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Standing Committee on Economics
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RE: Inquiry into promoting economic dynamism, competition and business formation

We thank the House of Representatives Economics Committee for the opportunity to make a submission on the Terms of Reference of this inquiry into promoting economic dynamism, competition and business formation.

About Fintech Australia

FinTech Australia is the peak industry body for financial technology businesses and represents over 420 fintech companies and startups across Australia. As part of this, we represent fintechs spanning payments, consumer and SME lending, wealthtech and neobanking, cryptocurrency, blockchain and Web3, Regtech and Insurtech, and the Consumer Data Right. We also partner with leading VCs and accelerators across Australia.

Our vision is to make Australia one of the world's leading markets for fintech innovation and investment. This submission has been compiled by FinTech Australia and its members in an effort to drive cultural, policy and regulatory change toward realising this vision.

Our submission

FinTech Australia welcomes this timely inquiry, as it has been almost a decade since the last major review of Australia's competition framework.

Over the same period, fintech has emerged as a driver of innovation, competition and lower costs across financial services. Fintech has been a great success story of home-grown innovation and dynamism.

Australian fintech companies have a positive effect on the economy by:

- Empowering consumers to control their finances and driving financial inclusion;
- Supporting a more sustainable financial system;
- Driving down costs for small businesses;
- Making investing more accessible; and
- Improving security and preventing scams and fraud.



We have also recently seen an increase in collaboration and partnerships between incumbents and early-stage fintechs. However, market concentration in financial services and economic barriers have limited growth and the positive effect fintech can have in creating a more diverse and dynamic business environment.

We also note that in recent years, Australia's productivity growth has reached a plateau¹. The extent of market concentration, the drop in the establishment of new companies, and the reduction in job mobility have contributed to a fall in Australia's economic dynamism. External factors such as the recent pandemic, inflation risk and global conflicts have also challenged Australia's economic performance. FinTech Australia believes that with the right support, fintech can be at the forefront of driving a new era of economic dynamism².

Our submission outlines four key factors which are particularly important for promoting economic dynamism, competition and business formation in the fintech sector:

- Prioritising *transformational reforms* to enable innovation and support competition;
- Addressing *systemic issues* which diminish competition;
- Empowering *regulators* that support economic dynamism, and
- Creating *incentives* to lower barriers to growth.

We encourage the Committee to consider these issues and the examples we discuss through the inquiry and look forward to providing more detailed feedback as it progresses.

The importance of a diverse and dynamic business environment

Productivity, prices and better-paid jobs

The Australian economy has benefited from having a business environment that is strong, competitive and innovative. FinTech Australia strongly supports a diverse business environment that is characterised by the presence of a variety of firms with different sizes, ownership structures, and industries which can lead to increased competition, in particular in the fintech industry. This competition, in turn, can lead to higher levels of innovation and productivity as firms are forced to continuously improve their products, services, and processes to maintain their competitiveness. Diverse business environments were often associated with higher levels of entrepreneurial activity, leading to greater innovation and economic growth. Increased

¹ Productivity Commission, 5-Year Productivity Inquiry: A Competitive, Dynamic and Sustainable Future Inquiry Report - Volume 3 (2023). <<https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume3-future.pdf>>

² Arner, Douglas W. and Barberis, Janos Nathan and Buckley, Ross P., The Evolution of Fintech: A New Post-Crisis Paradigm? (October 1, 2015). *University of Hong Kong Faculty of Law Research Paper No. 2015/047, UNSW Law Research Paper No. 2016-62*, Available at SSRN: <https://ssrn.com/abstract=2676553> or <http://dx.doi.org/10.2139/ssrn.2676553>.



competition between firms will also drive salary benchmarking as the pursuit of the best talents and skills increase³.

We also believe that a dynamic business environment, characterised by high levels of entry and exit of firms, promotes innovation and experimentation. New entrants into a market often bring nascent ideas and approaches, which can potentially disrupt established ways of doing things and lead to innovation. Consequently, prices can be reduced for goods or services which benefit the consumer. Further, the exit of less efficient firms can free up resources and talent, which can be redeployed into more productive and innovative activities.

A. Addressing *systemic* issues which diminish competition

Although Australia has been a launchpad for many successful fintech firms over the last decade, there remain several longstanding systemic issues which limit their ability to compete and drive innovation in financial services. Start-ups and other early-stage businesses can be particularly vulnerable to issues like de-banking and opaque pricing practices.

De-banking

In recent years, Australian banks have been de-banking customers, including fintech companies, Digital Currency Exchanges (DCEs) and remittance providers⁴. De-banking or denial of banking services refers to the process of financial exclusion or the removal of access to traditional banking services. The de-banking process is often swift and generally done without reason or notice and leaves the de-banked businesses with minimal explanation or recourse. The consequences of de-banking can have a devastating impact on legitimate businesses. De-banking acts as a significant barrier to entry that hinders the establishment and development of new and innovative businesses in Australia.

