

SUPPORTING THE DEVELOPMENT OF FINTECH: APPROACHES AND CHALLENGES

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Fintech in Capital Markets
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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

banjo

CreditSME

GET CAPITAL

KIKKA

MOBLA

ondeck

prospa

sail

Spotcap

Consumer Lending

brighte

enably

moneyme

Invoice Financing

INVOICE

waddle

Fund

timelio

Marketplace-style solutions

BIGSTONE

ThinCats

Valiant

Business & Consumer Lending

Rate%Setter

SocietyOne

Harmony

MONEYPLACE

Residential / Real Estate Solutions

GET A BETTER RATE

HERO BROKER

Huffle HOME LOANS

JOUST

loandolphin

uno.

Crowdfunding

EQUITISE

SWIFTPITCH

IPOs

OnMarket

BRICKX

CrowdfundUP

WEALTH & INVESTMENT

acorns
Invest the Change

AtlasTrend

BetaSmartz

carrots

Clover.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

ASMBLY

finch

moneytech

stripe

checkvault

INAMO

Pin Payments

Tapview

EZYPAY

intuit

promis

ty

Cross-Border / Foreign Exchange

AIRWALLEX

CurrencyVue

BestExchangeRates

NexPay

COINJAR

Living Room of Satoshi

FLASHFX

Remitt

HR Tech

flare

SuperHR

agri|digital

OTHERA

chronobank.io

THE WEEK IN BITCOIN

Blockchain / Distributed Ledger Solutions

Data & Aggregators

DATA REPUBLIC

FABRIC

PROVISO

VERILUMA

ENVESTNET YODLEE

WORDFLOW

Information Liquidity

Cybersecurity & Privacy

CloudInsurance

ENTERSOFT

InfraRisk

