Australian Government

Backing Australian FinTech

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Manager
Media Unit
The Treasury
Langton Crescent
Parkes ACT 2600

Email: medialiaison@treasury.gov.au

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Treasurer's foreword

The Hon Scott Morrison MP

At the recent World Economic Forum it was noted that 90 per cent of the data we use today has been created in the past two years. The ability of new technology to capture and process big data is changing how we do business and the way consumers use products and services.

Financial technology — or FinTech — is transforming our financial system and potentially our entire economy and it's not just about digitising transactions.

Just as the internet has empowered people around the globe through access to information, financial technology is reducing information asymmetry in the marketplace and thereby helping to mitigate risk and promote the efficient allocation of scarce resources.

FinTech is all about stimulating technological innovation so that financial markets and systems can become more efficient and consumer-focussed. This can help drive improvements in traditional financial services and, perhaps more importantly, promote disruption through innovative new products and services, which can offer benefits to consumers and other sectors of the economy.

As Treasurer I want to help create an environment for Australia's FinTech sector where it can be both internationally competitive and play a central role in aiding the positive transformation of our economy.

The Turnbull Government wants to offer home-grown and offshore FinTech innovators an opportunity to develop and refine new products and services in the Australian market through a regulatory system that allows them to be frictionless through their scale journey while still becoming regulatory match fit for deployment into domestic and global markets. There is enormous opportunity in our region for Australia's financial services exports, as well as for businesses to provide new products and financial services which create value for individuals and other sectors of the economy.

Competition policy and microeconomic reform will be driven by the innovations in FinTech, especially in payments systems, and the ASX has already announced that it is seeking to introduce Blockchain technology for its clearing and settlements process.

FinTech is going to revolutionise how consumers and businesses, as the drivers of economic activity, interact. This is going to have big implications for demand in the future. We need to be part of these changes and we have got to work out the best way to engage with FinTech and prepare for the financial system and economy of the future.

The Hon Scott Morrison
Treasurer

Introduction

The financial sector plays a vital role in supporting a vibrant, growing economy, and the financial system's ultimate purpose is to facilitate sustainable growth in the economy by meeting the financial needs of the community and the economy.

As financial services become more globalised and technological disruption becomes more prevalent, Australia needs to keep pace with innovation in banking and finance to stay competitive.

Financial services are provided by banks, credit unions, accounting companies and others firms providing banking, insurance, securities, lending, payments, investment, financial advice and other products and services to consumers and businesses.

Financial technology — or FinTech — will have an important role to play in Australia's innovation future.

FinTech is all about stimulating technological innovation so that financial markets and systems can become more efficient and consumer focussed. This can help drive improvements in traditional financial services and, perhaps more importantly, promote disruption through innovative new products and services, which can offer benefits to consumers and other sectors of the economy.

The Government wants to help create an environment for Australia's FinTech sector where it can be internationally competitive, and where it can energise the broader local economy by attracting and keeping talented entrepreneurs in Australia. We want to see FinTech in Australia become a locus of creative thinking and business activity.

There is enormous opportunity in our region for Australia's financial services exports, as well as for businesses to provide new products and financial services which create value for individuals and other sectors of the economy. Growing our FinTech capabilities will also position Australia to seize new opportunities from the transitioning economies of our major trading partners, especially China.

Australia has a fantastic opportunity to build new industries for the future: with innovation and the great talents of its people.

Economic transition

Every day, industrious Australians are working, saving and investing to transition our country from the investment mining boom to a stronger, more diversified economy.

A stronger transitioning economy provides our society with more jobs and higher incomes, as well as the opportunity and conditions to foster enterprise and innovation.

The Government is backing Australians to make the transition by driving innovation and technological development; by backing the individuals, businesses and organisations generating the products and services that create value. New and enhanced offerings, products or technologies create new markets and improve efficiency. Above all, they unlock demand and lead to greater prosperity.

The sheer scale of the resources boom, of course, means the transition to a new , more diverse economy will take time and there will be challenges. The Australian people understand this and are already out there making it happen. The Government's economic plan recognises those transitions as well as those of our key trading partners, particularly China.

With the slowing of the resources boom, workers and investors are being attracted to the services sector. Services industries now account for more than $900 billion of Australia's $1.6 trillion economy. The services sector accounts for a significant share of employment. Around 9.5 million (80 per cent) of employed Australians work in the services sector. Australian exports of services represent around a fifth of exports, much more than rural exports, and are of a similar size to manufactures exports.

At the same time, financial services exports only make up around five per cent of Australia's services exports. It is clear that we must further develop these opportunities. That is why the Government is working with the FinTech sector to help make the exciting new ideas and innovations of creative and clever Australians a reality.

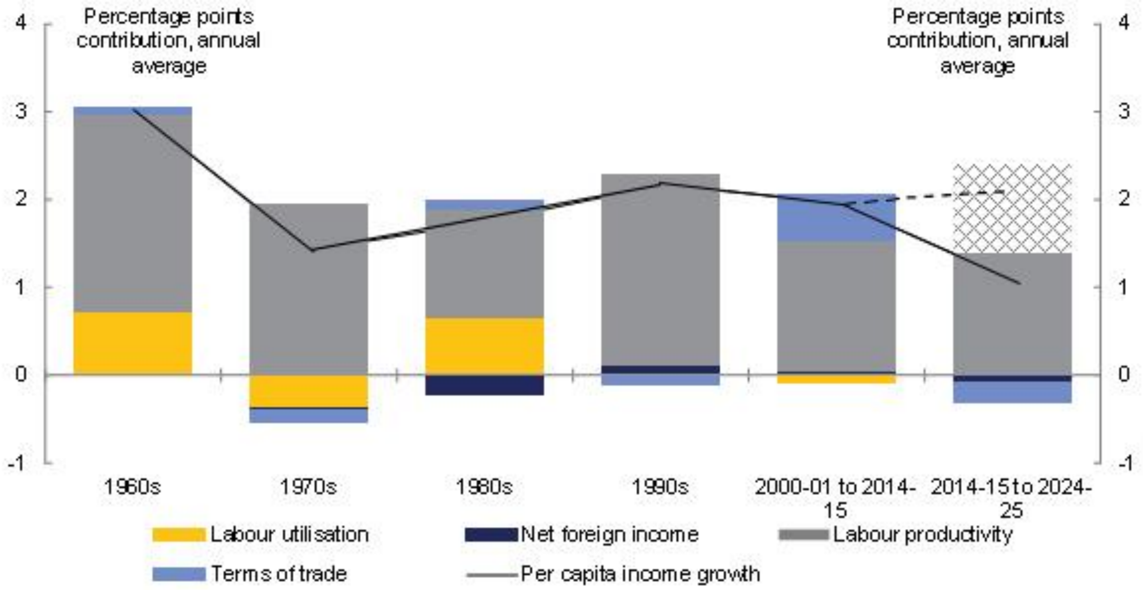
Productivity, innovation and economic growth

This is a critical time in our successful transition from the mining investment boom to a more diversified economy. We must maintain the growing momentum in the economy and ensure that we capitalise on this once-in-a-generation opportunity to set ourselves up for the future.

There is no escaping the fact that future growth in the average income of Australians relies largely on our ability to boost the performance of our economy. So, there has never been a more important time to focus on innovation, productivity and incentive in our economy. That is critical to backing Australians as we transition in this new economy — in our new economy.

Over the next few decades, the challenge for Australia is to raise standards of living through economic growth. We must continue to boost productivity and encourage higher workforce participation to drive future economic growth.

Sources of growth in real national income per person



Note: The hatched area represents the additional labour productivity required to achieve long run average growth in real gross national income per capita. Source: ABS Cat. No. 5206.0 and Treasury.