FinTech Australia has long advocated for a robust policy response to what continues to be a significant issue across the Australian fintech market. We acknowledge this issue was considered in the 2021 Senate Select Committee on Australia as a Technology and Financial Centre and, as a result, further considered by the Council of Financial Regulators (CFR) with a report on potential policy responses provided to the Treasurer in August 2022.⁵

The CFR's report identifies some of the key practical issues to be addressed but the policy responses need to be greatly expanded and strengthened to have any real effect. We are also yet to see a Government response or next steps on how the CFR's proposals will be implemented. FinTech Australia encourages the Committee to further consider the prevalence of de-banking and its impact as a handbrake on competition and innovation.

Our members are concerned the current approach of de-banking or de-risking entire sectors or fintech verticals can be anti-competitive. This approach is discriminatory and confers an unfair

³ Urbano, David et al, 'Does Entrepreneurial Activity Matter for Economic Growth in Developing Countries? The Role of the Institutional Environment' (2019) *International Entrepreneurship and Management Journal*.

⁴ Select Committee on Australia as a Technology and Financial Centre, Parliament of Australia, Chapter 4: De-Banking (Final Report, October 2021), 83-7 [4.4]-[4.15].

⁵ Council of Financial Regulators, 'Potential Policy Responses to De-banking in Australia'.



advantage to banks, as it allows them to influence the broader financial services industry by disrupting entire sectors. Preventing de-banking will enhance investment by enabling responsible fintechs to enter and invest in Australia with operational certainty.

The practice of de-banking poses a significant threat to the entire fintech industry and undermines the goal of positioning Australia as a world-class centre for financial technology. Fintech companies must have access to banking services to thrive and ensure business continuity. It can mean ADIs effectively become the gatekeepers to innovation, with the power to determine which companies should and should not be granted access to banking services, and ultimately, the opportunity to succeed in Australia.

In our members' view, the core of the issue is that financial institutions are generally unwilling to provide banking services, particularly to DCEs and remitters, due to the higher compliance costs and heightened risk exposure resulting from the perceived high risk (whether residual or inherent) nature of the industry.

Accordingly, the reasons for not providing banking services are generally commercial in nature. Unless the Government, through policy responses, or AUSTRAC can provide further regulatory comfort to financial institutions (e.g. being able to onboard without undertaking compliance checks that are much more onerous than usual or committing higher levels of resources to undertake ongoing customer due diligence), it is difficult to see how the measures proposed by the CFR will improve the commerciality of providing banking services to DCEs, remitters and other fintechs perceived to be higher risk in Australia.

Price transparency

A lack of price transparency for consumers in certain financial services markets can inhibit price competitive fintechs' ability to compete with incumbents and ultimately result in consumers paying more. Imperfect price information can result in the prices of services remaining high for many consumers despite new entrants, like fintechs, offering lower prices.

International money transfers

A key example of this issue is the regulation of international money transfers. For these services, the current regulatory structures do not promote transparent pricing which contributes to diminished competition. Despite the ACCC providing 'Best Practice Guidance' for transparent pricing of foreign currency conversion services in 2019, hidden fees - specifically the retail exchange rate markup - are still pervasive and common throughout the industry. The Guidance currently requires IMT firms to disclose the 'total price' of the transfer but does not require disclosure of the additional costs found in the retail exchange rate markup. This results in many firms advertising 'fee free' or 'no commission' transfers which are still subject to these hidden fees, resulting in a higher total cost relative to the mid-market/interbank rate and other lower-cost competitors.

These practices and the resultant lack of price transparency make it challenging for consumers to make informed decisions when they are travelling, sending money abroad to family or running their business. It also makes it difficult for innovative, lower-cost new entrants to compete with incumbents holding significant market shares.



Our member Wise's research indicates that around two-thirds of consumers are unaware of this pricing structure which allows for hidden mark-ups in the retail exchange rate⁶. Their research also suggests high markups remain in place in this concentrated industry.

Better upfront price information would support consumers to understand and compare IMT services. This would allow them to more easily respond to price signals, thereby supporting competition and innovation, encouraging switching and ultimately driving down costs.

FinTech Australia emphasises the importance of transparency in markets and how competition in any market relies on the ability of customers to make purchasing decisions based on an understanding of what products exist and the price of these products. We support more robust guidance, and in some cases regulation, that requires the presentation of information to allow consumers to meaningfully compare different products. In relation to IMT, this could involve presentation of the total cost of the retail markup and any other fees by reference to a benchmark rate.

The competition and consumer regulator, the ACCC, also has an important role to play in creating robust guidance, regularly reviewing market practices and taking enforcement action where necessary. Other regulatory options, like the information standards power in the Australian Consumer Law, could also be considered by the Government where more standardisation and prescription are required. We note this broad power has been utilised flexibly in recent years to improve labelling for free-range eggs and country of origin and to mandate pricing information to be displayed by ticket resellers.

We also note the Government's forthcoming consultation on a ban on 'unfair trading practices' and support consideration of transparent pricing and the impact of hidden fees through this process.

Home Loan pricing

Another relevant example is in relation to transparency in home loan pricing. The ability to ascertain, compare and evaluate home loan prices is an important stage in a borrower's loan application or switching journey.

