

# SCALING THE FINTECH OPPORTUNITY: FOR SYDNEY & AUSTRALIA



The Committee for  
Sydney







# MINISTER'S FOREWORD



The New South Wales (NSW) financial services sector is experiencing rapid growth and is cementing its position as a leading financial services hub for the Asia-Pacific region. It is fostering new businesses, driving digital innovation, and creating skilled jobs in an emerging global industry.

Three years on from the release of the Financial Services Knowledge Hub's first industry report, *Unlocking the Potential: the Fintech Opportunity for Sydney*, it's clear that NSW is making real progress in creating a thriving and strong fintech environment.

Sydney is now home to 59% of the nation's fintech companies, it is the focus for venture-capital investment, and it boasts two locations purpose-built for supporting fintech start-ups. This includes the largest fintech incubator in Asia, Stone and Chalk.

I'm particularly proud that the success of the sector is also helping to support start-up development across regional NSW, by providing a platform for fintech entrepreneurs, regardless of where they are located, to access the right support structures and markets. This is helping to spread the benefits of the digital economy right across the state. However, there is more that needs to be done.

The *Scaling the Fintech Opportunity: for Sydney and Australia* report showcases the NSW fintech sector's achievements and also provides key recommendations for government and the private sector to ensure we continue to grow the sector in both regional and metropolitan NSW. This industry-led, industry-driven research will help to inform the sector's next steps in strengthening its competitive advantage and growing the nation's innovation pipeline.

The NSW Government is proud of the ongoing collaboration between the NSW Government's Financial Services Knowledge Hub, the Committee for Sydney and industry. Partnerships such as these are vital if we are to continue to build on the sector's growth and competitive advantage.

On behalf of the NSW Government I would like to congratulate and extend my thanks to the Committee for Sydney for their efforts in producing such an important report for the fintech sector in Sydney and Australia.

**THE HON NIALL BLAIR**

MINISTER FOR PRIMARY INDUSTRIES, MINISTER FOR REGIONAL WATER, AND MINISTER FOR TRADE AND INDUSTRY



# CONTENTS

SCOPE	5
EXECUTIVE SUMMARY	6
INTRODUCTION	12
FINTECH TRENDS AND DEVELOPMENTS	14
WHERE HAVE WE COME FROM	22
WHERE ARE WE NOW	26
FUTURE OPPORTUNITIES & CHALLENGES	48
STAKEHOLDER CONSULTATION	50
RECOMMENDATIONS	56

The contacts at KPMG in connection with this report are:

**Ian Pollari**

Head of Banking Sector  
Partner, Sydney, KPMG Australia

T + 61 2 9335 8408  
[ipollari@kpmg.com.au](mailto:ipollari@kpmg.com.au)

**James Mabbott**

Head of KPMG Innovate  
Partner, Sydney, KPMG Australia

T + 61 2 9335 8527  
[jmabbott@kpmg.com.au](mailto:jmabbott@kpmg.com.au)

# SCOPE OF THE RESEARCH PROJECT

This follow-up report to ‘Unlocking the Potential: The Fintech opportunity for Sydney’ published October 2014 was developed by KPMG for the Committee for Sydney. The purpose of the report is to determine whether digital and Fintech innovations have been successfully adopted in the Australian financial services industry, to identify any impediments to further industry progress and provide recommendations for both the public and private sectors to improve Australia’s standing in a global and regional context.

## BACKGROUND AND PURPOSE OF THE RESEARCH

- This research has been commissioned by the Committee for Sydney in its role as coordinator of the Financial Services Knowledge Hub. The Knowledge Hub aims to establish Sydney as a key global financial services ecosystem by improving the attractiveness of the NSW business environment, encouraging innovation in the NSW financial services sector and increasing the competitiveness of industry based projects.
- The purpose of this research is to acknowledge any improvements that have been made or initiatives that have been implemented, since the release of the 2014 report and to identify any areas that need to be addressed to enable Sydney to become a strong and prosperous Fintech ecosystem

## THE FINTECH ECO-SYSTEM IN AUSTRALIA

This follow-up report seeks to:

- Illustrate the positive shift for Sydney’s financial services and Fintech sector since 2014
- Articulate Sydney’s areas of strength and opportunity in financial services
- Identify opportunities for both government and industry-led initiatives to maintain and improve momentum

## APPROACH UNDERTAKEN

- KPMG Global Services desktop research on current publications and reports into the financial services industry and Fintech sector in Australia and globally
- External meetings and interviews with key local stakeholders (Government, industry, regulators, Fintech start-up community, investors)

Supported by



Department  
of Industry

# EXECUTIVE SUMMARY

Launched in 2014, the Committee for Sydney (KPMG) report “Unlocking the Potential: the Fintech opportunity for Sydney” identified five key enabling conditions required to drive the growth and development of the Fintech sector in Sydney and Australia, namely:

- Available and accessible early stage funding for Fintech start-ups and a strong pipeline of opportunities for investors/VC funds;
- Depth of financial services and technology talent, with close proximity of these talent pools to each other (in city locations);
- A robust financial services industry, with a vibrant technology start-up community with mentoring, networking and high visibility;
- Government and regulatory support for the Fintech sector specifically, and technology start-ups generally; and
- Business backing for a Fintech hub, with high levels of collaboration and a strong culture of knowledge-sharing and entrepreneurship.

From these we made a series of recommendations for both the private and public sector to build momentum:

- State Government to continue working with partners in the private sector and the Committee for Sydney on the development of a comprehensive Fintech vision and strategy for Sydney;
- Explore the establishment of a not-for-profit Fintech hub in the heart of the city that co-locates venture capital, technology start-ups and established financial services firms;
- Establish a series of events in the city, regionally and globally to promote Sydney as a leading Fintech hub in the ASPAC region, in line with our leading financial services position;
- Form an independent Fintech focussed industry association, based in Sydney, to give the sector a public voice and champion;
- Review current regulatory, tax and business incentives available to the start-up community and target foreign repeat entrepreneurs and attract them to Sydney; and
- Engage the university sector to research key Fintech themes.