Sustained productivity growth is central to increasing living standards and reducing the fiscal pressure from growing debt and deficit. This underscores the importance of the Government's reform agenda, which is squarely focused on enhancing our productive potential and growth rates by investing in infrastructure, reducing regulatory burdens, improving competition policy and reforming the tax system.

Innovation is the key to productivity and the Government is supporting enterprise and the continued dynamism of the modern economy through the ideas boom, and especially through FinTech.

We need to back the individuals, businesses and organisations generating new products and services that create value. New and improved offerings, products or technologies create new markets, improve efficiency and lead to greater prosperity.

We need to create new and better paying jobs in growing industries and back existing industries to better compete on the global stage.

An innovation-ready nation

Australia has a proud history of making the most of our international networks and being early adopters of new technologies. Our challenge now is to capture the competitive gains that come with pioneering innovation and leading the way in global markets.

And there have never been more opportunities on the horizon for Australians and Australian businesses. The internet and the technologies it supports reduce barriers to entry for Australian businesses, no matter where they are located. Right across Australia, anyone can sell their products and services to just about every corner of the globe.

Encouraging innovation is centre stage in the Government's approach to economic policy making. The Australian start-up community is growing. Improved funding conditions and growing entrepreneurial experience are helping drive the sector. It is clear the start-up sector has grown strongly in the past few years.

But there is still a long way to go — for example, venture capital funding in the UK and Canada is significantly higher as a proportion of Gross Domestic Product (GDP) than here in Australia.

The Government is doing its part, having launched the National Innovation and Science Agenda to make sure the right policy settings are in place to improve the business and funding environment for promising projects right across the economy.

Meanwhile, the economics of start-ups has fundamentally changed. Cheaper technology and open access to information on the internet have reduced the cost of starting a technology firm.

The mantra across the start-up community is 'global from day one', recognising the opportunity of the global market.

Traditional businesses are also benefitting from advances in technology, with many investing in technology to achieve efficiency gains and deliver innovative customer service.

Start-ups in their early phases of development rely on various sources of finance — recognising that they may not yet be earning revenue. Nonetheless, the potential global opportunities for start-ups are clear, with around 40 per cent of those earning revenues also exporting. Australian start-up firms are also experiencing success in developing technology products and penetrating overseas markets.

Companies that embrace innovation, that are agile and approach change confidently are more competitive, more able to grow market share and more likely to increase their employment. More jobs and more growth — that is the focus of the Government. And, with that focus, we want to help innovators contribute to defining Australia's competitiveness and agility in our fast-growing Asia Pacific region.

Export opportunities in the region are growing

As new markets open up for our exports, particularly in our expanding services sector, Australian businesses will see opportunities to invest in their productive capacity.

Free trade agreements and a more competitive Australian dollar facilitate this expansionary activity.

Exports of goods and services are growing at their strongest pace since 2000–01.

Exporters are expecting the recent free trade agreements to generate further export growth.

Increasing demand and profits for our exporters will support increased capital spending and employment in the future.

The National Innovation and Science Agenda

The Government's National Innovation and Science Agenda (NISA) encourages innovation and enterprise.

The package promotes commercial risk-taking and is aimed at encouraging early-stage investments in innovative Australian companies — such as start-ups — so they are better able to find the capital and support they need to successfully develop their idea and bring it to market.

The NISA also provides a solid foundation for FinTech businesses to start, grow and achieve global success.

Tax changes for early stage investment

The Government has introduced measures to incentivise investments in eligible early-stage innovation companies that have high-growth potential.

- These incentives include a 20 per cent non-refundable tax offset on investment capped at $200,000 per investor per year; and
- a new 10 year capital gains tax exemption for investments held for 12 months.

These measures are expected to apply from the 2016-17 financial year.

Venture capital

The Government will ensure that start-ups involved in FinTech, including in insurance and finance related activities can be eligible investments for the purposes of the venture capital tax concession. This will allow access to the incentives for venture capital investment including those available under the NISA, encouraging investment in FinTech.

Early Stage Venture Capital Limited Partnerships (ESVCLPs) are investment vehicles that provide tax exemptions for those investing in innovative companies at the early and growth stages of a start-up.

The reforms are expected to commence from 1 July 2016:

- Limited partners in new ESVCLPs will receive a 10 per cent investor tax offset on capital invested during the year.
- The maximum fund size for new and existing ESVCLPs will be increased from $100 million to $200 million.
- ESVCLPs will no longer need to divest a company when its total assets exceed $250 million.

Changes to the venture capital regime will relax eligibility and investment requirements to allow managers to undertake a broader range of investment activities and attract a greater diversity of investors.

The Government will also introduce a new mechanism by which Innovation Australia can issue binding advice in relation to the definition of ineligible activities and other limited powers to clarify eligibility. This would allow Innovation Australia to clarify whether businesses activities are ineligible — removing the legal uncertainty associated with investments for ESVCLPs.

These measures will provide clarification of the eligibility of a range of activities, including for FinTech.

Entrepreneur visas

The visa system is a key enabler of Australia's ability to attract and capitalise on the expertise and ideas of foreign skilled workers, entrepreneurs and innovators, within a global marketplace.

In November 2016, we will introduce a new Entrepreneur Visa, which will target foreign entrepreneurs with innovative ideas and financial backing from a third party. The eligibility criteria will be determined following consultation, with consideration being given to the desirable level of financial backing and how to target entrepreneurs with innovative ideas in specific sectors.

The Entrepreneur Visa will assist in bridging a current gap in Australia's ability to facilitate the entry of emerging entrepreneurial talent and highly educated individuals in key fields.

Investment in start-up incubators

Incubators and similar business support organisations help innovative start-ups rapidly transform their ideas into globally competitive businesses by giving them mentorship, funding, resources, knowledge and access to business networks.

More high-quality incubators will mean more start-ups can realise their economic potential.

To support existing incubators and to encourage development of new ones, we're committing $8 million to an Incubator Support Program, commencing by 1 July 2016, through which we will offer competitive matched funding to:

- support development of new incubators and accelerators in regions or sectors with high innovation potential;
- boost the effectiveness of high performing incubators including support to expand their services; and
- provide access to top quality research and technical talent through secondments of national or international expert advisers.

Global landing pads

Around six per cent of Australian businesses engage in international innovation, while the Organization for Economic Co-operation and Development (OECD) average is 18 per cent. Increasing international collaboration will allow Australian businesses to improve their business performance and access international supply chains and the global market.

The Government is investing $36 million over five years in a Global Innovation Strategy to improve Australia's international innovation and science collaboration, including to support the establishment of five 'landing pads' (in Tel Aviv, San Francisco, Shanghai and two other locations).

The landing pads will assist Australian market-ready start-ups by providing state-of-the-art shared workspace facilities to enable access to the customers, talent, mentors, and investors who form the innovation ecosystem in those locations.

Insolvency law reforms

Concerns over inadvertent breaches of insolvent trading laws are frequently cited as reasons for early stage (angel) investors' reluctance to get involved in a start-up. Our current insolvency laws put too much focus on penalising and stigmatising failures, so we're making some changes.

To better balance encouraging enterprise with protecting creditors, we're reforming our insolvency laws by:

- reducing the current default bankruptcy period from three years to one year;
- introducing a 'safe harbour' for directors from personal liability for insolvent trading if they appoint a restructuring adviser to develop a turnaround plan for the company; and
- making ipso facto clauses, which allow contracts to be terminated solely due to an insolvency event, unenforceable if a company is undertaking a restructure.