Generally, there are two types of discounts offered by home loan providers: advertised discounts and discretionary discounts. Advertised discount information are available on the lenders website and often form package as part of the lender's other financial products. On the other hand, discretionary discounts are offered by lenders on a case-by-case basis and not all borrowers may be eligible for a discretionary discounts. Lenders' practice of providing discretionary discounts often leads to borrowers having difficulty in accessing simple and transparent home loan price information.

The practice of discretionary discounts creates an information asymmetry between lenders and borrowers with regards to how actual home loan prices are determined. As a result, borrowers are at a disadvantage because they do not have access to the same information as lender about

⁶ YouGov, "Understanding Foreign Exchange Consumer Study", 24 August 2021.



the variables that determine discretionary discounts, which ultimately leads to borrowers having to pay higher prices.

In their 2020 Home Loan Pricing Inquiry, the ACCC found that borrowers often lack access to transparent and easily understood pricing information about home loans and many borrowers could achieve significant savings by switching lenders or negotiating with their existing lender to receive an interest rate similar to that on offer for new loans.

A key recommendation in response to this finding was to implement an annual prompt for variable rate borrowers to encourage them to engage in the home loan market by making them aware of a benchmark average interest rate to encourage switching.

In the context of the importance of price transparency and supporting consumers' ability to switch to better and lower cost products, FinTech Australia supports further consideration of the outcomes of the ACCC Inquiry and whether its recommendations should be revisited in the current higher interest rate environment where consumers can benefit from lower priced offerings, including those offered by fintech lenders.

Concentration of market power

In recent years, there has been a marked shift to card payments being made with mobile wallets offered by 'mega-platform' companies. Between the Q1 of 2020 and Q1 of 2022, the share of mobile wallet transactions has doubled from (10%) to (25%)⁷. These mobile wallets enable customers to store digital representations of their debit/credit card on their mobile devices which are then used to make contactless payments.

Due to the impact of COVID-19 and the shift towards contactless payments, we expect a substantial rise in revenue generated through digital wallets and mobile payments. As half of all Australians have already established a digital wallet, this trend is likely to continue. Consecutively, one of the pressing competition issues that we are witnessing in Australia is the immense market power that 'mega-platforms' such as Google, Apple, Amazon and Shopify possess in digital wallets and payments.

The concentration of market power for these 'mega-platforms' can reduce economic dynamism by limiting competition and reducing incentives for innovation and investment in new products or services in Australia. In the absence of competition, firms may have less motivation to invest in research and development, improve production processes, or lower costs, thus less likely to compete directly with these 'mega-platforms'.

The presence of a few large firms with market power can create barriers to entry, which can limit new entrants. This, in turn, can stifle entrepreneurship and innovation, which are crucial drivers of economic growth. New entrants often bring new ideas, technologies, and business models to the market. However, if existing firms possess excessive market power, it can be challenging for new firms to compete on an even playing field.

⁷ Reserve Bank of Australia, 'The Evolving Retail Payments Landscape | Payments System Board Annual Report – September 2022', Reserve Bank of Australia (28 September 2022) <<https://www.rba.gov.au/publications/annual-reports/psb/2022/the-evolving-retail-payments-landscape.html>>.



For instance, the majority of all digital transactions using mobile phones are funnelled through the duopoly of smartphone payments provided by mega-platforms. The implications of this concentrated market power can be seen with one of the mega smartphone operators where they act as a strict gatekeeper to the digital wallets on certain mobile devices. They can prevent other companies from accessing its NFC chip - the vital access hardware needed to make digital payments. The same company also controls the terms and price on which the third parties can be part of the digital wallet and the visibility of the transaction data that goes with every purchase. Consecutively, other mega-platforms are also increasingly acting as both 'referee' and 'player', meaning by utilising their dominant position to build and select their own digital financial products. If left unchecked, this concentrated market power could risk Australia's thriving fintechs being unable to compete. Consequently, this may lead to higher prices for businesses and consumers and fewer choices, as well as higher barriers to entry for innovative start-ups.

B. Prioritising *transformational reforms* to enable innovation and support competition

In a world of rapid digital transformation, the Government's prioritisation of forward-looking, transformational and structural reforms is crucial to supporting economic dynamism and ensuring Australia's regulatory frameworks keep pace with overseas jurisdictions. For fintech, the foremost examples of these opportunities are reforms to make the payments system more accessible, improving access to talent and the rollout of the Consumer Data Right.

Consumer Data Right

The Consumer Data Right (CDR) is a transformational reform that supports the rapidly developing, data-driven economy here in Australia. It is an ambitious, world-leading piece of digital infrastructure for Australian consumers, and it will be a driver of fintech innovation for years to come. It is an example of the forward-looking, ambitious reforms needed to ensure provide frameworks for innovation and dynamism, although they may not reap immediate benefits.

As an economy-wide data portability regime, the CDR enables consumers to access and share their personal data with trusted third-party providers, allowing for better and more tailored products and services. The CDR promotes economic dynamism by encouraging competition between businesses. This is achieved by allowing consumers to share their data with multiple providers, rather than being locked in with a single provider. As a result, businesses are incentivised to innovate and offer better products and services in order to attract and retain customers. This can lead to increased efficiency, better quality products and services, more switching and lower prices for consumers.