RegTech

TRAction

RegTech

Insurtech

audeamusrisk

COVER GENIUS

Insured by us

friendurance

friends with benefits

SWARM

Incubator / Co-working

Atomic Sky

BLOCKCHAIN CENTRE

STONE & CHALK

TANK STREAM LABS

tyro fintech hub

YORK BUTTER FACTORY

Accelerators / VCS

APEX CAPITAL Partners

H2 VENTURES

MELBOURNE SECURITIES CORPORATION

nabventures

reinventure

REGULATORS

APRA

ASIC
Australian Securities & Investments Commission

Australian Government
AUSTRAC

Australian Competition & Consumer Commission

RESERVE BANK OF AUSTRALIA

Australian Government
The Treasury

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

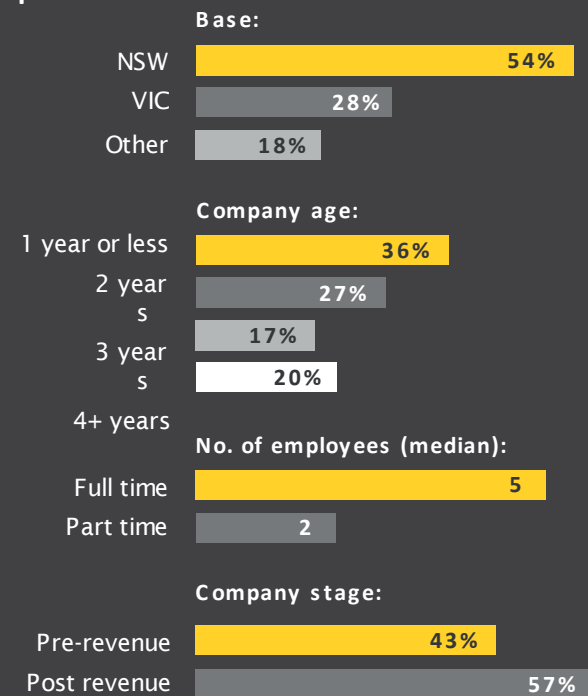
WWW.FINTECHAUSTRALIA.ORG.AU

JUNE 2017

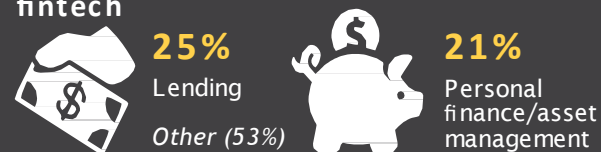
FinTech Australia

Fast facts: The fintech landscape in Australia

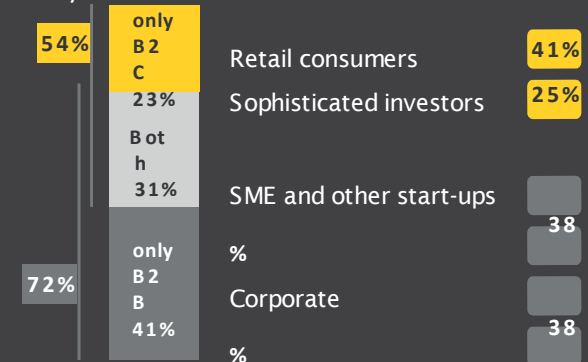
Sector profile



Type of fintech

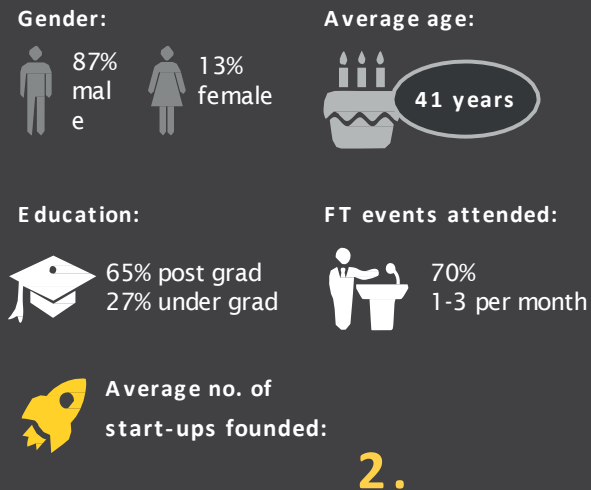


End customer profile (excl. don't know)



Banks and other FSI's

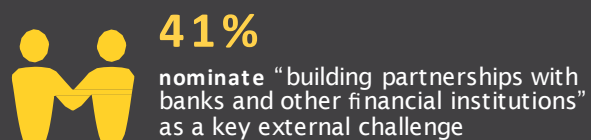
Fintech leader profile



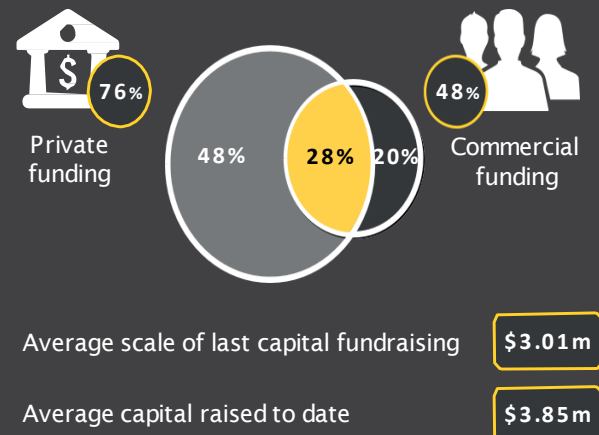
Talent



Relationship with incumbents



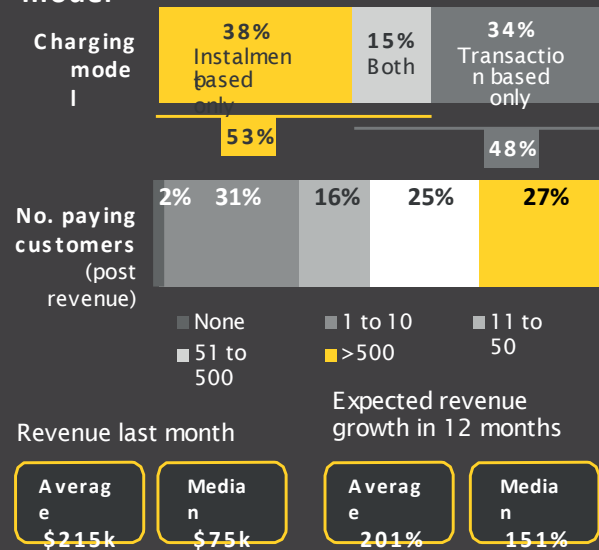
Capital (multiple response – excl. don't know)



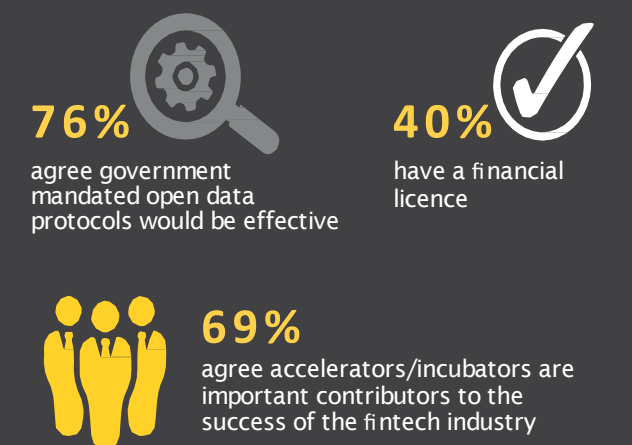
Monthly burn rate



Charging model



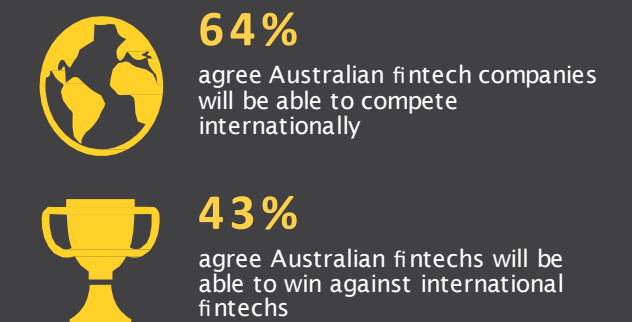
Government support and the regulatory environment