The changes will encourage Australians to take a risk, leave behind the fear of failure and be more innovative and ambitious. Over time, these changes will help to reduce the stigma associated with business failure.

Investing in science, technology, engineering and mathematics (STEM)

An estimated 75 per cent of jobs in the fastest-growing industries require workers skilled in science, technology, engineering and mathematics, so ensuring students have the skills to equip them for the workforce of the future is critical.

Starting in 2016–17, the Government is committing $112 million to boost Australians' ability to navigate the digital economy and equip our future workforce with STEM skills to address challenges ranging from health and medical care to the environment.

While these initiatives give Australia a solid foundation, we cannot stand still while other countries reform. We must be agile and willing to consider new reforms and new priorities.

The strength of Australia's financial sector

Australia's financial services sector is the largest contributor to the national economy, contributing around $140 billion to GDP over the last year. It has been a major driver of economic growth and, with 450,000 people employed here, will continue to be a core sector of Australia's economy into the future.

In Australia we have a sophisticated, competitive and profitable financial sector and a strong regulatory system.

The four major banks are among the world's largest banks by market capitalisation and all rank in the top 25 globally for safest banks. They are also some of the most profitable in the world.

We have the fourth-largest pool of investment fund assets in the world and the largest in Asia.

The World Economic Forum Financial Development Index of 2012 rated Australia as one of the world's best performing financial centres, partly due to our strength in financial intermediation and our financial stability.

Australia has favourable economic fundamentals with annual economic growth currently double the rate of comparable commodity-focussed economy Canada, higher than the average across G7 economies (France, Germany, Italy, Canada, UK, US, Japan) and above the OECD average.

While our financial system is robust, the Government's actions in response to the Financial System Inquiry will enhance how well Australia is placed to respond to the challenges and opportunities of the future.

Our FinTech sector, of course, will play a big part in that response.

The accelerating rate of technological change and increasing penetration of mobile devices, combined with shifting customer preferences, will have dramatic implications for the ways in which financial services are structured, delivered and consumed. This trend is evident in Australia and is perhaps even more apparent in other countries in the Asia-Pacific region.

We've witnessed the enormous changes technology has made to the way Australians engage with their banks—with the once ubiquitous in-branch interactions now all but replaced by ATMs, online transactions and mobile services. Future growth of innovation in financial technology brings scope for even more changes, delivering new services and potentially generating new, lasting jobs.

The changing face of financial services

For decades, banks, insurers and other financial service providers have held a dominant market share with little change to their business models. But today these businesses are facing new pressures from innovators providing services that offer a different experience for consumers.

Innovators are opening up new opportunities for business and consumers alike — they are unlocking new demand in our economy.

FinTech innovators are disrupting the market place for incumbents and reshaping the approach to financial services in areas such as: primary banking accounts, payments, capital markets, investment management and insurance. New approaches like crowdfunding, peer-to-peer lenders, mobile payments, digital currencies such as Bitcoin, and robo-advisers could benefit consumers by increasing choice and stimulating more competition.

FinTech is driving the future of financial services

Innovations in devices and connectivity are providing consumers with payments like digital wallets.

Marketplace lenders and crowdfunding platforms are becoming an alternative source of lending and an important source of funding for many seed-stage businesses.

New streams of granular, real-time data are emerging, and with them innovators who use that data to support financial decision-making.

Alternative funding platforms are widening access to capital raising activities and providing funding to a greater number of companies and projects.

Robo-advisers have automated a full suite of wealth management services including asset allocation, investment advice, all offered to customers at a cheaper cost and more personalised level.

Disaggregation driven by FinTech has the capacity to transform the insurance industry and greater personalisation of policies will improve insurance products and policies.

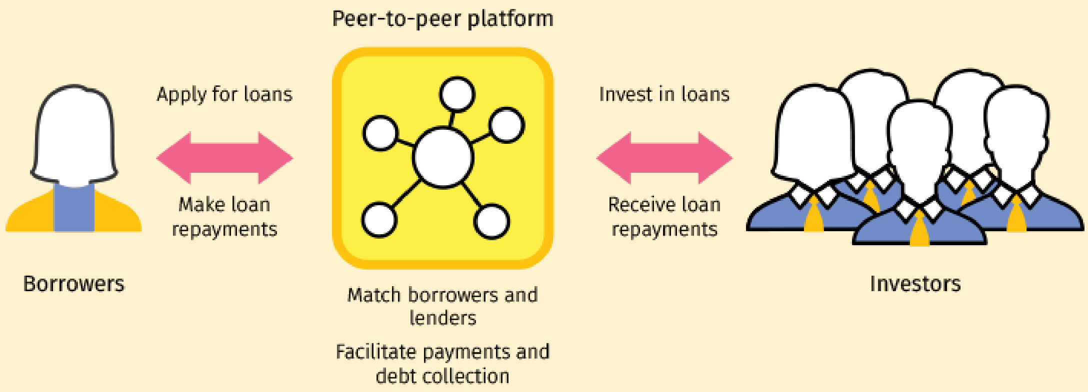
New entrants are able to offer innovative delivery platforms and differing services made possible by more nimble IT systems and increased availability of data. They are challenging incumbents by responding to consumer demands for greater choice and transparency.

The larger entrenched financial providers, of course, recognise that innovation is imperative and that FinTech offers potential solutions for them as well, promoting ‘Fintegration’ between FinTech and traditional financial service providers. Other incumbents are also responding by investing and exploring new models for delivering services. Some of Australia’s largest financial providers have established centres of innovation and are looking to work with FinTech innovators to deliver new solutions.

The growth of financial services and FinTech in Australia will help drive growth in related professional services such as legal, accounting, and other broader technologies. It will also help foster innovation in, and the development of, technology skills and capabilities that benefit the broader economy, such as cybersecurity.

For their part, consumer preferences and attitudes, driven by generational shifts and rapid consumer adoption of technology, are rapidly changing and FinTech is helping align financial services with consumer and market expectations and demands.

Peer-to-peer lending offers benefits for borrowers and investors



By operating online and embracing targeted credit assessment techniques, peer-to-peer lenders have the potential to offer loans to borrowers faster, more simply and at lower interest rates. On the investment side, peer-to-peer platforms allow investors to access a wider range of loans more directly than is possible using traditional investment mechanisms.

Economic benefits of FinTech

The ability of new technology to capture and process data, in real time, is changing how all business is done, how products and services are conceived in the new economy, and the way consumers participate in this process.

Financial technology — or FinTech — is lubricating this transformation. The catalytic impacts of FinTech and it's potential to unleash a new era of competition, innovation and job creating productivity in our economy is inestimable at this point, and very worthy of encouragement.

FinTech is not just about digitising money, it's about monetising data. It's about how we can create and capture the value-add from data, previously limited by the technology we had available. It is the second-round value surge that is now starting to flow from an increasingly digitised economy.

Financial services providers now talk about attributes, or insights into consumers, not just in the tens of thousands but in the hundreds of thousands and millions.

Businesses and authorities now have structured access to almost unlimited data, especially with the advent of social media that sophisticated algorithms can quickly interrogate and transform into new services and products.

This is not old-style data mining but deep learning that permits previously unimagined insights and information that in turn allows more individualised products and services, and more efficient markets and systems.

FinTech solutions hold enormous potential benefits to all business, especially new and existing small businesses. Small and medium sized enterprises (SMEs) are crucial for economic growth and jobs but some can face difficulty in securing the financing they need to survive and prosper.

FinTech can offer solutions that are efficient and effective at lower scale which will benefit small businesses and provide them with increased access to more diverse funding options. Innovative FinTech products can be better tailored to the needs of small businesses. These include marketplace (peer-to-peer) lending, merchant and e-commerce finance, invoice finance, online supply chain finance and online trade finance.