The CDR also has the potential to drive innovation by giving businesses access to more comprehensive and granular data about their customers. This data can be used to develop more tailored products and services that better meet consumer needs. This, in turn, can lead to the development of new and innovative business models that were not previously possible.

Fintech Australia believes that the implementation of the Consumer Data Right (CDR) as Australia's national data portability system has reached a crucial juncture. Key functional reforms like 'action initiation' are important to keep momentum as the ecosystem transitions from a long



'build phase' to a period of adoption and uptake, with the emergence of new CDR-powered products and services.

Currently, the Consumer Data Right (CDR) has been mainly implemented with a strong emphasis on ensuring the safety and security of individual consumers. As the system continues to develop, it would be advantageous to also take into account the distinct requirements of small businesses within the CDR and their service providers who may have to adhere to additional regulatory obligations beyond the CDR. Concerns have been raised by stakeholders that the extensive safeguards, as well as the responsibilities related to handling derived data and deleting data, may hinder service providers from participating in the CDR. Given the scale, intricacy, and technical expertise necessary to engage with the CDR, smaller and less advanced entities are at a disadvantage, burdened by disproportionate compliance obligations. Therefore, it is important to avoid implementing rules and data standards in a manner that constrains innovation.

It is important that the Government plays a continuous role in the CDR and takes responsibility to incentivise and support participation, particularly for business participants. Additionally, it should ensure other related initiatives, like the reform of the payment system, the enactment of the *Data Availability and Transparency Act 2022*, the ongoing review of the Privacy Act, and Digital Identity, are designed and implemented in a way that supports the success of CDR.

Payments system reforms and accessibility

A key area of the digital economy that has seen significant and rapid development is Australia's payment systems. Payments providers are one of the largest fintech segments, accounting for 38% of Australian Fintech companies⁸. The Government's intention to develop a Strategic Plan for the Payments System is an opportunity to update Australia's overarching regulatory strategy for payments to ensure it is best able to accommodate digital changes which are increasing competition in a market historically dominated by incumbents. The specific inclusion of efficiency, innovation and accessibility as key principles of Australia's payments system is particularly welcome.

The Strategic Plan can provide a blueprint for the Government to take a stronger, more coordinated leadership role on payments and for Australia to position itself as a global leader in financial innovation and improve competitiveness in the payment industry. In particular, the new tiered payments licensing framework can play an important role in promoting economic dynamism by creating a regulatory environment that fosters innovation and new entrants. The current one-size-fits-all licensing approach can be burdensome and stifle the growth of new and emerging businesses.

We believe that a new tiered licensing system allows for a more tailored approach, where businesses can be licensed based on their risk profile and level of maturity. This would mean that startups can operate with fewer regulatory requirements, allowing them to test and refine their business models before scaling up. At the same time, more established businesses can operate under a higher level of regulation, providing assurance to consumers and investors that they are operating in a safe and compliant environment. The new tiered licensing framework

⁸ EY and Fintech Australia, 'EY Fintech Australia Census Report 2022', [www.ey.com](https://www.ey.com/en_au/economics/fintech-australia-census-report-2022) (2022) <https://www.ey.com/en_au/economics/fintech-australia-census-report-2022>.



would also reduce regulatory costs and complexity for businesses, freeing up resources that can be invested in growth and innovation.

Inadequate access to payment systems has been a longstanding issue within the Australian payments industry and can act as a means to slow or prevent the entry of potential competitors. A model where an enhanced payments licence could provide access to national payment systems, subject to meeting appropriate operational and financial resilience standards, should be a basic principle of the new framework.

We support the government's constructive steps to improve Australia's payment system and support an accelerated timetable for reforming the payments licensing regime. This will provide new and existing payment service providers with certainty and encourage new entrants into the market. We also urge clarity on the RBA's common access requirements and how these could form part of the licensing framework for payment service providers seeking direct access to payment systems.

Immigration, skills and access to talent

Attracting suitable or qualified talent remains a challenge for the fintech industry. The technology talent market in Australia is small and, in particular, there are shortages of qualified developers/engineers. In our recently published EY Fintech Australia Census, we reported that a significant majority (85%) of fintech firms operating in Australia are encountering obstacles in recruiting and retaining personnel. The fintech industry continues to struggle with talent and workforce diversity and representation which holds back growth and innovation in Australia. Nearly half of the respondents reported that the biggest internal barriers to retaining talent include retaining existing skilled employees and ineffective upskilling programs.

As a result, we support the Australian Government's pledge to generate 1.2 million technology-related employment opportunities by 2030⁹. The fintech and payments sector is vital to the achievement of this goal. The scarcest areas of talent across the industry are engineering/software (66%), data engineer/data scientist (40%), product management (29%) and sales (29%)¹⁰. For fintechs, the top three challenges or inhibitors to attracting and retaining talent are rising employee salaries (66%), access to skilled domestic workers (58%) and competition from big tech (52%)¹¹.

