

AUSTRADE SUBMISSION

INQUIRY INTO FINANCIAL TECHNOLOGY
AND REGULATORY TECHNOLOGY

24 FEBRUARY 2020



Australian Government

Austrade

TERMS OF REFERENCE

On 11 September 2019, the Senate resolved to establish a Select Committee on Financial Technology and Regulatory Technology. The committee will inquire and report on the following matters:

- 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.

INTRODUCTION

The Australian Trade and Investment Commission (Austrade) welcomes the opportunity to make a submission to the Select Committee on Financial Technology and Regulatory Technology Inquiry into Financial Technology (Fintech) and Regulatory Technology (Regtech).

Austrade is the Australian Government agency responsible for international trade promotion and investment attraction. Austrade's mandate is to grow Australia's economic prosperity and provides assistance to Australian exporters and international investors.

Both the Fintech and Regtech industries have matured and continue to grow, and despite challenges present promising opportunities for the Australian economy. Austrade is well positioned to provide access, connections and insights to these sectors to support this growth.

The Fintech sector has the potential to provide productivity gains, jobs and export income to Australia's strong financial services sector which already contributes 10 per cent of Gross Domestic Product (GDP) and employees over 450,000 people.

Austrade is assisting Australian firms take up global opportunities presented by new developments in Fintech and Regtech by:

- attracting foreign investment and innovation to Australia
- helping Australian Fintech and Regtech scaleups and technology leaders grow through finding global partners and customers,
- support the export of Australian Fintech and Regtech products and services, and
- encouraging Australian exporters, particularly services firms, to take up the efficiencies and new opportunities that digitally-enabled trade presents through the adoption of world-class finance and regulatory technologies.

THE SIZE AND SCOPE OF THE OPPORTUNITY FOR AUSTRALIAN BUSINESS FROM FINANCIAL TECHNOLOGY AND REGULATORY TECHNOLOGY

Australia has the opportunity to make financial services and Fintech integral to the broader diversification of Australia's services exports. Australia's exports are largely dominated by commodities and consumer goods. While the financial services sector makes up almost 10 per cent of Australia's GDP, it contributes only a small percentage to export income.

In 2019, Visa Australia identified 526 Fintech businesses in Australia, an increase of more than 35 per cent from the previous year. Of these businesses, more than 80 per cent consider the market opportunity to be well over \$100 million, with 15 per cent assessing the market as over \$100 billion, highlighting the perceived potential for growth.¹

In addition, Australian consumers have a high rate of Fintech adoption at 58 per cent in 2019, compared to 16 per cent in 2015 noting that global adoption rates have increased from 13 per cent in 2015 to 64 per cent in 2019.²

Australia has the highest number of Regtech company headquarters in the Asia-Pacific region and joint third highest globally.³ The Regtech industry has the potential to help businesses strengthen compliance, identify knowledge gaps, and save time and money by making it easier and cheaper to comply with regulatory requirements. This will be beneficial for both organisations and consumers.

For example, the 2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry highlighted opportunities for improvement in compliance in the financial sector. Opportunities include: robo-advisory services to add efficiencies to superannuation member needs, blockchain technology to improve in-house efficiencies for banking and pension funds, Regtech and supervisory technologies to lower internal processing costs and time, and AI technologies to improve Know Your Customer (KYC) capabilities, especially for international banking and payment transactions.

The Australian Government's introduction of the Consumer Data Right (CDR) in 2020, with its innovative approach and scale of ambition, will give Australia a unique point of difference. Like other Open Banking initiatives, the CDR will allow consumers to share their data with whichever authorised third parties they choose. The key difference to some other regimes is that in Australia, the CDR is a data policy initiative, not solely a financial services one. The CDR is also the first Open Banking legislation to introduce the concept of 'reciprocity' that distinguishes Australia from other global models.⁴

Internationally, the rise in wealth across Asia due to economic growth will also increase the demand for more sophisticated financial products. Simultaneously, financial reforms in the region will be accompanied by policies and regulation which will provide opportunities for the financial services sector to leapfrog existing legacy systems and deliver services via more advanced platforms underpinned by AI, Machine Learning, and Blockchain/Distributed Ledger technologies.