Innovative finance solutions can significantly assist small businesses by providing them with better cash flow, improved working capital management and more stable or secure funding. For example, Alibaba monitors and evaluates online transactions to identify commercial opportunities and then offers loans to small business through Alipay..

In addition to financing and access to capital, FinTech can help all businesses through improved payments systems, customer relationship management and invoicing and collections. FinTech solutions include e-invoice management portals and supply chain finance solutions.

FinTech is allowing people to conduct transactions through their mobile phone or tablets, improving efficiency and the customer experience. Data aggregators can synchronise financial data from various sources and integrate bank accounts from different financial institutions — reducing compliance costs for business.

By reducing information asymmetry in the marketplace, FinTech is not only improving the ability to match investors, lenders and borrowers; but providing a more level playing field that allows retail investors to have greater participation in the market. FinTech intermediaries help bring additional liquidity to the market.

Innovative financial services such as robo-advice have the potential to extend financial advice beyond high net worth individuals and more sophisticated investors, to a wider cross-section of the community. This will help more Australians get the financial advice they need to make more informed decisions and help address issues such as under and non-insurance, as well as missed opportunities and ill-informed decision-making.

It is this positive disruption that a successfully transitioning economy, like Australia's, can and must benefit from and why the Government is taking such a keen interest as part of our innovation agenda.

Just as the internet has empowered people around the globe through access to information, FinTech is reducing information asymmetry in the marketplace and thereby helping to mitigate risk and promote more efficient allocation of scarce resources.

In China, Tencent's 'WeChat' now allows users to apply for uncollateralised loans of up to US$30,000 and get a decision in under a minute, while individuals can transfer money to each other.

Pioneers in the industry — those who are forging the frontier of this new sector — are clear about the enormous potential of new technologies in financial services to better manage risk in the financial system.

More digitised transactions support greater audit capability, transparency in payments systems and security in transactions by reducing risks you are also reducing the need for regulation. In this world, de-risking and de-regulating an environment actually go hand in hand.

The frictionless operation of FinTech innovations such as Blockchain and digital currencies are generating new value streams not just in financial services but across the economy.

During a FinTech roundtable organised by the Government in Shanghai in February 2016, Lufax, the second largest peer-to-peer lender in China, spoke about real-time personalised insurance options such as car insurance that could account for the places you might be driving through or to on a particular day, including weather and traffic conditions. During another FinTech roundtable in Shanghai, Chinese internet services giant Baidu, explained their 'Internet Plus' strategy was not about becoming a FinTech operator, but to enable them to act as an aggregator. They are focused on bringing together the partners needed to realise a new product or service to fill the gaps and to satisfy consumer demands by leveraging their digital distribution networks, data and insights.

The Government recognises Australia's FinTech sector can play a vital role in aiding the positive transition that is occurring in our national economy.

Competition policy and microeconomic reform will also be accelerated by innovations in FinTech, especially in payments systems, and the ASX has already announced that it is seeking to introduce Blockchain technology for its clearing and settlements process.

The transparent and real-time operation of FinTech innovations, such as Blockchain and digital currencies, are generating new value streams — not just in financial services but across the economy. However, the disintermediation of the market will be accompanied by greater 'Fintegration' — or collaboration in financial services — between disruptors and others. FinTech herbivores and carnivores cover those wanting to disrupt and those wanting to co-exist in the financial sector.

FinTech can also help drive improvements in traditional financial services and promote disruption through innovative new products and services, which can offer benefits to consumers and other sectors of the economy. That's why we're working with the FinTech industry to prepare our financial system and economy for the future, and why it is such an important part of our plan to manage our transitioning economy.

Working with Australia's FinTech industry

The Government will continue to work with the FinTech industry, as well as with the states and territories, to ensure we capitalise on Australia's current competitive advantage and significant opportunities.

Our objective is to work with the industry to ensure Australia has an internationally competitive environment for FinTech and can attract international innovators to Australia.

To that end, the Government has established a FinTech Advisory Group to advise the Treasurer directly on issues important to Australia's FinTech industry, such as identifying areas of potential future reform, and ensuring that the specific priorities of the industry are considered in the implementation of government policies.

The Advisory Group is chaired by Mr Craig Dunn, Chairman of Stone & Chalk, Director of Westpac Bank and former CEO of AMP. Other members include:

- Simon Cant — Co-founder and Managing Director, Reinventure;
- Matt Symons —Co-founder and Head of Strategic Alliances and Partnerships, SocietyOne;
- Nerida Caesar —CEO and Managing Director, Veda;
- Kelly Bayer Rosmarin —Group Executive, Institutional Banking & Markets, Commonwealth Bank;
- Ben Heap — Founding partner, H2 Ventures;
- Claire Wivell Plater — Owner, The Fold Legal Pty Ltd;
- Asher Tan — Co-founder and CEO, Coinjar;
- Libby Roy — Managing Director, PayPal Australia;
- Jost Stollman — Executive Director and CEO, Tyro Payments;
- Jonny Wilkinson — Co-founder and Managing Director, Equitise;
- Scott Farrell — Partner, King & Wood Mallesons;
- Charlotte Petris — Founder and CEO of Timelio; and
- Stuart Stoyan — Founder and CEO of MoneyPlace.

The FinTech Advisory Group will complement the Innovation Collaboration Committee that the Government announced will be established as part of our response to the Financial System Inquiry.

Among other matters, the advisory group is exploring increased facilitation of digital advice models, regulation technology — or 'RegTech' — the uptake of Blockchain technologies, the tax treatment of digital currencies, evolution of the Australian crowdfunding framework, data transparency and aggregation, and emerging insurance models.

Australia's FinTech advantages

Every day, the established financial services industry is being disrupted and enhanced by new entrants. These innovators are harnessing technology that delivers services in more relevant and convenient ways to Australian businesses and consumers.

When we consider that, globally, FinTech investment reached an estimated US$20 billion in 2015, a jump of around seven-fold over the last three years. It is clear that developing our FinTech industry here will not only help drive expansion and growth in our financial exports, it will also deliver benefits to Australians through new services that create value or bring efficiencies. Indeed, with our financial services sector being the largest contributor to the national economy, advancements in R&D represent a crucial opportunity for innovation in a key services sector of the economy.

Australia's fledgling but flourishing FinTech is attracting talent, promoting innovation in Australia's financial services industry and exporting talent abroad, such as:

- incubators (Stone & Chalk and Tyro);
- venture capital funds with a focus on FinTech (H2 and Reinventure);
- personal and business finance (SocietyOne, Prospa, Ratesetter, Spotcap and Moula);
- capital market technology (OzForex and Pepperstone);
- payments providers (Tyro Payments and PromisePay);
- wealth management providers (Stockspot, Simply Wall Street and PocketBook);
- business enabling technologies and data analytics (Avoka, Metamako and Quantium); and
- crowdfunding platforms (Equitise, TMeffect and CrowdFundUp).

Australia's existing financial expertise, resources and infrastructure, including our world-class regulatory and prudential regimes, mean we are well positioned to compete in the development of innovative financial products and services. Growing our FinTech industry will help Australia maintain and build on our existing comparative advantage as a regional financial centre and provider to key regional markets.

Australian-based firms are seeking to position Australia as a centre for excellence for funds management, while fund managers are rapidly expanding their operations globally, particularly in the Asia-Pacific region. In this growing region Australia is recognised for its innovation and sophistication in the provision and administration of managed funds products.

Asia's growing middle class and the transition of the Chinese economy to a more consumption based economy will provide significant opportunities for Australian services exports, including our financial services sector.

