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# SUPPORTING THE DEVELOPMENT OF FINTECH: APPROACHES AND CHALLENGES

**APEC FRTI REGIONAL SEMINAR**  
**Fintech in Capital Markets**  
**3-7 July 2017, Seoul, Republic of Korea**

**ASHLY HOPE**  
Senior Adviser, International Strategy  
Australian Securities and Investments Commission

# Today...

- The fintech environment in Australia
- About ASIC
- Our approach to regulating financial technology

# Questions to think about

- How is this similar or different to the fintech landscape in my jurisdiction?
- What is the regulatory mandate that I am operating under?
- What are the regulatory priorities in my jurisdiction?
- How is fintech regulated at the current time?

# What is fintech?

- New technology
- New products and services
- Altering the way that products and services are provided to consumers through technology and innovative approaches

# FinTech Australia MEMBER ECOSYSTEM MAP

## LENDING

### Business Lending

A POSITIVE  
WORKFORCE FINANCE



### Invoice Financing



## Marketplace-style solutions

BIGSTONE

ThinCats

Valiant

### Business & Consumer Lending

Rate%Setter  
SocietyOne

Harmony

MONEYPLACE

### Consumer Lending



### Residential / Real Estate Solutions



### Crowdfunding

EQUITISE  
SWIFTPITCH

### IPOs

OnMarket

### CrowdfundUP



## WEALTH & INVESTMENT

acorns  
Invest the Change

AtlasTrend

BetaSmartz



carrots

Clower.com.au

easyshare.

ergalia

FINANCIALASK

financial/simplicity

FINCAST  
Smarter wealth management

finch

MACROVUE

map my plan

MoneyBrilliant

MONEYSOFT

Plenty

Pocketbook

Private Reporting

SelfWealth.

SHARECLARITY

Sharesight

sixpark

SortMyMoney  
Award Winning Personal Budgeting

SPACESHIP

stockspot

tanogram

wealthnation

WEALTH FURY

## PAYMENT, WALLETS AND WEARABLES



### Cross-Border / Foreign Exchange



### HR Tech



### Data & Aggregators



### Cybersecurity & Privacy



### Insurtech



### Incubator / Co-working



### Accelerators / VCS



### Blockchain / Distributed Ledger Solutions

## REGULATORS



This map (excluding regulators) includes members of FinTech Australia and shows an estimated one quarter of all Australian fintech companies.