With the successful implementation of a number of these recommendations significant growth has been experienced in the Fintech sector not just in Sydney but across Australia as a whole:

- Key to this growth has been the establishment of the not-for-profit Fintech hub Stone & Chalk which opened its doors in 2015 and is supported by government and financial services institutions alike. We have also seen the establishment of the privately run Tyro Fintech Hub;
- A Fintech industry association Fintech Australia was also established in 2015 providing a voice and advocacy platform for the sector across Australia;
- Regulatory and incentive changes have also been made to further enhance the attractiveness of the sector for entrepreneurs and investors alike; and
- Outside of this opportunity still exists for greater clarity in terms of the development of a comprehensive vision and strategy for Fintech within a broader financial services



strategy. More effort is also required to enhance university engagement to further develop business development and commercialisation opportunities for research in financial services.

As a consequence the Fintech eco-system has continued to grow and build on its early promise:

- The number of Fintech start-ups in Australia has increased from less than 100 in 2014 to 579 companies today with 59% of all Fintech companies basing themselves in Sydney; and
- Australian Fintech investment has remained strong with \$US675 million invested across 25 deals in 2016 and Sydney has been the major recipient of Fintech related VC investment at \$US171 million between 2014 and 2016.

Equally important to the development of the sector has been the ongoing investment in innovation by our largest financial institutions:

- Many of our largest financial institutions are key supporters of Stone & Chalk (Westpac, NAB and ANZ);
- CBA, NAB and Westpac have all invested in Fintech businesses either through VC or acquisition;
- All the major banks are trialling blockchain technology either individually or as part of consortiums; and
- Outside of banking major insurers, such as, IAG, Suncorp, AMP and TAL have either partnered with or invested in Fintech and built out their own innovation capabilities.

However we cannot rest on our laurels as major financial centres worldwide have been actively developing the strength of their own Fintech eco-systems:

- In May 2016, London was ranked as the largest Fintech hub in the world employing 61,000 people and generating £6.6 billion in revenue. Government support for the sector remains strong in the post-Brexit era;
- In 2016, 35 New York Fintech companies raised \$US459m. The average early stage funding per start-up in New York was valued at \$US568,000, while the global average was at \$US252,000;
- The Monetary Authority of Singapore (MAS) and the National Research Foundation announced the establishment of a Fintech office in order to facilitate the development of Singapore as a Fintech hub. MAS allocated a budget of \$SG225 million to aid in the development of the Fintech ecosystem from 2016 to 2021; and
- London, Hong Kong and Singapore all host major week long Fintech events to raise the profile of their local sectors and attract international Fintech talent and capital to their ecosystems.

And our research shows there are a number of emergent opportunity areas to be realised and key challenges to be addressed to successfully scale the Fintech opportunity for Sydney and Australia:

- To take advantage of the opportunities that Fintech presents requires a continued focus on customer expectations and needs as we see digital adoption continuing to grow. Further industry collaboration and an ability to compete in the Asian region is increasingly important as financial centres need to compete on the world stage. Finally we also need greater focus on our growing superannuation sector as both a potential source of capital and Fintech innovation; and

- In terms of key challenges, we continue to see the threat of international tech giants and disruptive start-ups entering financial services as significant for the local industry. Regulatory challenges continue to stifle innovation and have the potential to create uneven playing fields for incumbents, start-ups and tech giants alike. Sydney, and Australia more broadly, doesn't have a clear business brand for Fintech and beyond our quality of lifestyle there is a lack of clear incentive for international talent to come to Sydney to start a business.

Discussions with industry leaders across financial services and Fintech as well as regulators and government officials have identified some key areas of focus if we want to lead in Asia:

- Payments, Regtech and Blockchain are seen by the industry as key areas where Australia has potential to lead the world;
- To focus and accelerate growth in Fintech the role of government policy, support and vision for Fintech was highlighted as being critical along with the ongoing development of the regulatory environment and development of skills and talent attraction; and
- Although London is seen as the clear global leader there is an opportunity for Sydney to lead in Asia where we are viewed more credibly.

To further enhance and scale our Fintech ecosystem ten core recommendations for both private and public sector have been made:

## ALIGNMENT

1. NSW Government to continue working with the Committee for Sydney and the private sector to refresh the existing NSW Government Financial Services Strategy, articulating a strong commitment to support and champion the growth of the Fintech sector, providing a focal point for the alignment of effort between the public and private sectors

## PROMOTION

2. Foster greater alignment and coordination between and within Commonwealth and NSW Government agencies to actively promote Australia and Sydney as a leading global financial services centre, with a specific focus on Fintech and digital innovation
3. Provide continued promotion of and support for Fintech hubs, such as Stone & Chalk and Tyro Fintech Hub, and assisting them to provide opportunities for cross-industry collaboration and Fintech community engagement

## CAPABILITY DEVELOPMENT

4. Drive public and private sector collaboration efforts and investment to develop 'priority' areas of capability in Payments, Regtech and Blockchain, leveraging our world leading financial infrastructure
5. Build meaningful international pathways for Australia's Fintech sector, helping to support the export of our leading Fintech capability offshore and to attract the best international Fintech companies to Sydney (Australia)

## SKILLS AND EXPERIENCE

6. Develop Fintech skills and experiences (e.g. entrepreneurial, technology, etc.) in the local workforce and attract international talent to enhance the quality of ventures and support their ability to scale, as well as gain greater levels of capital (locally and globally)