Several members of FinTech Australia have encountered difficulties in attracting talent in Australia over recent years, primarily due to the strict parameters set around skilled visa sponsorships and slow visa issuance. The skills assessment path to sponsorship is an ineffective and outdated process for many fast-scaling tech companies looking to hire skilled workers.

To address the shortage of talent, we support further consideration of how to incentivise talent to stay and allow them to positively contribute to the economy by continuing to reflect on non-tertiary courses and reskilling programs. Moreover, the previous hard border closure and reduced graduate numbers due to an absence of international students have resulted in

⁹ Australia Government | Ministry for Industry and Science, 'Mapping out Australia's Path to Tech Jobs Future | Ministers for the Department of Industry, Science and Resources', [Industry.gov.au](https://www.minister.industry.gov.au/ministers/husic/media-releases/mapping-out-australias-path-tech-jobs-future) (2 August 2022) <<https://www.minister.industry.gov.au/ministers/husic/media-releases/mapping-out-australias-path-tech-jobs-future>>

¹⁰ EY Fintech Census Report 2022, (n 8).

¹¹ Ibid.



considerable competition for local talent to fill roles that are essential for growth. To enhance the quality of its workforce in key financial and technology growth sectors, Australia should seek to create a knowledge transfer program, similar to the UK's Knowledge Transfer Partnerships program. Additionally, members have raised concerns that the government is not adequately tracking and confirming capital claims by Significant Investor Visa entrants, leading to an ongoing missed opportunity for the Australian venture capital ecosystem.

Improving skilled migration pathways would help in opening the talent pool for fintech businesses in Australia as some of the barriers to entry for fintech talent (e.g. limited number of visas, strict eligibility requirements, processing times) can make it more difficult to attract and retain necessary talent from overseas. This, in turn, can limit the growth and competitiveness of the fintech industry in Australia.

C. Empowering *regulators* that support economic dynamism

Effective regulators which have a clear mandate to promote competition and foster innovation are essential to a dynamic economy. Initiatives like ASIC's Innovation Hub and Enhanced Regulatory Sandbox have demonstrated new, flexible regulatory approaches which support business formation by providing practical support and targeted regulatory relief to startups and scaleups.

ACCC Market Studies

A key outcome of the 2014 Harper Review of competition policy was recommendations regarding the importance of market studies as a regulatory tool. In recent years, the ACCC has completed important studies into markets including new car retailing, agricultural machinery and the communications sector.

ACCC market studies and price inquiries can identify areas where competition is not functioning as well as it should, due to factors such as barriers to entry, anti-competitive conduct, or lack of transparency. These studies also serve an important advocacy function for the ACCC, as it can recommend changes to regulations, policies or industry practices that would increase competition, reduce barriers to entry and encourage innovation.

Although these studies have been a positive development overall, FinTech Australia notes several issues with the current approach to market studies which could be considered further by the Committee. Market studies are generally self-initiated, broad in scope and slow moving. They also often result in proposals and recommendations which are not formally addressed or responded to by Government.

To address these issues, we support:

- Empowering the ACCC to conduct more targeted, agile and quickly completed studies, which focus on specific issues or concerns raised by industry or consumers.
- Creating a mechanism for market study requests or referrals from industry, in addition to ACCC or Government initiated studies. We note that a mechanism for referrals from



market participants, including small business, was part of the Harper Review recommendations but was not implemented.¹²

- Ensuring clearer outcomes and some form of Government or agency response outlining next steps is provided following a market study. Currently, the ACCC's proposals and recommendations do not require a Government response. This can leave industry uncertain about whether these recommendations will be a prompt for further action or implementation.

Further, ACCC's market studies could also have greater focus on providing insights into areas where new technologies or business models could increase competition and innovation. For example, a market study may identify a lack of competition in a particular industry and recommend changes to regulations or policies that would encourage the entry of new players or the adoption of new technologies.

Regulatory sandboxes

Fintech Australia believes it is important to establish regulatory frameworks that are risk based, proportionate and supportive of innovation. A key element of achieving this approach in Australia has been the establishment of regulatory sandboxes. Specifically, for financial services and fintech, the ASIC Innovation Hub and the Enhanced Regulatory Sandbox it administers have been a step in the right direction and has signalled that ASIC is a regulator that has the tools to support dynamism and business formation.

The Enhanced Regulatory Sandbox (ERS) was implemented in September 2020 to enable the testing of innovative financial services and credit activities. The ERS facilitates the introduction of new products or services without having to obtain full licensing, with the aim of providing a testing ground for innovative financial services and credit activities.

We understand the Government will soon review the existing Enhanced Regulatory Sandbox. This provides an opportunity to address the current limitations and consider new cohorts which could benefit from this model. Fintech Australia believes the Enhanced Regulatory Sandbox regime can be expanded, improved and better promoted. Our members report that uptake is currently low and it is too restricted to offer a flexible testing ground before AFS or credit licensing is sought. This issue is compounded by lengthy ASIC licensing service levels (typically 180+ days), which can mean it is not viable to delay a licence application by pursuing the ERS.