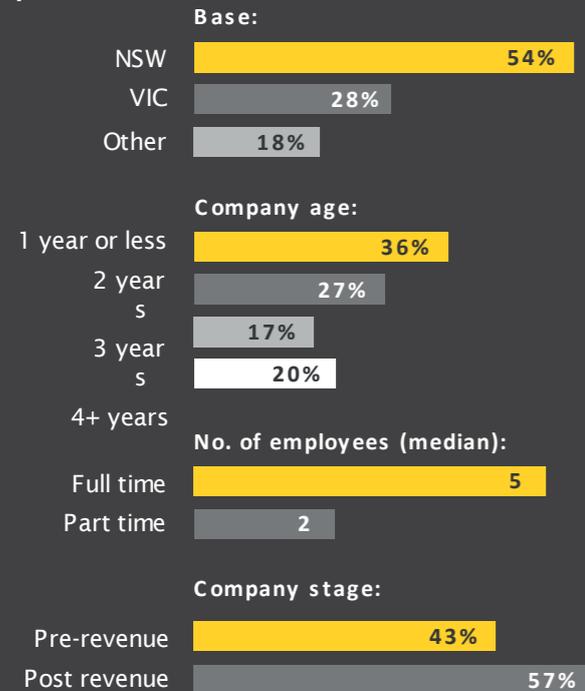
WWW.FINTECHAUSTRALIA.ORG.AU

JUNE 2017

# FinTech Australia

# Fast facts: The fintech landscape in Australia

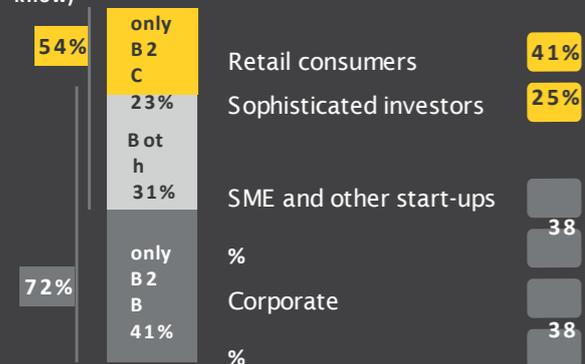
## Sector profile



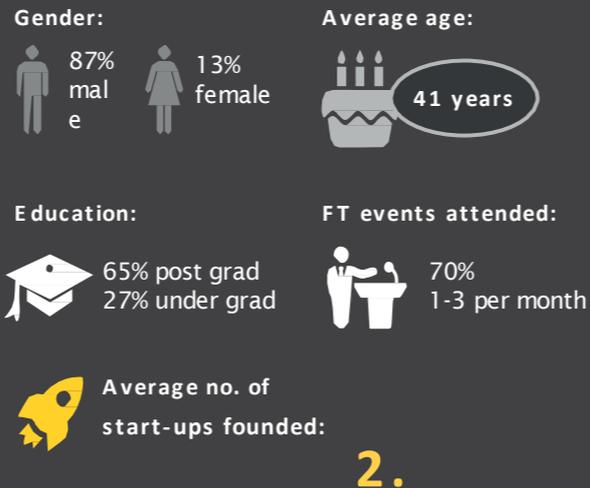
## Type of fintech



## End customer profile (excl. don't know)



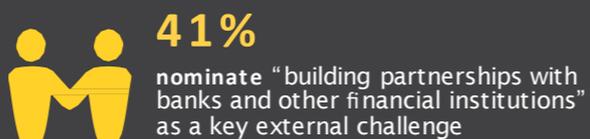
## Fintech leader profile



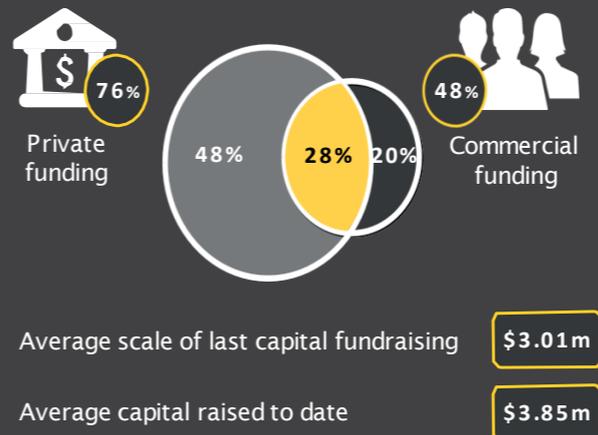
## Talent



## Relationship with incumbents



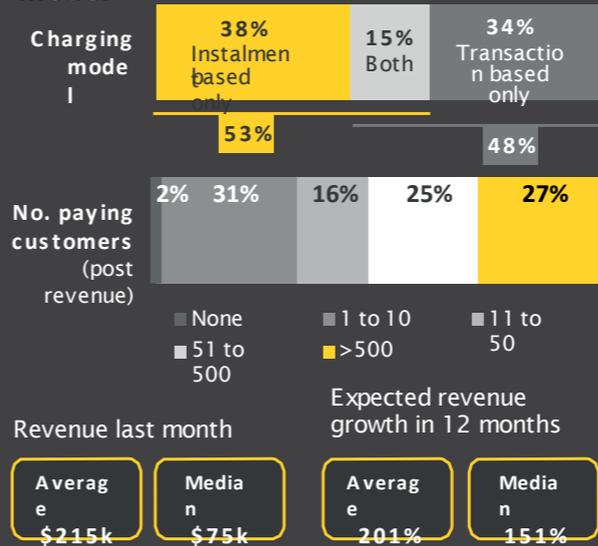
## Capital (multiple response – excl. don't know)