## POLICY AND REGULATORY SETTINGS

7. Facilitate active cross-industry engagement to support the Commonwealth Government to expedite policy frameworks in 'enabling' areas of capability, such as digital identity, open data and cyber-security
8. Engage policy makers and the regulatory community to improve the effectiveness of existing grants, incentives and regulatory settings, as well as introduce new measures to further enhance the Fintech sector's continued development







## EDUCATION

9. Work with the regulatory community and private sector to create more effective mechanisms to educate consumers and businesses on digital financial services, helping to raise the awareness and understanding of new Fintech and/or digital financial products and services
10. Engage the university sector and leverage the capabilities research institutes, such as Data61, to research key Fintech themes and explore business opportunities for commercialisation (supporting 'priority' and 'enabling' areas of capability)

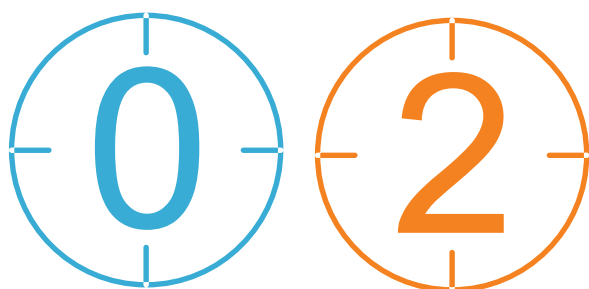
Getting this right has the potential to contribute to the development of other adjacent sectors. Fintech could play a key role in enabling smart city outcomes; for example, payments has the potential to influence and shape citizen

behaviour around transport by creating differentiated transport pricing and rewarding outcomes that reduce congestion. Developments in blockchain and smart contracts could lead to better land-use management, title records and development processes. Insurtech combined with wearable technology can provide data and analytics to support health outcomes for chronic diseases (i.e. heart, obesity) and encourage citizens to actively take preventative measures.

Scaling the Fintech opportunity for Sydney and Australia is not simply about the development of the financial services industry. It also has the potential to develop infrastructure that can support the delivery of economic and societal benefits more efficiently and effectively; today and into the future.

# AUSTRALIAN FINTECH BY THE NUMBERS

## Fintech HUBS



2014

2017



39%

39% OF INDUSTRY INTERVIEWEES IDENTIFIED **GOVERNMENT POLICY, SUPPORT AND VISION** FOR Fintech ALONG WITH **THE REGULATORY ENVIRONMENT** AS KEY TO Fintech GROWTH

## Fintech COMPANIES

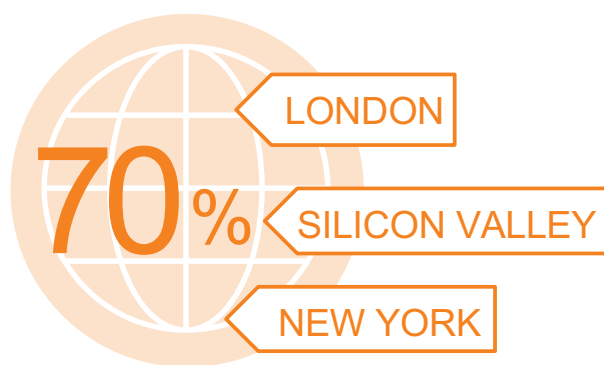
<100 579



**EMPLOYING  
>10,000 STAFF**

2014

2017



70% OF INDUSTRY INTERVIEWEES IDENTIFIED **LONDON, SILICON VALLEY AND NEW YORK** AS GLOBAL LEADERS IN Fintech WHEREAS 7% THOUGHT AUSTRALIA WAS LEADING



59%

59% OF INDUSTRY INTERVIEWEES IDENTIFIED **Regtech, PAYMENTS AND BLOCKCHAIN** AS AREAS WHERE AUSTRALIA HAS THE POTENTIAL TO LEAD IN Fintech

## Fintech CAPITAL INVESTED (\$US)



\$428m \$675m

2014

2016

## Fintech INDUSTRY ASSOCIATIONS



2014

2017

## Fintech SPECIFIC VCs



2

2014

5

2017

## Fintech MEETUPS



> 8,000 MEMBERS



1

2014

5

2017



# INTRODUCTION

DR TIM WILLIAMS, CEO,  
COMMITTEE FOR SYDNEY



**Sydney's financial services make a significant contribution to our national wealth and well-being. Through direct employment, the spin-off jobs which result and the contribution to national GDP, our financial services sector is important to an Australian economy transitioning to a services and knowledge economy.**

Internationally Sydney's financial services sector has been benchmarked and is rising. Apart from its sheer quantum – Sydney's financial services sector creates 9% of national GDP and is bigger in scale than the financial services sector in either Hong Kong or Singapore – a key element in its emerging global reputation is the speedy progress we have made in Fintech in Sydney. This report reflects on that progress, the key factors behind it and what interventions or policies may be required to sustain or indeed increase the momentum.

*Scaling the Fintech Opportunity* is the second overview of Fintech in Sydney commissioned and published by the Financial Services Knowledge Hub, which is a collaborative initiative of the NSW Department of Industry, the Committee for Sydney and leaders in financial services and innovation in Sydney. The Knowledge Hub benefits from outstanding leadership and thinking from its board, for which we must recognise.

The first report, published in 2014, played a key part in catalysing the creation of Stone & Chalk, the first Fintech accelerator/co-working space in Australia. Cities collaborate to compete and the collaboration promoted by the first report and the partners to it helped create an institution which has helped to create a four-fold increase in the number of Fintech companies in Australia. It has helped to put Sydney, and Australia as a whole, firmly on the global map of Fintech pioneers and strengthened Sydney's reputation as an eco-system for financial services and technological innovation.

As Sydney is anything but a complacent culture, prompted by the governance of the Hub this second report was commissioned to ensure as a city and as a sector we understood where Sydney's financial services were maintaining their innovation and technological edge. We also wanted to understand what more might be required for its Fintech eco-system to flourish and to indeed further improve its reputation, competitiveness and attraction to global talent and investment.