For instance, the Government could consider transitioning to an authorisation sandbox model to provide greater certainty. An authorisation sandbox is a type of regulatory sandbox model that allows innovative firms to operate within a limited scope of the regulatory framework without requiring full regulatory compliance. Under this model, participating firms are given temporary exemptions from certain regulations, enabling them to test their innovative products or services in a controlled environment. The authorisation sandbox aims to support innovation by reducing

¹² See Recommendation 46.



the regulatory burden on firms and promoting faster time to market while still ensuring that consumer protection measures are in place¹³.

Other changes to the ERS that could be considered include:

- Providing for an expanded 'international entrant' sandbox for firms entering Australia which are already licensed in a recognised overseas jurisdiction (e.g. the UK or Singapore) – the sandbox could offer them a 'bridge' to start launching while their full licence is being assessed and approved;
- Expanding the current restrictions on time and customers permitted, while balancing the need for consumer protection;
- Aligning parameters with similar initiatives being rolled out for the Consumer Data Right, including 'testing pilots' which provide a temporary exemption from CDR reciprocity requirements.

While we acknowledge ERS uptake has been limited thus far, sandboxes have the potential to support business formation and allow fintech innovators to test their products without the expenses and compliance obligations associated with financial services licensing which has been designed for large scale financial services operations.

In addition to the ERS, FinTech Australia supports consideration of a similar limited 'licensing' exemption sandbox for CDR accreditation. As noted in the section above on the CDR, initiatives are required to make CDR testing and open innovation more accessible and unlock its full potential.

FinTech Bridges and other international schemes

Fintech Bridges are agreements between countries to encourage collaboration and promote innovation in financial technology between their respective industries¹⁴. These agreements involve regulators from each country, and they aim to facilitate regulatory alignment and the development of new financial products and services that can benefit consumers, businesses, and the wider economy¹⁵. These bespoke agreements create valuable opportunities for Australian fintechs to grow internationally into supportive markets and link Australia-based fintech with opportunities for international investment. As supported by the EY Fintech Census data, we note that fintech is a natural exporter, creating solutions and products for the global market. In 2022, Australian fintech companies generated around 43% of revenue from overseas sales¹⁶.

The first Australian FinTech Bridge was the 2018 UK-Australia FinTech Bridge¹⁷ which aims to encourage collaboration between governments, financial regulators, and the industry, and to reduce barriers to entry for fintech firms by using the facilities and regulatory assistance

¹³ Didenko, Anton N, 'A Better Model for Australia's Enhanced FinTech Sandbox', papers.ssrn.com (14 June 2021) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3866585>.

¹⁴ Bromberg, Lev and Godwin, Andrew and Ramsay, Ian, Cross-Border Cooperation in Financial Regulation: Crossing the Fintech Bridge (January 18, 2018). Capital Markets Law Journal, Vol. 13, No. 1, pp. 59-84, 2018, at 13, Available at SSRN: <https://ssrn.com/abstract=3105141>

¹⁵ Ibid.

¹⁶ EY Fintech Census Report 2022, (n 8).

¹⁷ <https://www.services-exports.gov.au/progress/uk-australia-fintech-bridge>



available in each jurisdiction. The FinTech Bridge covers four inter-related Pillars, including government-to-government, regulator-to-regulator, trade and investment, and business-to-business, and provides a framework for ongoing cooperation between the UK and Australia on fintech matters.

Building on the success of the UK-Australia FinTech Bridge, a second Bridge agreement was signed with Singapore in April 2022.¹⁸ While the FinTech Bridge schemes have received considerable support from our members, there are further opportunities to make them more effective and achieve more practical outcomes. According to the 2022 EY FinTech census, local confidence around Australia's competitiveness in the global fintech arena has dropped from (80%) to (69%)¹⁹. However, from an overseas investor and global fintech landscape point of view, Australia's fintech sector and market opportunity remain highly attractive and competitive.

Fintech Bridges are becoming increasingly important in today's global economy, where digital technology is transforming the financial sector and driving new business formation and economic dynamism. By establishing partnerships between fintech firms, financial institutions and regulators from different countries, these agreements can help to create a more open, competitive, and innovative financial system. In addition, these bridges can facilitate cross-border payments and remittances, which can improve financial inclusion and facilitate international trade. Importantly, they can also help to foster greater cooperation between regulators, which can promote the development of common standards and regulatory frameworks for fintech innovation.

