makers including this Senate Committee, all seeking a central view of RegTech for their various programs a. Having a committee forged across the common goals for digital transformation of the entire economy at a policy level seems to make good sense.

Having positioned that we believe that education about RegTech is key, in part, having this committee with a broad remit would help guide Government and industry policy-making, inform best practice regulation and assist emerging RegTech beneficiary industries to fully understand the breadth of RegTech. This may further support the argument for a de-coupling of RegTech from FinTech to make a very clear distinction – they may use similar technologies but RegTech has wider application⁴. For the RTA, the question of the distinction between FinTech and RegTech is the most common question that we are asked.

We welcomed the recent announcement of the inclusion of digital economy to The Hon. Senator Jane Hume's portfolio and would support the formation of a Digital Economy Advisory Committee in line with Minister Hume's new portfolio inclusive of FinTech, RegTech and other industry vertical technology groups and other key stakeholders such as insurance and superannuation. Furthermore, this could then be of value as the Consumer Data Right expands to energy, telco and beyond in the future. This could have a primary committee with a number of specific work streams.

⁴ <https://mena.thomsonreuters.com/content/dam/openweb/documents/pdf/mena/white-paper/fintech-and-regtech-disruption-or-more-of-the-same.pdf>

Reference Materials

Date	Title	Link
December 2019	Senate Select Committee FinTech and RegTech	https://regtech.org.au/resources/Documents/FINAL_APPROVED_13Dec19_SUBMISSION_RTA_SS.pdf
December 2019	The RegTech Industry Report: The Founders' Perspective	https://regtech.org.au/resources/Documents/FINAL_RegTechIndustryReport_61219.pdf
July 2020	Senate Select Committee FinTech and RegTech	https://regtech.org.au/resources/Documents/Web_Submission_SenateSelectRegTech_July2020.pdf
October 2020	RTA/BCG Expand Research: Australia's Global RegTech Hub Poised for Growth	https://www.bcg.com/en-au/publications/2020/australia-global-regtech-hub-poised-for-growth
October 2020	Productivity Commission Information Paper: RegTech	https://www.pc.gov.au/research/completed/regulatory-technology/regulatory-technology.pdf

© The RegTech Association 2020
www.regtech.org.au

© The RegTech Association 2020
www.regtech.org.au