Many things have changed since the first report, in part due to it. Firstly, the Hub itself attracted sector leaders in Sydney keen to collaborate to ensure Sydney's leading role in financial services was maintained not least because its continued momentum is in the state and national interest. Secondly, beyond the continued vitality of Stone & Chalk we now have a second and highly robust Fintech co-working space, including new innovators such as Tyro.

We also have seen our well-regulated and robust banking system itself take a deep dive into technological and service innovation to improve customer service and efficiency. This second report reminds us that Fintech innovation in Sydney is a core activity of the household names amongst our banks and financial service providers and is not confined to the growing band of Fintech start-ups in the nation's financial services and tech capital. Indeed, there is also greater and deeper collaboration between all parts of the Fintech universe of Sydney greatly reinforcing the momentum towards and capacity for innovation. There is also scope to examine the links between Fintech and other parts of the financial sector, such as superannuation funds. It is an area that the Hub will examine in its future work.

We also discover that this kind of convergence is not the only form taking place in Sydney today catalysed by the disruption Fintech. In addition to job spill overs from this high value economic activity there are also technological and skills transfers taking place at pace here, with skills learned or technologies developed for Fintech actually finding themselves being deployed in other sectors and industries and indeed government services. Reinforced by Sydney being at one and the same time the ICT, creative

industries and financial services hub for the nation, we are seeing a deepening in Sydney of technical capacity, design-thinking, customer focussed activity, data analytics - and the employment opportunities which go with such a density of skills, initiatives and overlapping sectors. Modern knowledge economies thrive on agglomeration, collaborative diversity and convergence and the innovation they collectively promote. Fintech is now a key force supporting the forward-looking knowledge economy of the state and indeed the nation.

While the entrepreneurial spirit of private sector innovation drives much of this as we know cities collaborate to compete and the best cities globally collaborate better than the competition. That collaboration is seen in the work of the hub and it is not just across the sector, welcome and powerful though that has been. It isn't just between the bigger banks and the start-ups, real and important thought that has been. It is also between the private and public sectors. Financial services is a deeply regulated sector with government the key player. Appropriate regulation can create new markets but also stifle innovation. The report suggests ways in which regulation can be further improved to strengthen Fintech's continued development in Australia. It also reminds us what some highly engaged governments are doing internationally to support and promote the sector and its international reputation. Australia has a huge capacity to expand its international reach and export capacity and governments can play a key role in this.

At the same time, governments also play a key role in the eco system for economic activity and innovation. Ensuring Sydney's transport system is world class or that there is sufficient diversity and supply of housing to ensure that the city maintains its attractiveness to the pools of talent we need to succeed and perform our function as an engine of prosperity for NSW - these remain core factors behind our economic success over which governments have the main levers. Together, working collaboratively across the public and private sectors, we can make a great city - a leader in the sector in the region - greater still. We are determined to do so.

# FINTECH TRENDS AND DEVELOPMENTS

## FINANCIAL SERVICES INDUSTRY CONTEXT

### Introduction

A decade ago brands such as Wealthfront, OnDeck, Zopa, Square and even PayPal had not attracted significant attention within the financial services industry. Today, financial technology (Fintech) is one of the fastest growing sectors in the global financial services industry, with total investment rising from \$US100 million in 2008 to over \$US24.6 billion in 2016. Its rapid rise embodies the transformation of the industry by digital means, with significant implications for consumers, businesses and government.

"We have to have the mindset of a Fintech company";  
"We need to think and act like a 200-year-old start-up";  
"If we don't innovate, we're toast".

These statements from the CEOs of Australian financial institutions (FIs) highlight three strategic implications for the future of the financial services industry. Firstly, technology disruption is quickly evolving the competitive landscape, lowering entry barriers for new players and creating new business models. Secondly, investment in digital innovation will be critical in delivering customer experiences that are being redefined by the likes of Uber and Airbnb. And thirdly, partnering with and/or sourcing capability from Fintech start-ups and technology companies will form an important part of the response for established FIs, as they more aggressively pursue revenue growth, cost efficiency and risk mitigation opportunities.

### Fintech defined

Fintech refers to technology based businesses that compete against, enable and/or collaborate with financial institutions, as well as the digital innovation efforts of financial institutions themselves. It ranges from creating software to processes, that enable FIs to enhance their customer's experience and streamline their operations, or by consumers to fulfil their financial needs (saving, investment, make payments). Fintech developments are affecting all sectors of the financial services industry, such as lending, capital markets, payments, insurance and wealth management (industry verticals), as well as horizontal sub-sectors of enabling capabilities, such as blockchain, data and analytics, regulatory technology (Regtech) and digital labour, which includes robotics, cognitive automation, etc. (as presented above right).

### The growth of the Fintech sector

In Australia, we have seen the number of Fintech start-ups increase from less than 100 in 2014 to an estimated 579 today, employing greater than 10,000 staff. In addition, \$US675 million has been invested in the Fintech sector today compared to \$US53 million in 2012.

While this growth has seen the emergence of Fintechs that are seeking to directly compete with incumbent players (the "carnivores"), with 30% of financial services industry revenue estimated to be at risk of disruption over the next five years, there is an increasing number of Fintechs looking to partner with or sell their services to FIs (the "herbivores").

### Benefits of collaboration

There are benefits for both parties in a collaborative model. Fintechs gain access to a range of important growth levers: customers, distribution, data, capital, experience, licences, a trusted brand and an ability to scale much more quickly. Also, incumbents gain access to new ideas, solutions, capability, knowledge and potential investment opportunities in new players that are typically focused on a specific problem or opportunity and have significantly lower cost structures. It ultimately allows incumbents to be more agile and faster to market, as well as providing strategic optionality.