## Monthly burn rate



## Charging model



## Government support and the regulatory environment



## Outlook: Next 12 months



## Globally competitive



# ASIC's mandate

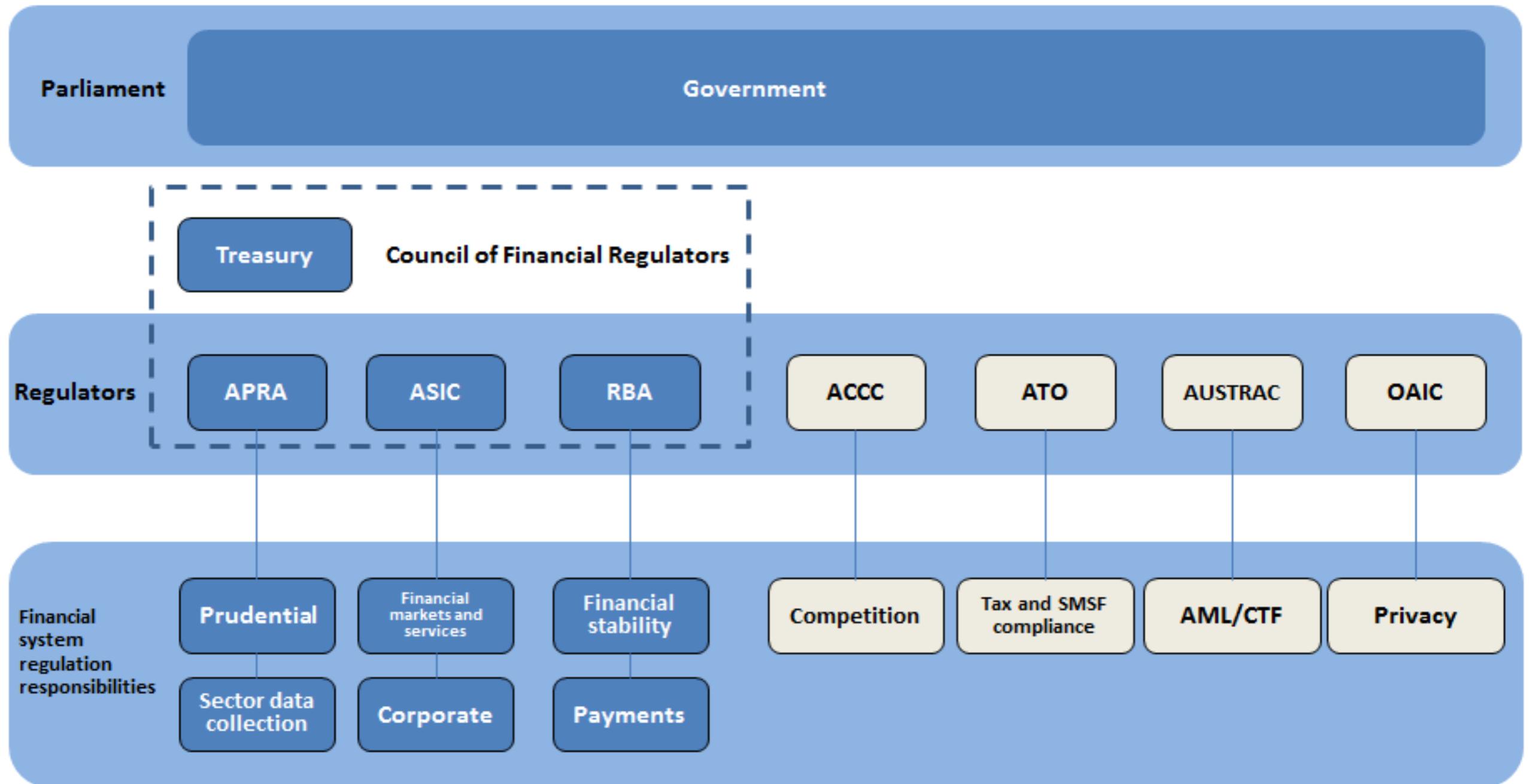
The *Australian Securities and Investments Commission Act 2001* (ASIC Act) requires ASIC to:

- (a) maintain, facilitate and improve the performance of the financial system and entities in it;
- (b) promote confident and informed participation by investors and financial consumers in the financial system;
- (c) administer the law effectively and with minimal procedural requirements;
- (d) enforce and give effect to the law;
- (e) receive, process and store, efficiently and quickly, information that is given to us; and
- (f) make information about companies and other bodies available to the public as soon as practicable.

# Who and what we regulate

- Financial services
- Consumer credit
- Markets
- Corporations
- Financial capability

# Australia's financial regulatory framework



# ASIC's approach



## Challenge 2 Digital disruption and cyber resilience

Our challenge is to manage the risks associated with which new products and services are being developed. This includes ensuring they are appropriately regulated and do not adversely impact on trust and confidence.

Australians are more engaged with digital technology than ever before. In 2014–15, 85% of Australians aged over 15 used the internet, with the mobile phone now being the most popular device for online access.<sup>26,29</sup>

### New business models

Financial technology, or fintech, is facilitating new business models in the financial services industry that disrupt traditional firms, primarily by leveraging new technology.