Export opportunities into China

China is Australia's numberone export market and import supplier. China's share of Australian exports has increased from less than three per cent in 1991–92 to around 28 per cent in 2014–15.

China is already Australia's largest services market, with exports in services valued at $8.8 billion in 2014–15. China's share of Australia's service exports has increased from around three per cent in 2000–01 to around 14 per cent in 2014–15.

The China–Australia Free Trade Agreement (ChAFTA), which entered into force on 20 December 2015, secures a range of financial services commitments from China, including provisions on transparency, regulatory decision-making and streamlining of financial services licence applications.

A financial services committee will be established under the agreement providing a formal mechanism for engagement between Chinese and Australian financial regulators on issues of mutual interest

The Government is committed to expanding opportunities for the export of financial services across the region. For example, we are actively working with regional partners to develop the Asia Region Funds Passport. The Passport will facilitate cross border trade in managed investment schemes between member countries by either waiving or diminishing key regulatory impediments to trade.

As a region driven by digitalisation and a large population base in the region without a traditional banking account, the Asia-Pacific region represents a unique opportunity for Australia. Australia's stable financial system and emerging FinTech sector offers global financial services institutions, and new entrants, opportunities in a rapidly expanding domestic market and an ideal location for servicing markets in the Asian time zone.

Australia's FinTech priorities

It's clear that, with our relative strength in financial services, Australia has the potential to become a leading FinTech player. That means getting the policy settings right and backing local FinTech firms to maintain and develop competitive advantage and global leadership.

The Government's FinTech program both promotes Australia as a hot house for financial services and showcases our innovative financial products and services to the world.

Our policies and regulations will also help promote Australia's FinTech capability by supporting the evolution of our FinTech start-ups and innovators to develop, test and globally launch their innovative financial products and services. Australia's dynamic ecosystem will help our burgeoning start-up community to foster innovation and turn these ideas into commercial opportunities and successful commercialisation. Australia can then serve as a launching pad into Asia and other overseas markets.

The Government is committed to working with the FinTech industry, regulators and other stakeholders, on the key issues to underpin the continued innovation in financial services. We will support the industry's objective of making Australia the leading market for FinTech innovation and investment in Asia by 2017.

We are setting out a clear strategy and agenda for the FinTech sector, based on the issues identified by the sector. The Government will consider these issues in collaboration with the industry and other key stakeholders, including regulators.

While Australia's regime is well-placed, we know there are still many opportunities to grow stronger.

Together, we are looking ahead to an exciting and growth-driven future in the sector. The Government will build on actions we have taken through our response to the Financial System Inquiry by focusing on areas relevant to FinTech including the following areas.

Crowdfunding

The Government recognises the growth and expansion of crowdfunding, and a framework for Crowd Sourced Equity Funding (CSEF) was introduced into Parliament on 3 December 2015. Our CSEF framework will allow eligible Australian public companies to access new funding sources to help them develop their ideas.

Following implementation of the Government's CSEF framework, the industry is keen to explore how the framework can evolve over time.

In addition to the CSEF framework, the industry has asked the Government to explore the potential for crowdfunding to extend to debt funding. The Government intends to consult on a crowd sourced debt funding framework during 2016.

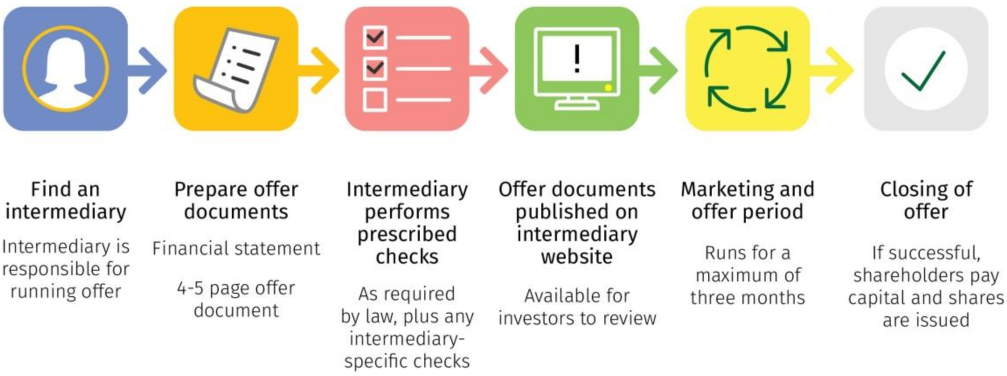
Industry has also raised possible extensions to the framework that could improve access to finance for new FinTech firms so that they can develop and commercialise new ideas. It has been put to the Government that the CSEF framework:

- Allow all companies regardless of assets and turnover to be eligible for equity crowdfunding.

- Remove cooling off periods and allow platforms to use their discretion to cancel an investment for legitimate reasons.
- Review Australian Market Licence (AML) requirements for crowdfunding intermediaries.

The Government will continue to work with industry to ensure that Australia has a competitive and commercially attractive crowdfunding framework that deepens capital markets across the economy. Following further consultation with the industry, including the FinTech Advisory Group, the Government will consider:

- increasing the assets and turnover threshold used to determine eligibility for equity crowdfunding to $25 million; and
- reducing the cooling off period for investors into crowd-sourced equity funded projects to 48 hours.



Comprehensive credit reporting

Access to comprehensive credit reporting (CCR) data would help facilitate the development of peer-to-peer lending products and marketplaces, and help drive further innovation in financial services. CCR is considered by many to be a vital part of Australia's economic infrastructure.

CCR provides lenders with more information to identify a customer's true credit capacity to enable more tailored lending that better reflects the capacity to service and repay loans.

To encourage the utilisation of CCR, the Government has tasked the Productivity Commission with consideration of the up-take of CCR as part of its inquiry of data accessibility.

The Government is keen to support industry efforts to expand the access and utilisation of CCR across the economy. The Government will monitor progress and evaluate uptake of CCR and will consider other options if required.

Greater availability of data

Effective use of data is increasingly integral to the efficient functioning of the economy. Improved availability of data, combined with the tools to exploit it, is creating new economic opportunities.

In line with our Public Data Policy Statement, we will make data.gov.au the central place for all government data. Non-sensitive data will be open by default — providing free access to public data, where fees only apply for specialised data services. This will support private sector innovation to create new products and business models, as well as inform government policy making and service delivery.

In addition, the Government has commissioned the Productivity Commission to examine the benefits and costs of improving availability and the use of data across the economy. This will inform Australians about the potential for data availability to boost innovation in Australia to help us remain globally competitive.

The industry is seeking more standardised practices on financial data aggregation and government support for standard open-data application programming interfaces (APIs) to support FinTech innovators and give Australians better ways to understand, manage and maximise their finances. The Productivity Commission will examine options for standardising the collection, sharing and release of data as part of its inquiry.

Regulatory environment that enables innovation (regulatory sandbox)

We need a regulatory environment that provides consumers with confidence while not unnecessarily restricting the opportunities for innovation.

A ‘regulatory sandbox’ has the potential to encourage and support the design and delivery of new financial products and services that benefit consumers and businesses. The industry believes that a ‘sandbox’ is a crucial component to assist Australia become a leading market for FinTech innovation in Asia.

The Government has been working with the Australian Securities and Investments Commission (ASIC) on the development of a ‘regulatory sandbox’ for Australian FinTech start-ups.

With a ‘regulatory sandbox’, FinTech innovators can overcome regulatory uncertainty and costs that may otherwise see innovative offerings not go ahead. According to the industry an effective ‘sandbox’ will enable firms to manage regulatory risks during the testing stage, reducing the cost and time to market. At the same time, any ‘sandbox’ will need to provide for important consumer outcomes such as fit and proper checks, dispute resolution and consumer redress arrangements.