### Factors driving the growth of Fintech

There are several factors that are reshaping the banking industry and fuelling the growth of Fintech - the accelerating pace of change, the proliferation of mobile devices and digital platforms, falling barriers to entry and greater competition, and a more supportive policy and regulatory environment for Fintech innovators - each playing an important role. However, above all, changing consumer behaviours and attitudes, led by the rising tide of millennials, and a move towards platform-based business models, will be the most fundamental driver of the industry's evolution in the future.





### Millennials driving change

Gen Y already makes up 22% of Australia's population and will form 50% of the workforce in five years – therefore, they will be significant drivers of banking revenue in the not-too-distant future, with distinctive priorities and preferences. They rapidly embrace new technology, seek advice from alternative sources (e.g. social media) and demand greater levels of personalisation, convenience and immediacy. They are also increasingly less loyal to their financial institutions. In a recent KPMG study, 28% of Gen Y's surveyed hold financial products with three or more institutions, compared to 11% last year. An enhanced customer experience is key to attracting and retaining this group. For FIs, these attributes will be important to consider as they evolve their future products and services to meet these needs.

### Rise of platform-based business models

In an industry traditionally dominated by large players, with historically product centric operating models such as financial services, the emergence of platform-based businesses in and outside of the sector will likely result in a shift in the balance of power towards platform providers themselves and the end customer.

Furthermore, as technology infiltrates every aspect of life, retail banks could become largely invisible to consumers, as banking activities become hidden for example by virtual assistants, activities become hidden by virtual assistants; for example, Amazon's Alexa fulfils daily personal, and financial obligations informed by data gathered from a fully connected way of life. The technologies that enable this scenario are all available today – advanced data analytics, voice authentication, artificial intelligence (AI), connected devices, application programming interface (API) and cloud technology.

In considering their responses, banks remain highly trusted and could develop 'lifestyle layers' to compete in the platform space, orchestrating eco-systems of Fintechs and other providers themselves for consumers and small businesses. If FIs are not leveraging these capabilities they face being disintermediated by, and disaggregated behind devices, services and 'life-style platforms' that manage more than financial services.

### Incumbent responses

Clearly, the banking and finance industry is not standing still. FIs, globally and in Australia are increasingly recognising that investments in, and collaboration with, Fintech start-ups and other technology companies offers a broader range of new ideas and possibilities. According to the Wharton Business School: 'Disruptive innovations need not lead to an incumbent's fall, despite prevailing academic theory arguing otherwise. Start-ups introducing disruptive technologies are more likely to end up licensing to incumbents, forming alliances or merging with market leaders rather than turning into rivals.'

There is no doubt that the financial services industry of the future will look very different from what it does today. The landscape will be more competitive, more efficient and provide more customer choice. FIs will come under increasing competitive pressure unless they can leverage technology to cut costs, closer to leaner Fintech operators. Agile incumbents that are efficient distributors or acquirers of leading Fintech capability to meet adjacent customer needs have the potential to generate new sources of growth and value for customers.

# SUMMARY OF KEY TRENDS AND DEVELOPMENTS IN THE AUSTRALIAN FINTECH SECTOR

**Whilst global Fintech investment declined in 2016, Australia's Fintech investment remained strong, exceeding \$US675 million in capital invested for the first time**

## **Global Fintech VC investment reaches record high in 2016**

Whilst 2015 marked a record high investment in the Fintech sector, global investment in Fintech declined substantially in 2016 (to \$US24.6 billion from \$US46.7 billion in 2015), with venture capital (VC) funding reaching an all time high of \$US13.6 billion (compared to just \$US100 million in 2008). Corporate VC (CVC) activity also crept to its highest level ever. Since 2013, CVC activity has grown from \$US1 billion to \$US4 billion annually.

From a regional standpoint, Asia also hit an all-time high \$US8.6 billion in overall Fintech investment, with payments and wealth management dominating. Of the top 10 deals in the region, seven fell into the payments or wealth management verticals.

From a sub-sector perspective, global investment in insurance technology (Insurtech) companies surged ahead, more than doubling the \$US590 million in investment recorded in 2015. Global venture investment in bitcoin and blockchain technologies also reached a high of \$US544 million in 2016.

## **Australia Fintech investment remained strong**

Despite the global slide in Fintech investment last year, Australian Fintech investment remained strong in 2016, with \$US675 million invested across 25 deals, a major increase on 2015 - which saw \$US185 million across 23 deals. VC investment in Australia also stayed at healthy levels, with \$US71 million invested across 15 deals.

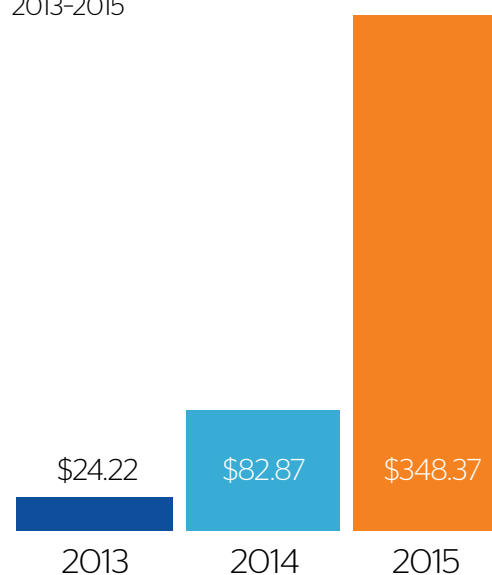
Australian deals are also starting to rate on a global scale, with larger investment deals and funding rounds, including Tyro Payments, Prospa, SocietyOne, Moula and MoneyMe.

## **Global alternative finance market**

The total volume of alternative finance (Alt-Fi) has grown from \$US24 million in 2013, to over \$US348.37 million in 2015 with an average annual growth rate of 281% between 2013 and 2015. On a per capita basis, Australia also ranks third in funding for Alt-Fi in 2015 (\$US14 million), with China in top place at \$US75 million and New Zealand in second at \$US59 million.