Financial services and Fintech are complex exports requiring a mix of capital, talent and drive to undertake risk in much larger and different markets, especially Asia – with very different regulation, policy and stages of financial literacy as well as high mobile phone penetration rates. Australia is well positioned graphically and culturally and can take advantage of its highly regarded and balanced

¹ VISA, *Australia's fintech future 2019*, <https://www.visa.com.au/content/dam/VCOM/regional/ap/australia/global-elements/Documents/visa-australia-fintech-future-report.pdf>

² EY, *Fintech Australia Census 2019*, p4-40, <https://fintechauscensus.ey.com/2019/Documents/EY%20FinTech%20Australia%20Census%202019.pdf>

³ Boston Consulting Group, *Fintech Control Tower: Regtech in Financial Services 2018*

⁴ Deloitte, *Open Banking around the world; Towards a cross-industry data sharing ecosystem*, <https://www2.deloitte.com/global/en/pages/financial-services/articles/open-banking-around-the-world.html>

approach to regulation and policy which is embedded in its financial services sector companies including Fintechs.

While there are opportunities for growth, a number of barriers will need to be addressed for the industry to achieve its full potential. For instance, investors have expressed concerns in relation to visas to access overseas talent given there is a deficit of skills in the domestically. In addition, industry has identified capital and regulation as key barriers to expansion.⁵

Many Australian Fintechs are pre-revenue and largely rely on their own cash contributions, with 66 per cent relying on their own cash contributions and 36 per cent relying on family and or friends to fund the company.⁶

Australia's current regulatory regime has both strengths and weaknesses. Strong regulation that applies to the financial services industry more broadly applies correspondingly to the Fintech sector. This provides confidence in the integrity of the system but at the same time can inhibit growth. Innovations such as the UK's regulatory sandbox, can provide space for technology to be tested without regulatory ramifications. When compared to the UK model, Australia's version of this has been underutilised.

AUSTRADE IS SUPPORTING AUSTRALIAN FINTECHS AND REGTECHS TO GO GLOBAL

Austrade support includes market selection, connections to customers in market, and the promotion of Australian capability internationally.

Landing Pads Program

Austrade's Landing Pads program is an important part of Austrade's global service offering and is committed to continuing to support Australian Fintech, Insuretech and Regtech scale-ups looking to expand globally. The program provides market-ready scale ups with an operational base and customised support to help expand into new global markets.

As at September 2019, a total of 254 companies have accessed the Landing Pads program. This includes 81 participants in boot-camps which are sector-focused delegations delivered in collaboration with ecosystem partners for shorter intensive programs that combine educational and market testing elements.

Companies can benefit from a series of Landing Pad program improvements in 2020 – including flexible cohort models, as well as residential and mentoring opportunities. Recently Austrade has increased its focus on delivering the program with partners, meaning the Landing Pads program can support Australian Fintechs looking for market opportunities in additional locations across Austrade's key regions in ASEAN, Europe and the Americas.

Outside of the Landing Pad program, Austrade has partnered with state governments to facilitate several Fintech delegations to travel to international markets to help showcase their capability, build networks and partnerships. This includes, for instance, the Singapore Fintech Festival 2017, India Fintech mission (with NSW Government in June 2018), and the Paris Fintech Forum (with Global Victoria and NSW Government) in January 2020.

Austrade will continue to support Fintech companies in 2020 through activities that bring together partners, startups and scaleups and associations, for instance:

- Austrade will support NSW Treasury to deliver a six month Fintech immersion program to NSW-based Fintech startups and scaleups looking to expand into Europe/UK and USA.

⁵ EY, IBID, p4-40

⁶ VISA, IBID

Austrade will support the program with market intelligence briefings and partnering on workshops.

- The Landing Pads program will offer hot desks options with Austrade's international innovation partner networks, as well as introductions to local ecosystem partners during program participant's time in San Francisco for the Future of Fintech Conference in June 2020
- The Landing Pads teams will open expressions of interest to companies that may wish to spend time in the Landing Pad in Singapore around the Insuretech conference in June. This will provide access to local mentors, an Entrepreneur in Residence, the dedicated Landing Pads Manager and introductions to Austrade's networks.

Export Markets Development Grant Scheme

The Export Markets Development Grant scheme supports exporters across all sectors, including Fintech and Regtech, to enter into and develop export markets by reimbursing a proportion of eligible marketing and promotional expenditure.