FinTech Australia supports building on the success of these initiatives with the UK and Singapore by:

- Pursuing the establishment of similar programs with other jurisdictions that have robust, equivalent regulatory regimes, support innovation, and have strong trade and investment relationships with Australia;
- Improving regulatory support offered under the Bridge agreements – e.g. licensing exemptions or mutual recognition. We also believe existing domestic initiatives like the Enhanced Regulatory Sandbox and ASIC's Innovation Hub could be adapted for global entrants to provide a 'regulatory landing pad';
- Increasing awareness by promoting the bridge and conducting regular industry surveys with a focus on outbound fintechs and those that are looking to enter Singapore/UK markets;
- Linking Bridge initiatives to major conferences/events in each jurisdiction - e.g. Singapore Fintech Festival, Innovate Finance Global Summit, Intersekt FinTech Festival;
- Greater alignment with other fintech bridges – it is important to ensure our agreements remain up-to-date and consistent with bridges Singapore/UK agree with other leading

¹⁸ <https://www.mas.gov.sg/news/media-releases/2022/australia-and-singapore-to-deepen-collaboration-in-fintech>

¹⁹ EY Fintech Census Report 2022, (n 8).



jurisdictions and consideration could also be given to trilateral bridge agreements with shared objectives.

Other overseas examples

There are a number of international examples that Australia can look to when considering policies to establish regulators and a regulatory environment that promotes competition and innovation. We draw the Committee's attention to three leading jurisdictions: Singapore, the United Kingdom and South Korea.

Singapore

The Singaporean Government provides a range of grants and funding schemes to support startups and entrepreneurship, such as:

- Startup SG Founder - up to S\$50,000 for first-time entrepreneurs to start and build their businesses.
- Enterprise Development Grant - provides funding of up to 70% of qualifying project costs for businesses looking to upgrade capabilities, innovate or venture overseas.
- Financial Sector Technology and Innovation (FTSI) scheme - provides funding for fintech research and development projects.

Singapore's Monetary Authority (MAS - Singapore's central bank and financial regulator) has established a regulatory sandbox that allows financial institutions and fintechs to test their financial products and services in a controlled environment without having to comply with a full set of regulatory requirements.

MAS also has a financial services industry transformation map 2025. The map provides for growth strategies to develop Singapore as a international financial centre through five key strategies such as digitalising financial infrastructure and fostering a skilled and adaptable workforce.

The United Kingdom

Recognising the capacity for fintech to promote dynamism, growth and competition, the UK government is a strong advocate for the sector, and is committed to developing an environment where fintechs can flourish. HM Treasury has established a 'FinTech Delivery Panel' to strengthen the UK's fintech ecosystem, help fintechs achieve scale, and create an innovative environment for the future which benefits consumers. By bringing together key stakeholders from across the ecosystem, the panel assists fintechs and other financial institutions to collaborate productively and supports a regulatory environment that fosters economic dynamism and competition.



South Korea

South Korea has implemented several measures to support a technology focused, pro-business environment:

- South Korea provides a tech incubator program for start ups (TIPS). TIPS provides selected start-up teams with government support matched with private investment (e.g. R&D, overseas marketing, commercialisation funds).
- South Korea has a dedicated Ministry of SMEs and Startups that was established in 2017. The objective of the Ministry is to 'strengthen competitiveness and support innovation of Small and Medium-sized Enterprises and Micro Enterprises'²⁰. For example, the Ministry oversees start up support schemes to ensure they continue to meet their purpose.
- The Financial Services Commission (FSC), responsible for supervising financial institutions and financial markets, has included in their work plan for 2023 and formal financial policy agenda²¹ objectives to promote financial innovation and digital finance. This includes working on fine-tuning interests between financial sectors and between financial institutions and fintechs, as well as establishing consumer safeguards to protect against emerging risks from a more deregulated financial environment.

D. Creating *incentives* to lower barriers to growth

Government support through incentives, concessions and trade and investment programs are crucial to the success and growth of early-stage fintechs. Our members report these can be a lifeline and a key funding lever, with some sharing that over the past year it has been critical in avoiding redundancies, accelerating research and development, reducing burn rate and fuelling growth, including through expansion into international markets. This allows them to compete and support dynamism, even in difficult market conditions or when there are funding constraints.

Trade and investment support - Fintech Trade and Investment Program

Government trade and investment support drives competition by facilitating new entrants into the Australian market and helping homegrown companies scale up and grow by expanding into new international markets.

For fintech specifically, the Fintech Trade and Investment Program (FTIP) delivered by Austrade has been a vitally important initiative. Created under the Australian Government's 2020 Digital Business Plan to Drive Australia's Economic Recovery, the FTIP provides \$9.6 million over four

²⁰ Government of South Korea, 'Ministry of SMEs and Startups', www.mss.go.kr (2017) <<https://www.mss.go.kr/site/eng/01/2010100000002019110619.jsp>>.

²¹ Financial Services Commission, 'Press Releases - Financial Services Commission', www.fsc.go.kr (23 January 2023) <<https://www.fsc.go.kr/eng/pr010101/79368?srchCtgr=1&curPage=&srchKey=&srchText=&srchBeginDt=&srchEndDt=>>>.



years to support Australian fintech businesses to access international markets and attract foreign investment²².

Since the program started in 2021, the FTIP has produced significant benefits despite COVID disruptions. Through the program Austrade has provided trade services to over 160 Australian fintech businesses to help them expand globally and over 140 firms have participated in Australian delegations to top fintech trade events worldwide. Additionally, the program has attracted more than \$150 million in inbound investment from international fintech and created over 400 jobs.