## **AUSTRALIAN ALTERNATIVE FINANCE MARKET VOLUME (\$USD M)**

2013-2015



## Australia's \$US348 million Alternative Finance (Alt-Fi) market including peer-to-peer lending and crowdfunding is the third largest in the Asia Pacific region and grew 320% in 2015

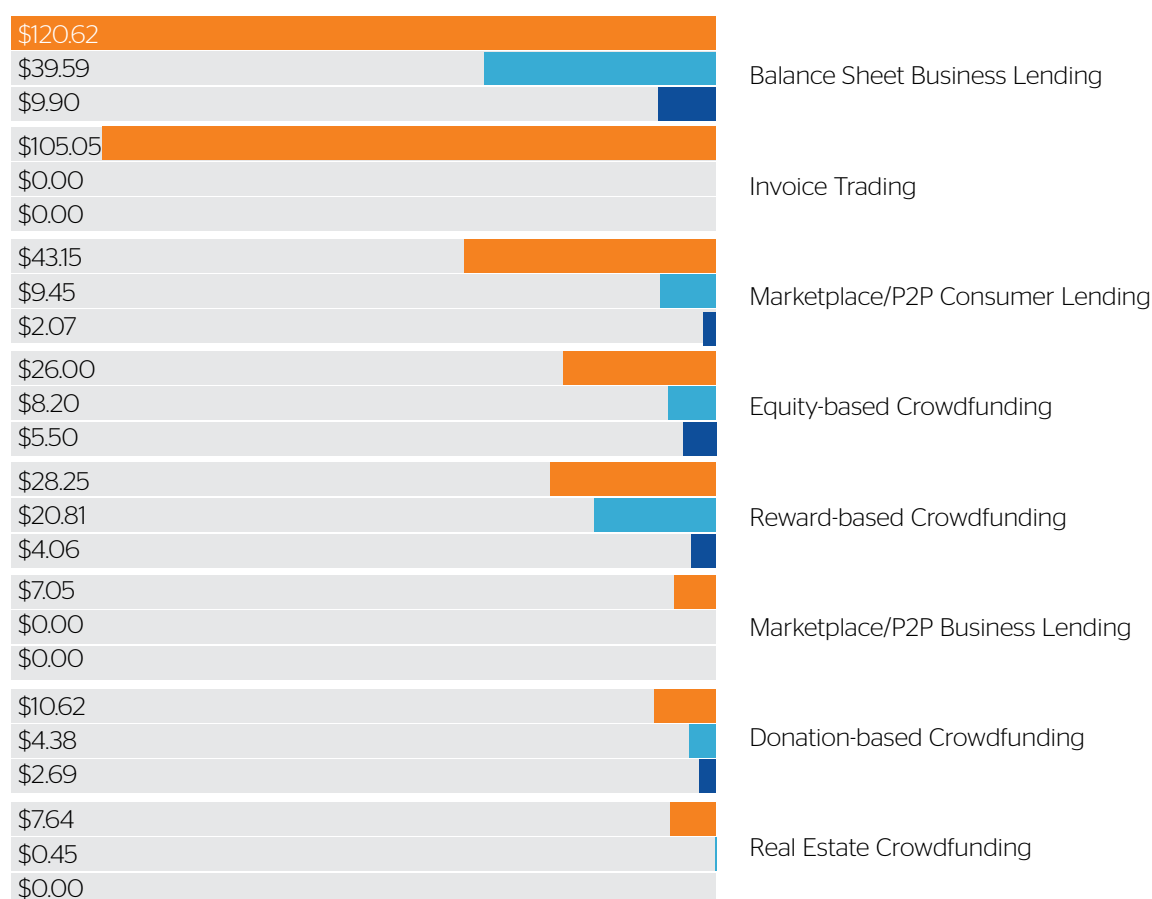
### Australian alternative finance markets

The largest share of Australia's Alt-Fi market volume was balance sheet business lending, accounting for over \$US120 million in 2015. Invoice trading came in second at over \$US105 million. Marketplace/peer-to-peer consumer lending, the next largest segment of Australia's Alt-Fi market has grown from \$US2 million in loans in 2013 to \$US9.5 million in 2014 and then to over \$US43 million in 2015.

In a relative context, Australia leads the Asia-Pacific in areas such as balance sheet business lending and invoice trading. Australian balance sheet business lending reported an average growth rate of over 252% between 2013 and 2015 and for invoice trading, volume grew by an average year-on-year growth rate of 1064% between 2013 and 2015 to almost \$US117m in 2015.

### AUSTRALIAN ALTERNATIVE FINANCE MARKET VOLUME BY MODEL (\$USD M)

2013-2015





# SUMMARY OF KEY TRENDS AND DEVELOPMENTS IN THE AUSTRALIAN FINTECH SECTOR

We are seeing a number of Fintech trends and changes in the marketplace: changing customer behaviour, investment and regulatory developments that are impacting the development of the Australian Fintech sector



## Significant growth in the number and diversity of Fintech start-ups and companies

There has been a five-fold increase in the number of Fintech start-up companies in Australia over the past five years and the sub-sectors covered have become more diverse.



## Increased levels of Fintech investment activity

Investment in the Australian Fintech sector has risen from \$US53 million in 2012 to cover \$US675 million in 2016 (including M&A, Private Equity and Venture Capital investments).



## Increasing threat from international tech giants

Australian consumers are more willing to consider alternatives to traditional products and services. Over 80% said they would consider banking with a technology giant (e.g. Google, Amazon). We are seeing and expect to see more activity from international players, such as Alipay, who are actively globalising.



## Finance and payments “that don’t touch the sides” and are integrated into customer experiences

Consumers’ fast paced, time poor life-style is increasing their demand for faster, more convenient and accessible finance and payment services that are embedded into their lifestyle and experiences, e.g. buying a home.