Australia’s regulatory regime is flexible in terms of delivering licensing and regulatory oversight tailored to the scope of a start-ups business, while ensuring consumers remain informed. The legislative framework makes it possible for ASIC to grant waivers (or relief) from the law to facilitate business.

The Government believes that Australia's financial system can support a 'regulatory sandbox' for the FinTech industry. ASIC has well-established policies in place for the use of its waiver (relief) powers. At a minimum, the existing flexibility and responsiveness of our regulatory arrangements can help reduce the regulatory barriers, and the cost of licensing for new businesses and products entering the market. For example, the existing ASIC class waiver for low-value, non-cash payment facilities has been important in facilitating businesses operating such types of payments.

During 2014–15, ASIC approved 1,473 relief applications. Among other matters, existing waiver powers enable ASIC to grant relief from Australian Financial Service (AFS) licensing requirements, provide exemptions from disclosure or reporting obligations, and issue no-action letters where ASIC does not intend to take regulatory action over a particular instance of non-compliance.

Australia's regulatory regime also compares well in terms of how long it takes to make a decision. ASIC has an average target of 60 days to grant a credit or financial services licence compared to the United Kingdom, which aims to make a decision within six months.

Start-ups can also find it difficult to navigate the complexity of financial services laws, which is time consuming and expensive. The Government is committed to making this easier.

In April 2015, ASIC established an Innovation Hub to help FinTech start-ups navigate the regulatory laws it administers on a streamlined basis, including by providing informal guidance from senior regulatory advisers. Since then, the Hub has accepted requests for assistance from 52 entities and has worked closely with other domestic and international regulators.

ASIC's Innovation Hub is currently working with its Digital Finance Advisory Committee on how to best utilise the existing regulatory arrangements and what further measures should be considered. The Government will support ASIC and other regulators on the development of a 'regulatory sandbox' and other facilitative measures that will help position Australia as a leading market for FinTech innovation and investment in Asia.

Technology neutrality in financial regulation

As part of the Government's response to the Financial System Inquiry, we committed to amending priority areas of existing financial regulation to ensure they are technology neutral. We will also embed the principle of technology neutrality into our approach for making future legislation and regulations.

Adopting a technology neutral approach to regulations will enable businesses to adopt approaches that best suit their business model and consumer preferences. It will also ensure that regulators can readily respond and adapt their oversight to take account of innovation and development of new technologies.

Guidance on robo-advice

The Government is supporting regulatory authorities and the industry on the development of clear guidance on the compliance obligations for digital or automated financial advice known as robo-advice.

Existing regulatory guidance contemplates robo-advice; however it does not address some of the specific issues which are unique to robo-advice. New guidance will provide clarity on these issues and how to satisfy the 'best interests' requirement of financial advice in a robo-advice context.

Greater clarity around how the existing regulatory framework interacts with the emerging robo-advice sector will help reduce costs for the FinTech industry, improve compliance and reduce unintentional breaches of the regulations.

The Government is working with ASIC to determine necessary updates to current guidelines in order to facilitate the uptake of robo-advice. In particular, the Government supports ASIC's draft regulatory guidance released today, 21 March 2016, that clarifies how 'best interests' duty obligations could work for robo-advice and that ASIC will continue to provide up to date advice and guidance to the FinTech industry.

Digital currency — GST treatment

The Government recognises that that the current treatment of digital currency under GST law means that consumers are 'double taxed' when using digital currency to buy anything already subject to GST. The Government is committed to addressing the 'double taxation' of digital currencies and will work with the industry on legislative options to reform the law relating to GST as it is applied to digital currencies.

Currently, there are more than 600 digital currencies available, with different protocols for transaction processing and confirmation, and with different approaches to the growth in the supply of digital currency units. Removing the 'double taxation' treatment for GST on digital currencies and applying adequate anti-money laundering and counter-terrorism financing rules may facilitate further developments or use in the future.

Blockchain technology

Blockchain is a name for the protocol underpinning Bitcoin, as well as other digital currencies. It uses complex cryptography and a distributed ledger —or copies of the same record in multiple places — to regulate, record and enable transactions using Bitcoin.

Blockchain has attracted considerable interest in, and is currently being applied to, a number of areas within the international financial system and may revolutionise key services like international transfers between banks, equities clearing and settlement, and financial contracts.

The Government welcomes the announcement by the ASX that it is exploring Blockchain technology for a new post-trade solution for the Australian equity market. While it is in the early stages of development, the technology has the potential to radically simplify the way our market operates end-to-end, with significant benefits to investors, participants, regulators and government agencies.

Government procurement and service delivery (ProcTech)

As financial services become more globalised and technological disruption becomes more prevalent, Australia needs to keep pace with innovation in banking and finance to stay competitive, and regulators and governments have to play their part.

This not only means ensuring our regulatory processes do not suffocate these developments, but that we also look for ways to tap into the significant opportunities afforded by FinTech to provide solutions to Government procurement and service delivery needs.

Just as alignment and modernisation in regulation is referred to as 'RegTech', the potential impact of FinTech on government procurement can be referred to as 'ProcTech'.

According to the latest Department of Finance report, there were over 69,000 Commonwealth Government procurement contracts valued at $60 billion in the 2014–15 financial year.

The Commonwealth will be looking to innovative FinTech solutions to foster diversity, choice and responsiveness in government services. 'ProcTech' can help encourage innovation, entrepreneurship and more efficient investment, providing greater value for tax payer money and potential savings that can be re-directed into vital services.

FinTech also provides the opportunity for payment systems processes to become more modern, efficient and simple to use. As proven by developments overseas, FinTech can provide customers with more convenient mobile payment systems, with smaller processing costs that are safer and more transparent. The Government welcomes these developments in the financial system, and recognises the potential benefits these services offer to government agencies and departments.

The Government supports reviewing the uptake of FinTech services by public agencies and recognises the potential FinTech provides to improve customer experiences and make processes cheaper, more timely and secure.

FinTech is important to ensuring Australia's financial framework is world class and able to provide Australian businesses and customers with an improved user experience. This applies equally for customers and suppliers to government, as it does to parties transacting in a commercial environment. Faster and more transparent payment systems offer tangible benefits to those transacting with government, and ensures the users can be confident that public authorities are using the most secure and efficient systems available.

The Government recognises that for some services Australia still relies on manual processes, which can lead to inefficiencies, inconsistencies, and occasional errors or transactional back-logs. We are aware that other countries have achieved significant cost savings by adopting new technologies, such as electronic payment systems, and we are committed to understanding how such improvements could benefit Australia.

The Government is excited by the potential for FinTech to provide enhancements to current systems, by contributing to higher user satisfaction, transparency and accountability, reduced administrative burdens and gains in efficiency.

Cyber security

Strong cyber security is essential to allow individuals and businesses to take advantage of the economic possibilities of the digital world. To create opportunities for businesses in the rapidly growing cyber security sector, we're providing $30 million through to 2019–20 to establish a new industry-led Cyber Security Growth Centre to grow and strengthen Australia's cyber security industry.

The Cyber Security Growth Centre will facilitate improved engagement between research and business, improved access to global supply chains and international markets, improved management and workforce skills, and regulatory reform.

The global cyber security market is currently worth more than US$71 billion and is growing at around eight per cent a year. A Cyber Security Growth Centre will ensure that Australia is a global industry leader, able to export products and services in the global marketplace while helping Australian businesses and governments to address the growing threat of cyber-crime.