For example, research indicates that biases are triggered when information is presented, and these biases are influenced by the digital environment by:

- the channel through which information is presented
- the messenger providing the information
- the format of the information
- the order in which information is presented



## Challenge 4 Complexity driven by financial innovation

Our challenge is to support the benefits of financial innovation – such as lower costs and more tailored products – while managing the risk that products may not align with consumers' needs or understanding.

In Australia's financial markets, exchanges are continuing to compete on products and asset classes. There is increased complexity from the growing number of platforms offering trading in foreign exchange, options and other derivatives, and the automated nature of trading. We seek to find the right balance between promoting market efficiency and achieving fair outcomes for all investors.

Traditional complex products (such as margin lending and capital protected products) have been on the decline since the 2008 financial crisis. However, there has been an increase in demand for hybrids, driven by low yields and increased supply due to higher capital requirements for financial firms. There are concerns that hybrid investors may not be adequately assessing the risk–return trade-off of these products.<sup>44</sup>

The use of big data is driving innovation in financial services. The Government's response to the Financial System Inquiry (FSI) recognises that better use of available data will allow firms to identify opportunities, develop innovative products and reduce costs.

For example, the insurance industry is beginning to recognise the opportunities from data analytics and innovations, such as usage-based insurance and health-monitoring technologies, to provide more tailored products and services.

However, as products and services become more tailored, there is a risk that consumers may not understand them or will be unable to adequately compare them to alternatives due to increased complexity.

There remains inherent complexity in the way some products are distributed to consumers. For example, in the add-on life insurance market, ASIC has seen products where consumers had little awareness of the add-on insurance they purchased, including its value, when purchasing the underlying product.<sup>45</sup>



ASIC

Australian Securities & Investments Commission



# ASIC's mandate

*Australian Securities and Investments Commission Act 2001*

(a) maintain, facilitate and **improve the performance** of the financial system and entities in it;

(c) administer the law effectively and with **minimal procedural requirements**;

# ASIC's strategic objectives

- Promote confident and informed financial consumers and investors
- Promote fair, orderly, transparent and efficient financial markets

# ASIC's approach to regulating fintech

Our challenge is finding the balance between:

- ✓ **Encouraging** fintech and innovation, and
- ✓ **Not compromising** on our core goals of promoting investor and consumer trust and confidence; and ensuring markets operate in a fair, orderly and transparent way

# Regulating financial technology

- Being flexible and adaptable to the speed and nature of change.
- Resisting the temptation to jump before we properly understand developments.
- Ensuring that as far as possible our regulatory responses are technology neutral.
- Ensuring we have the skills and expertise to be an effective regulator in this space.

# Flexibility and adaptability

- Is our regulatory regime fit for purpose?
- Do we need to respond to changes?