## Growing advice from peers (due to rising mistrust)

A decline in the levels of trust in major institutions is seeing the rise of trust between strangers, as consumers are increasingly trusting and valuing advice from alternative sources.



## Demand for greater personalisation of services

Consumers are embracing self-service and looking for time-saving solutions. Personalisation alone accounts for 23% of the overall quality of the customer experience.



## Different spending and work habits

Prioritising spending on luxury items, travel and experiences over home ownership. An increasing proportion of consumers see themselves as entrepreneurs (“worker by day, entrepreneur by night”).



## Less loyal - cherry picking is on the rise, particularly with Gen Y

Consumers are increasingly value-driven and less loyal to financial institutions. 28% of Gen Y respondents are holding products with three or more institutions (an increase from 11% two years ago).



## Regulatory changes

Policy makers and regulators are increasingly aware of the potential of the Fintech sector to address issues of financial inclusion, affordability and literacy, and hence, are seeking to support the development of the sector. For established institutions, the heavy burden of post-GFC regulation and capital is drawing significant budgets.



## Unbundling of the financial services value chain

The proliferation of Fintech companies and other tech start-ups whose business models are focused on solving specific customer ‘pain points’ and addressing particular profit pools, is leading to the unbundling of traditional financial services value chain.

# INDUSTRY SECTOR FINTECH DEVELOPMENTS



**The Fintech opportunity spans the full spectrum of the Australian financial services industry**

## BANKING

Lending is one of the most profitable segments of the banking industry and unsurprisingly has attracted a significant breadth of activity and investment from a Fintech standpoint, across both consumer and business segments. Prominent Fintech companies include SocietyOne, Ratesetter, Direct Money in consumer lending, and Prospa, Moula, OnDeck and Spotcap in business lending.

The Banking industry has worked closely with Fintech companies, by investing in the lending platforms or forming partnerships/referral arrangements (e.g. CBA with OnDeck, Westpac with Prospa). Some of the banks have chosen to develop or incubate their own Fintech propositions, e.g. NAB with QuickBiz and Macquarie with its commercial broker platform, Kubio.

Another area of substantial focus has been mortgages, with a number of platforms, such as Lendi, Valiant Finance, Loan Dolphin, Uno, Joust and HashChing, targeting the segment, as well as enabling Fintech companies, such as Avoka, Cloudcase and Moneycatcha.

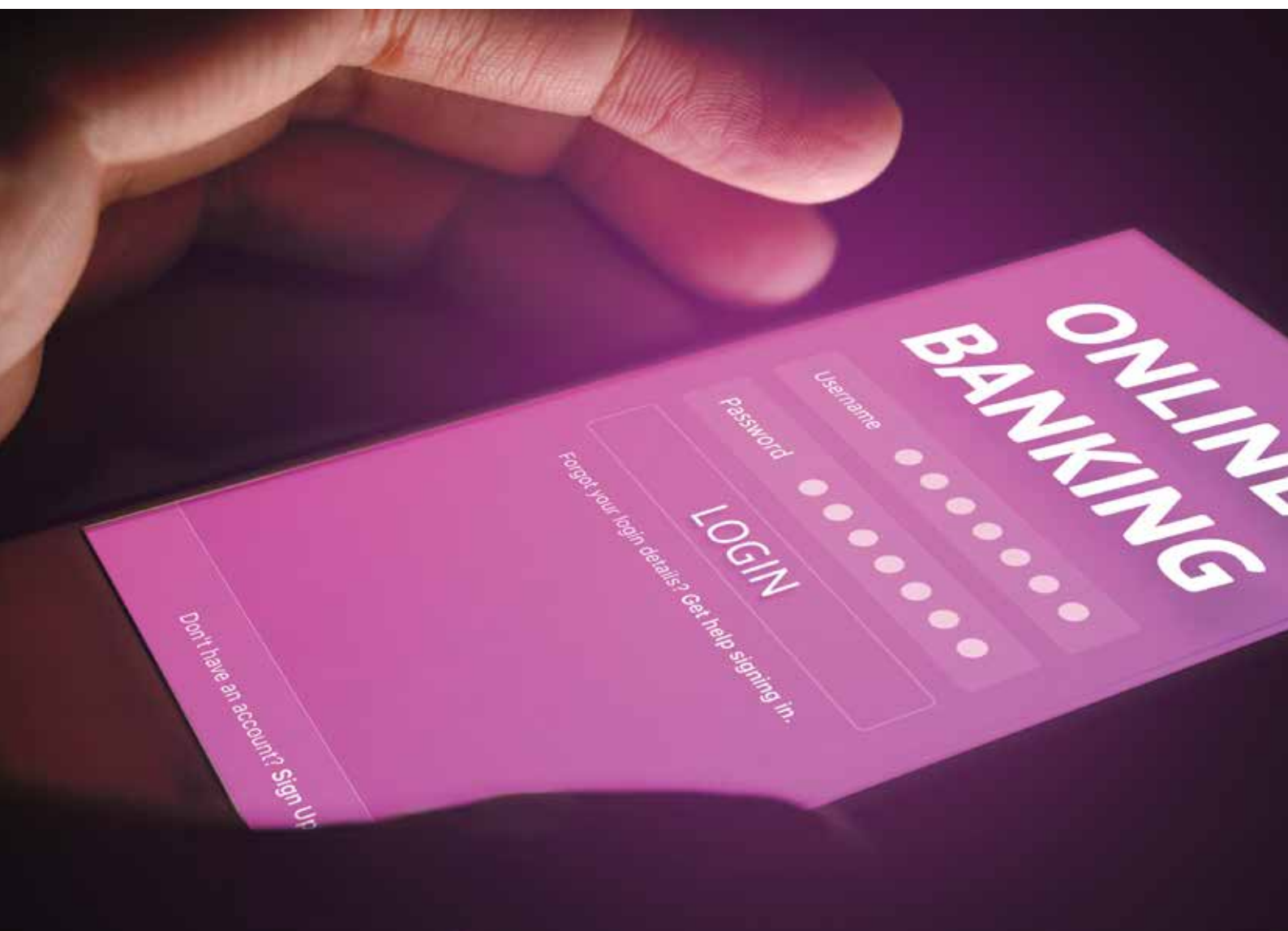
## PAYMENTS

Payments features the largest number of Fintech companies in Australia. As Australian consumers are early adopters of mobile technology, with very high usage of contactless payments, and coupled with the advanced nature of digital/mobile offerings from established banks and payments providers, this has been a catalyst for Fintech start-ups targeting the segment.