Domestic non-AUD settlements

New payment FinTech firms require cost effective access to non-AUD settlement infrastructure. This ensures that they operate with the acquiescence of a foreign bank/custodian authorised deposit taking institution that may not be disposed to servicing either a disruptor, or non-resident entity with a particularly complex risk profile. Improving access will lead to improved opportunities for Australian FinTech, and better consumer outcomes.

Insurance

It is easy to get excited about FinTech's possibilities to create a more efficient financial system. Better information through big data can transform daily interactions by consumers with financial products and services, especially insurance. Take car insurance for example, where most policies are purchased on an annual basis based on an estimate of our risk profile as a driver. FinTech allows the maker of a navigation device to partner with insurance companies. This would allow bespoke and personalised policies on demand based on a proposed route. The insurance premium would then take into account if the proposed route took a high accident route or a quiet street. Rather than insuring an asset over a fixed period of time, technology presents a different way of underwriting risk.

The FinTech industry would like the Government to support increased flexibility to support emerging micro-insurance and quasi insurance models (e.g. self-funded excess and peer-to-peer insurance) which are not readily facilitated by current models.

Embracing our FinTech future

Australia has a sophisticated financial services industry, as well as an advanced Information and Communication Technology (ICT) industry.

As well as providing greater choice and efficiency for Australian business and consumers, FinTech is an important enabler of business development for financial services providers and other sectors of the economy that benefit from lower transactional costs, access to capital and more tailored financial products and services.

While Australia's financial sector represents a large proportion of our economy, it makes up only a small proportion of our trade. FinTech offers the opportunity to boost our exports in financial services, capitalising on our proximity to the growing middle class in Asia and the rising importance of digital economies in the region and across the globe.

During a recent FinTech roundtable in Hong Kong which the Government held as part of our process to better understand what is occurring in FinTech to drive our policy thinking, one key player referred to FinTech as 'data monetised and money digitised'.

With our National Innovation and Science Agenda and our response to the Financial System Inquiry, the Government is putting in place the foundations needed to grow Australia's FinTech industry. Australia is well-placed to embrace the opportunities of FinTech — but we know we must seek out and grasp opportunities that strengthen our position. That is why we will continue to work with the industry to ensure that Australia can enable this innovative emerging industry to become a competitive and global player.

Government response to Australia's FinTech priorities

Industry priorities for FinTech development	Government response
Comprehensive credit reporting and data Mandate comprehensive credit reporting (CCR) for large credit providers by end of 2016 and small credit providers by end of 2017. Immediately introduce several additional data fields to CCR. Legitimise the current practices around financial data aggregation and mandate standard open-data application programming interface.	The Government has commissioned a Productivity Commission inquiry into options for improving data availability and use. The inquiry will review the uptake of the credit reporting framework, and will examine options for standardising the collection, sharing and release of data. The Government will also make anonymised and non-sensitive public data openly available by default through data.gov.au. In February 2016, we released the Geocoded National Address File and Administrative Boundaries datasets on this website. The Digital Transformation Office will also develop a Trusted Digital Identity Framework.
Financial robo-advice Provide guidance on satisfying the regulatory compliance obligations (especially the best interests duty) when providing 'robo-advice'. Improve the transparency of financial product performance and fees.	On 21 March 2016, ASIC released a new draft regulatory guide for robo-advice providers operating in Australia. The draft regulatory guide builds on existing ASIC guidance and provides a convenient starting point for robo-advice providers seeking to understand their regulatory obligations.
Insurance Negotiate mutual licence recognition arrangements globally for insurers and insurance distribution businesses. Facilitate emerging models (e.g. crowdfunded and peer-to-peer models) for micro-insurance and quasi-insurance.	The Government will consider the impact of allowing licensed brokers to sell policies from unauthorised foreign insurers where they offer consumers a better price and appropriate consumer protection.

Industry priorities for FinTech development	Government response
Crowdfunding Continue to expand the Crowd-Sourced Equity Funding (CSEF) framework to provide new funding sources to Australian start-ups and small businesses, including to: • remove the asset and turnover eligibility test; • remove the cooling off period; • review Australian Market Licence (AML) requirements; and • extend eligibility to private companies.	The Government has introduced a Bill into the Parliament that will facilitate crowd-sourced equity funding for public companies in Australia. Following further consultation with the industry, including the FinTech Advisory Group, the Government will consider: • increasing the assets and turnover threshold used to determine eligibility for equity crowdfunding to $25 million; and • reducing the cooling off period for investors into crowd-sourced equity funded projects to 48 hours. Following its implementation, the Government will continue developing this new funding framework to ensure it is fit for purpose. The Government will consult on a potential framework for crowd-sourced debt funding during 2016.
Blockchain technology and digital currencies Amend the *A New Tax System (Goods and Services Tax) Act 1999* to recognise Bitcoin as money. Improve banking access for digital currency companies, by incorporating digital currency into the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act). Establish a roundtable comprised of the banks, regulators, government and industry to address the ongoing problem of the 'de-banking' of digital currency businesses.	We note that reports from the Senate Economics References Committee's *Inquiry into Digital Currency* and the Productivity Commission's *Inquiry into Business Set Up, Transfer and Closure* recommended that digital currency be treated as money for GST purposes to address the current 'double taxation' effect and that AML/CTF laws should apply to digital currencies. The Government is committed to addressing the 'double taxation' of digital currencies and will work with the industry on legislative options to reform the law relating to GST as it is applied to digital currencies. The Government is considering the application of AML/CTF laws to digital currencies as part of the current statutory review of the AML/CTF Act due to be released in 2016. The Government welcomes the announcement by the ASX that it is exploring Blockchain technology for a new post-trade solution for the Australian equity market.

Industry priorities for FinTech development	Government response
Payments systems Explore the development of domestic non-AUD settlements.	The Government notes that the private sector has developed a foreign currency settlement service for Chinese RMB payments by the ASX's Austraclear settlement facility.
Regulatory sandbox Develop and introduce a 'regulatory sandbox' in which businesses can test their product or model before obtaining the relevant licences.	The Government believes that Australia's financial system can support a 'regulatory sandbox' for the FinTech industry. We have been working with ASIC on the development of a 'regulatory sandbox' for Australian FinTech. The Government is keen to develop a world leading 'regulatory sandbox' in Australia. The Government notes that ASIC currently has, and uses, a number of sandbox-like powers to reduce regulatory burdens on businesses, by granting waivers (or relief) from the law to facilitate business. ASIC established an Innovation Hub in April 2015 to help FinTech start-ups navigate the regulatory laws it administers, including by providing informal guidance from senior advisers. ASIC is also working with its Digital Finance Advisory Committee on how to best utilise the existing regulatory arrangements and what further measures should be considered.
Venture capital Allow the tax concession available for investments made through Early Stage Venture Capital Limited Partnerships (ESVCLPs) to apply to investments made in FinTech firms.	The Government will introduce a new mechanism by which Innovation Australia can issue binding advice in relation to the definition of ineligible activities and other limited powers to clarify eligibility. This would allow Innovation Australia to be able to clarify whether businesses activities are ineligible, removing the legal uncertainty associated with investments for ESVCLPs. The Government will ensure that start-ups involved in FinTech, including in insurance and finance related activities can be eligible investments for the purposes of the venture capital tax concession. This will allow access to the incentives for venture capital investment including those available under the National Innovation and Science Agenda, encouraging investment in FinTech.