On 3 October 2019, the Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham appointed an independent Reviewer to examine the EMDG scheme and Financial Assistance to SME Exporters. The Terms of Reference for the Review invite the Reviewer to consider:

1. How assistance to Australian SMEs can be delivered in the most **effective** way to encourage more businesses to begin exporting, to develop new export markets or to expand existing export markets. The review shall, among other matters, consider:
 - Factors that determine a business' decision to choose to export or increase exports beyond usual business activity;
 - The best time in an export journey to target the financial assistance to change exporter behaviour;
 - The different types of assistance for businesses along their export journey; and
 - How this assistance can complement other export advisory services or other export market development incentives.
2. How to design and administer any assistance in the most **efficient** way to:
 - Provide certainty of assistance to eligible applicants;
 - Deliver optimal results from the use of taxpayer funds;
 - Ensure integration of service delivery across Government where appropriate;
 - Minimise compliance and application costs for applicants; and
 - Simplify and streamline administration to reduce administration costs.

The Reviewer will provide her report to the Minister in March 2020.

Nation Brand

Austrade fosters a 'Team Australia' approach to the promotion of financial services including the Fintech sector by co-ordinating stakeholders and ensuring all parties come together to drive a united position. Australia's financial sector is often viewed as fragmented with a lot of interests at play, and this extends to the Fintech sector with multiple initiatives and activities led by multiple industry associations as well as state governments. The introduction of the new Nation Brand led by Austrade will provide a valuable tool for synthesised messaging for Australian Fintech, but also speak volumes in international markets.

Developed in close consultation with Australia's exporters, the Nation Brand (under development by Austrade and informed by the Nation Brand Advisory Council) will help reinforce Australia's reputation as a trusted exporter of premium-quality goods and services, an internationally competitive investment destination, a great place to visit, and a quality provider of education.

AND SUPPORTING PRODUCTIVE FOREIGN INVESTMENT TO THE SECTOR

Austrade is charged with leading the Government's efforts to promote, attract and facilitate productive FDI for Australia. That is, investment which creates and retains Australian jobs, develops sectors and infrastructure, introduces new technologies and skills, encourages innovation and competition, raises productivity, and strengthens Australia's overall global economic linkages.

Austrade drives productive foreign direct investment by connecting investors offshore with the Australian investment opportunity. Key to this is an extensive offshore network in major investment source markets (half of Austrade's staff work offshore), backed by dedicated investment specialists working onshore in identified priority areas. Austrade's offshore team identify key investors in-market, while our onshore team (working across government and industry) helps address specific investor needs such as connecting those investors to viable investment opportunities.

In the Fintech and Regtech sectors, Austrade works to both attract FDI investment and talent to Australia as well as assist Australian Fintech and Regtech scale-ups to find international partners and capital to enable them to become profitable and access international customers. Australia faces stiff competition for capital and talent from other global financial hubs, such as Singapore. Australia's success in attracting more international investment and innovation leaders will help the Australian Fintech and Regtech sectors mature and become internationally competitive.

MAKING THE MOST OF FUTURE OPPORTUNITIES

Australia is well placed to continue to be a global hub for Fintech and Regtech. However, to keep pace with other international Fintech hubs and remain competitive, there is more Australia can do in policy and ecosystem development. Australia remains an attractive region for investment but more work needs to be done in helping Australian Fintechs across funding, capital and talent.

The CDR regime, which comes into effect in 2020, will be a key feature of the Australian Fintech sector. It is important that Australian industry and customers understand the CDR and that its advantages are clearly promoted. Austrade will continue to promote the benefits of this scheme to ensure industry maximises the opportunities it presents.

It is important for Australia to have visibility and a presence at these forums so the international arena can be more informed, educated and understand the opportunity of Australia's Fintech ecosystem. Austrade works with companies who have had success in the Asian region to showcase and profile them to the ecosystem as case studies.

Most Australian Fintechs have initially expanded offshore into established markets such as the UK, USA, New Zealand, Singapore and Canada. This is due to similarities in regulatory regimes, language and culture, although in many cases these markets could be viewed as saturated and geographically distant. By contrast, the US Fintech industry capitalises on its geographical position next to Latin America. Austrade is working towards running workshops and programs, together with state governments, to provide insights and knowledge so Australian Fintechs can be encouraged take greater advantage of their own geographic location and trade with our nearest neighbours in Asia.

CONCLUSION

Emerging financial and regulatory technologies are already transforming the global economy, with both industries well placed to increase the efficiency, security, and integrity of digitally enabled international trade.

Supporting Australian firms take a leadership role in the development and uptake of new financial and regulatory technologies will help ensure that Australia is well placed to capture emerging commercial opportunities in increasingly integrated digital economy.