Outlook: Next 12 months



Globally competitive



ASIC's mandate

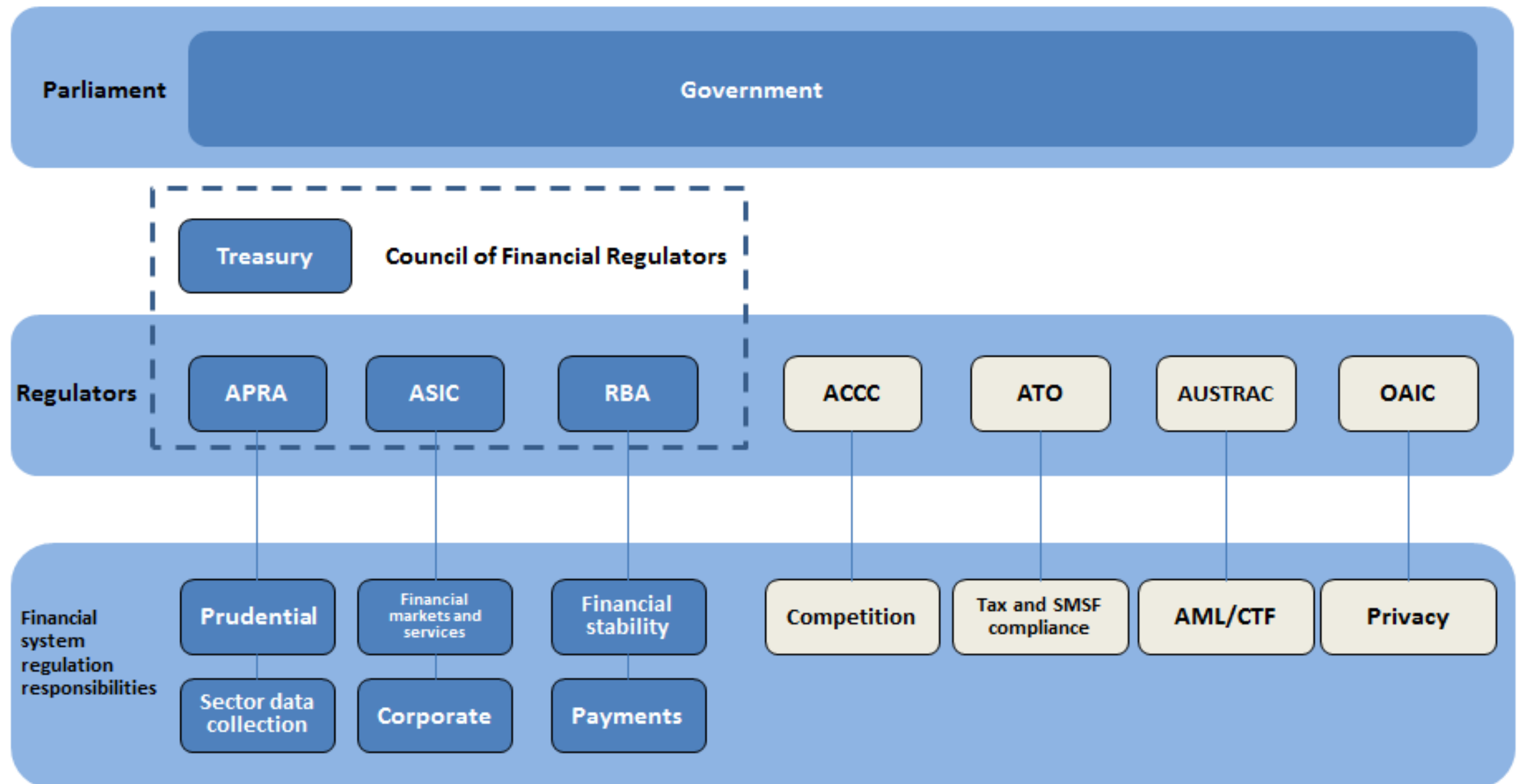
The *Australian Securities and Investments Commission Act 2001* (ASIC Act) requires ASIC to:

- (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.^{26,29}

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.⁴⁴

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.⁴⁵



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.

Questions

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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/>