Australian Regulators engagement with the FinTech industry

Australian Securities and Investments Commission (ASIC)

ASIC
Australian Securities & Investments Commission

ASIC's Innovation Hub, established in 2015, has five elements:

- The first element is engagement with other FinTech initiatives, including physical hubs and co-working spaces for start-ups. ASIC makes senior ASIC staff available from time to time to present information and answer questions.
- The second element is informal guidance from ASIC to help new businesses consider the important regulatory issues. Eligible businesses can request guidance from ASIC through our website. ASIC expects that this guidance will minimise the time and cost of applying for a licence or relief from the law.
- Thirdly, ASIC has established new 'Innovation Hub' webpages for innovative businesses to access information and services targeted at them. This information will be updated and enhanced on an ongoing basis.
- The fourth element is a senior internal taskforce to ensure to coordinate our work on new business models. The taskforce draws together learnings and skills from across ASIC.
- The final element is the Digital Finance Advisory Committee (DFAC) that meets quarterly, which was established to advise ASIC on its efforts in this area. DFAC members are drawn from a cross-section of the FinTech community, as well as academia and consumer backgrounds. Other financial regulators are observers on DFAC.

ASIC's Innovation Hub is consistent with the Government's deregulatory agenda. ASIC is streamlining its engagement with the FinTech sector and removing red tape. However, ASIC will not compromise the fundamental principles of the regulation of financial products and services. ASIC will continue to prioritise measures to build investor and consumer trust and confidence in these emerging business models.

The Innovation Hub has worked on 100 matters relating to 76 entities. Most of these entities have proposed robo-advice, marketplace lending, crowdfunding, payments or other credit business models. Some businesses are looking at Blockchain technology opportunities.

ASIC has presented at a range of FinTech 'meet-ups' and information sharing events to discuss the Innovation Hub and the approach to new business models. In some cases, ASIC have arranged to present jointly with other financial regulators and they are currently planning further engagement with industry.

ASIC meets regularly with international regulators including the Financial Conduct Authority (FCA) (UK), European Securities and Markets Authority, the Monetary Authority of Singapore and Consumer Financial Protection Bureau (US) to discuss innovation developments and policy proposals.

ASIC plans to enter a Cooperation Agreement with the FCA (a world first) by the end of March 2016. This agreement will include processes for ASIC and the FCA making referrals of FinTech start-ups to each other. ASIC has also established an ongoing relationship with the World Economic Forum and its team working on FinTech workstreams — such as Blockchain and digital identity.

ASIC has also set up taskforces into automated financial advice (robo-advice), digital marketplace lending, equity crowdfunding and Blockchain. The taskforces are intended to proactively deal with regulatory challenges raised by these developments and also assist in drafting additional tailored guidance for industry. ASIC is also a member of the Council of Financial Regulators sub-committee on Blockchain.

The Australian Prudential Regulation Authority (APRA)

APRA views FinTech as having the potential to improve customer products and services, and the efficiency and competitiveness of the financial system.

APRA has always allowed the industry to innovate and determine how best to apply new technology, without unnecessary regulatory impediment. APRA's attitude to emerging technologies in general is to adopt a principles-based, technology-neutral approach, informed by consideration of materiality, criticality and sensitivity.

Many FinTech developments will not fall directly within APRA's regulatory perimeter, and hence will not need approvals or oversight from APRA, but will be employed by APRA regulated entities.

To facilitate this, APRA seeks to maintain a principles-based prudential framework, without bias to any particular technologies or business models. For example:

- APRA recently issued guidance to regulated entities on the use of shared computing services (including cloud), designed to institute a graduated approach to the use of these types of services and technology. Where risk is low, APRA does not seek to intervene in the use of new technology; where the risk is heightened (e.g. to the accuracy and security of core records of account or to the continuity of critical operations), our intensity of engagement will be higher.
- APRA is currently reviewing its prudential standards/guidance in relation to outsourcing and business continuity management, to ensure, amongst other matters, that our approach is reflective of current industry developments.

APRA has also engaged with a number of FinTech hubs, and participated in ASIC's Digital Finance Advisory Committee, with a view to:

- remaining up to date with emerging technology and its application to the financial sector; and
- educating potential start-ups on the regulatory framework (including how to establish/operate while remaining outside the prudential regulatory perimeter).

Reserve Bank of Australia (RBA)

RESERVE BANK
OF AUSTRALIA

RBA's New Payments Platform (NPP) is a project to build new payments infrastructure that will be at the global forefront. It will enable payments for Australian households, businesses and government entities that are:

- real-time (i.e. immediate notification to the recipient and also immediate access to the funds);
- available 24/7 (even on weekend, evenings etc);
- data-rich (users will be able to send much more data than the existing 18 characters. This could include links to documents. It will enable businesses to send invoices with payment requests. It will facilitate straight-through processing. It will enable businesses to link payments to other aspects of the transaction.); and
- easily addressed (the sender won't have to know the recipient's BSB and account number. A mobile number may be all that is required).

The NPP was an industry response to the RBA's 2012 conclusions from its Strategic Review of Innovation in the Payments System. This Review was prompted by the RBA's concern that financial institutions in the Australian payments industry had trouble working together on projects that required collaborative innovation, which is very necessary in networks such as the payments system.

As a result, the RBA felt that the services available to end-users of the payments system were falling behind the services available in some other countries. The two-year Review included significant consultation with the established players in the payments system, innovators and end-users (households, businesses and government).

The RBA asked industry to come back with a proposal as to how it proposed to fill the gaps that had been identified in the Review. In response, a group of large and small institutions worked together to come up with a proposal which was initially progressed by the Real-Time Payments Committee (RTPC). (The RTPC included the four majors, institutions representing smaller traditional financial institutions, as well as PayPal a non-traditional financial institution.)

The project is now being funded by 12 financial institutions (including the four majors, the RBA, foreign banks, mid-sized banks, and three organisations providing payment services to the credit unions and building societies). At the same time as the industry is working on infrastructure to provide real-time links between all financial institutions, the RBA is building infrastructure that will allow real-time settlement of all transactions, which will reduce risk in the payments system.

The NPP is scheduled to go live in late 2017. It will significantly enhance the services that can be provided to end-users. It can be thought of as a set of new rails for the payments system that will be available for sorts of 'overlay services', such as tailored services that can be provided by financial institutions and other innovators, some of which are already being planned and others that we may not yet be able to imagine.

Attorney-General's Department

Australian Government

Attorney-General's Department

The current review of Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regime is considering a range of measures to support the development of the FinTech industry. The review is considering whether AML/CTF regulation should be extended to include convertible digital currency exchanges.

The review is also considering how to make the obligations under the AML/CTF regime technology neutral. This will promote the development of new technology to more efficiently perform key functions such as the biometric identification and verification of identity. The report on the review is expected to be provided to the Minister for Justice shortly.

Australian Transaction Reports and Analysis Centre (AUSTRAC)

Australian Government

AUSTRAC

AUSTRAC has been closely engaging with various stakeholders and collaborating with FinTech start-ups which are involved in the digital transformation of the financial services and payments sectors in Australia for the purposes of:

- recognising opportunities for the application of regulatory safeguards in the development cycle of various transformation technologies; and
- ultimately reducing the regulatory burden on current and future regulated businesses.

AUSTRAC will provide support through dedicated staff working with FinTech innovators on site in key innovation hubs.

AUSTRAC is of the view that Blockchain or distributed ledger technologies have the potential to significantly reduce the costs of compliance and regulation imposed on reporting entities.

This new technology can ensure that sensitive financial data used for intelligence purposes remains secure, transparent and protected through the use and application of encryption. For such a system to be resilient to systemic risk or criminal exploitation, two levels of complementary regulatory approaches will be required:

- a high-level guiding legislative framework; and
- a set of agreed rules that determine the operation of the algorithms encoded by the software.

AUSTRAC will work with stakeholders to realise the potential of new technologies such as Blockchain, as well as co-designing and developing these new regulatory approaches.