The program also allows Austrade to assist industry partners in conducting early-stage education and awareness activities to inform Australian fintech businesses about international opportunities through in-person events and webinars. FTIP has also provided valuable resources to the fintech industry to support its development. A key example of this is the annual Fintech Census, which is a joint effort among industry and government to provide data and insights on the state of the fintech industry including challenges, opportunities and policy priorities.

Fintech Australia strongly supports the FTIP program being extended to ensure it continues to provide a launchpad for Australian fintech to attract investment, grow internationally and drive economic dynamism.

Research and Development Tax Incentive (RDTI)

The Research and Development Tax Incentive (RDTI) encourages R&D activities that might otherwise not be conducted through the provision of a tax incentive. The RDTI is an important support and source of funding for R&D in the Australian fintech industry. R&D is a key driver of dynamism and new business models and markets. According to our latest EY FinTech Census, 95% of the respondents agree that having access to R&D incentives increase the likelihood of keeping businesses onshore and fintech founders noted that tax-related initiatives top the list as the most effective programs to grow the fintech industry in Australia²³.

Around half of fintechs surveyed have either successfully applied for the R&D tax incentive or are in the process of applying. Our members report the R&D tax incentive improves the sustainability or growth of their business (79%), influences organisations' decisions to undertake R&D in Australia (77%), and encourages onshore operations (72%)²⁴.

Our members report that the current administration of the RDTI and its eligibility criteria is complex, difficult to understand and typically requires a third-party expert, creating additional challenges for fintechs that also have to endure a long application process. We appreciate the Department of Industry's efforts to provide guidance and additional certainty through initiatives like 'advance findings'. However, we support further measures to streamline the application process and to accelerate assessment and payment of the offset. Delays can cause cash flow issues for start-ups with short runways.

²² Budget Paper No. 2, *Budget Measures 2020-21*, p. 82.

²³ EY Fintech Census Report 2022, (n 8).

²⁴ Ibid.



Venture Capital Incentives

Venture capital funding is critically important to the Australian startup industry and should be supported through tax concessions and other incentives. Startups play a vital role in promoting innovation, dynamism and improving productivity in the Australian economy.

A major challenge for early stage fintechs is securing funding, particularly in the early stages when they lack sales history or tangible assets for collateral, and their business may be considered high-risk for securing debt financing. For instance, our EY FinTech Census revealed that there are warning signs emerging in the capital raising environment for fintechs. We note that capital raising has not grown since 2021 and around 29% of fintechs have failed to meet their capital raising requirements in 2022. In addition, the proportion exceeding their capital requirements decreased, from 21% to 17% compared to 2021. Qualitative interviews as part of the survey revealed an increasingly challenging landscape for new start-ups to raise capital to grow quickly.

Governments around the world play an active role in supporting startups. The European Commission and European Investment Fund created the European Scale-up Action for Risk capital pilot programme (ESCALAR) in April 2020 to help high-potential companies grow and expand. This program will provide up to €300 million initially, with plans to increase to €1.2 billion. The UK venture capital industry is currently 5 years ahead of Australia and some members report Australian scale-ups have been leaving to find funding in the UK.

Subsequently, to assist the fintech start-ups industry thrive, respondents to our EY Fintech Census suggested the Government should concentrate on greater founder and start-up support via incentives (43%) and greater support for tax incentives (37%), as well as grants for Australian based R&D and commercialisation (36%). We agree with this view and encourage the Committee to consider how the Government could adopt a range of direct support measures and strengthen VC incentives to support better start-ups and better align Australia with competing jurisdictions.

We appreciate a review of Venture Capital Tax Concessions was undertaken by Treasury last year. Although the review found these concessions are working well and are supporting increased venture capital investment, the review did not make specific recommendations on how to expand or improve these concessions. We believe this represents a missed opportunity, particularly as the review found that “fintech remains an area for further growth”. Further work should be undertaken to build on this review’s work to optimise these concessions and ensure they are internationally competitive.

Supporting partnerships and collaboration - Australian FinTech Pledge

Historically, fintech companies have been positioned as disruptors or challengers to incumbent, well established financial services firms. However, large financial institutions and fintechs are increasingly engaging in partnerships and building more collaborative relationships where they can complement each other and build mutual success. Fintech firms can inject innovation and dynamism while incumbents provide scale, market share and certainty.

Despite this increasing trend of partnerships and collaboration with incumbents, many fintechs find the onboarding or procurement process challenging. In the UK, a ‘FinTech Pledge’ initiative



was established by a joint government/private sector working group to address this problem. The initiative sought to support partnerships and onboarding by creating clear and consistent guidelines for what incumbent financial services firms require of fintechs.

It is a voluntary pledge where signatory financial institutions agree to provide a framework that allows fintechs to easily engage with them and pitch their innovative products and ideas. This model, underpinned by a British Standards Institute (PAS-201) standard, has been successful and supported by most major British banks.

FinTech Australia supports emulating the UK's 'Fintech Pledge' initiative in Australia. An 'Australian Fintech Pledge' could be a voluntary commitment by Australia's major financial institutions to establish a framework to support collaboration and partnerships with early stage fintech companies.