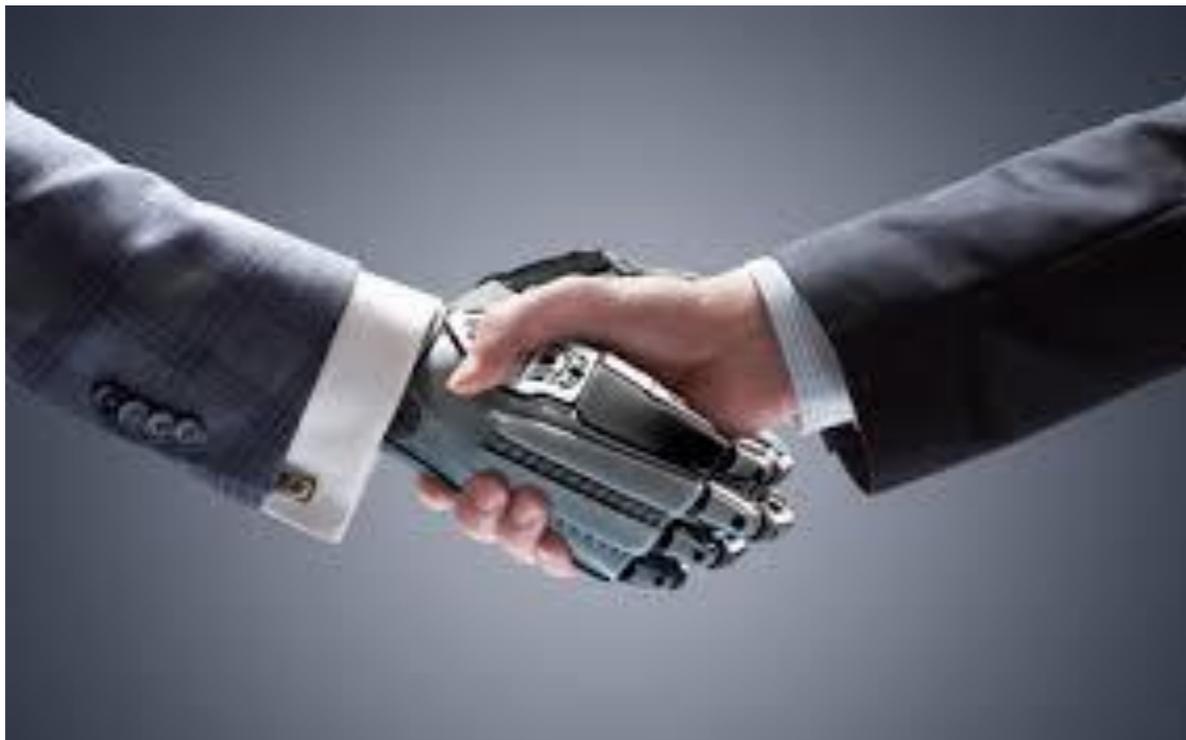
# Properly understand developments



- Do we understand this development?
- Do we need to respond now? Or can we give some time to see what happens?

# Technology neutrality

- Does the law or regulation favour one technology over another?



- Do we need to explain how this regulatory regime applies to different technology?

# Skills and expertise

- Advanced tools
- Data scientists
- Behavioural insights
- International engagement



# Current flexible framework

- Modular licensing frameworks
- Option to operate as a representative
- Assessment of organisational competence – ASIC discretion
- Waivers and no-action policy and exemptions

# Current flexible framework

EXISTING

## MODULAR FINANCIAL SERVICES LICENSING

Seek an Australian financial services (AFS) licence by reference to service, client and product (you can choose)

### Kind of service (examples)

- Financing advice
- Dealing
- Making a market
- Issuing a product



### Kind of client

- Wholesale client
- Retail client



### Kind of product (examples)

- Product class(es)  
(e.g. securities)
- Specific product  
(e.g. named managed investment scheme)

*EXAMPLE: Two innovative businesses licensed since March 2015 who deal with wholesale clients only*

EXISTING

## MODULAR CONSUMER CREDIT LICENSING

Seek an Australian credit licence by reference to kind of service (you can choose)

### Kind of service (examples)

- Providing consumer credit
- Providing credit services



### Kind of client

- Retail client

# Current flexible framework

EXISTING

## OPERATE AS A REPRESENTATIVE OF A LICENSEE

- Provide financial services as an authorised representative of an AFS licensee (except as a product issuer)
- Provide consumer credit services as a representative of a credit licensee
- We do not have a preference about whether a business becomes a licensee or representative

*EXAMPLE: We know of numerous fintech startups that are representatives of licensees*

# Current flexible framework

## ASIC APPLIES DISCRETION TO ORGANISATIONAL COMPETENCE OF LICENCE APPLICANTS

EXISTING

- We allow applicants to demonstrate why they have management with necessary skills and experience ('Option 5 of RG 105')

*EXAMPLE: 15 potentially innovative businesses licensed since March 2015 where we have applied our general discretion*

# Current flexible framework

## WAIVERS OR NO-ACTION LETTERS FROM ASIC

EXISTING

- We can consider applications for waivers from the law or no-action letters
- We can and have issued class or individual waivers relevant to innovative businesses

*EXAMPLES: We have issued class waivers:*

- *to facilitate the use of generic calculators and risk tools*
- *to enable electronic disclosure as a default*
- *to allow low-value non-cash payment facilities to be provided without a licence*

*We have issued individual waivers from aspects of the managed investment scheme laws for marketplace lenders with retail investors.*



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# References

Fintech Australia: <https://fintechaustralia.org.au/>

Fintech Census: <https://fintechauscensus.ey.com/>

ASIC Regulatory Guides: <http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/>

ASIC Corporate Plan: <http://asic.gov.au/about-asic/what-we-do/our-role/asics-corporate-plan-2016-2017-to-2019-2020/>