Australian companies, Tyro Payments and AfterPay are success stories and are now forming a partnership. International payments companies, such as Mastercard and Visa, continue to work with local bank partners on new payments innovations. Apple Pay, Adyen, WorldFirst, WorldPay and Alipay have also entered the market in recent times.

The introduction of the New Payments Platform in late 2018 is expected to spur greater levels of interest and activity from local and international Fintech start-ups and companies. This innovation will target a number of segments, including consumer, business and Government.

Finally, it is important to recognise that payments is both a specific sub-sector of Fintech and a component of many other broader technology categories (i.e. that aren't payments focused per se, such as those in transport, retail, health, etc.). As such, the Australian banking industry is actively engaged other tech start-ups, as evidenced by recent partnerships, such as NAB with Localz and Medipass, and Westpac with Surgical Partners.



## CAPITAL MARKETS

Capital markets is a heavily technology-dependent segment and confronting the combined challenges of substantial regulatory change, a lower volume/growth environment and high cost structures, participants are actively pursuing technology innovation agendas.

The ASX is progressing with its pilot of distributed ledger technology as a potential replacement option for CHES (working with Digital Asset Holdings) and is working with Fintech companies, such as Cinnober Financial Technology (Sweden) and Metamako (Australia).

Capital markets has also seen a strong level of Fintech activity from Australian start-ups, such as OnMarket BookBuilds, which launched in 2015 and is the first online platform that lets investors buy shares in IPOs free of any fees other than the cost of the shares.

Stone & Chalk resident, Metamako, has also achieved success since its establishment in 2013 and is exporting its hardware devices to some of the world's largest banks in the UK and US, and has also attracted an offshore investor.



---

Australian insurers are getting more actively engaged; with IAG and Suncorp, being partners of Stone & Chalk, as well as investing and partnering with Fintech companies, such as Trov, and enhancing their data and analytics capabilities.

---

## INSURANCE

There is high demand from Australian insurers looking for new technologies to improve customer service, deliver services in new ways and to transform operational models. Theoretically, that should create a great opportunity for insurance start-ups to collaborate. However, despite a clear need to address insurance technology, Insurtech has largely been left behind in terms of the Fintech agenda in Australia and New Zealand.

While Insurtech is now attracting venture capital from insurers overseas (with over \$US 1 billion invested globally in 2016), the start-up market in Australia is limited. Less than 3% of the Fintech companies in Australia are Insurtech. Examples of local and international Fintech players are CoverGenius and Trov.

There are also broader opportunities in areas, such as telematics, Internet of Things, drone technology, driverless cars and wearables that will foster innovation in the insurance sector. Insurers are developing new offerings, such as cyber insurance, 'Just-in-time' insurance, health wearables, etc.

Australian insurers are getting more actively engaged; with IAG and Suncorp, being partners of Stone & Chalk, as well as investing and partnering with Fintech companies, such as Trov, and enhancing their data and analytics capabilities.

The local Insurtech community is also developing with the first meetup held in late 2016 and the first conference organised by the Australian New Zealand Institute of Insurance Finance (ANZIIF) in early 2017.

## WEALTH MANAGEMENT & SUPERANNUATION

Many Fintech start-ups and companies with digital business models have emerged within the wealth management industry over the past few years, with Wealthtech ranking as the third largest number of Fintech companies in Australia.

Many are focused on robo or digital advice models, such as Stockspot and Fincast, and others in broader categories of investments and trading, such as Macroview, Simply WallSt, SelfWealth and Sharesight.

With the superannuation industry controlling significant pools of capital, it will be subject to the same competitive pressures of Fintech disruption faced by banks and insurers. This is particularly so as younger Australians become more engaged with financial services and superannuation fund selection through digital means.

Whilst there has been relatively low levels of engagement with Fintech companies from the superannuation sector, this is changing. In 2015, First State Super announced a partnership with H2 Ventures to support Fintech start-ups, to deploy around \$A250 million in technology innovation and earlier this year, Hostplus announcing an \$A85 million investment in venture capital fund, Artesian.

This activity and investment is predicted to increase as more Fintech companies focus on this market opportunity, e.g. Zuper, Spaceship, etc.

# WHERE HAVE WE COME FROM



## Our 2014 report identified five key enabling conditions and made six key recommendations to accelerate the growth of the Fintech sector in Sydney

In our 2014 report *Unlocking the potential: The Fintech Opportunity for Sydney* we argued that in order for Sydney to lead in the Fintech sector it was required to build and strengthen the pipeline of Fintech ventures looking to call Sydney home. To do so would require concerted action from both the public and private sector, and the following key enabling conditions were identified for a successful Fintech sector:

- a concentration of and access to financial services and technology talent;
- increased availability of funding at both seed and venture capital stages;
- government and business support for technology start-ups;
- a clear leadership position in financial services; and
- a culture that embraces the entrepreneurial mindset.

The 2014 recommendations were based on the following six specified areas that warranted attention in order to position Sydney as a globally recognised, respected and attractive city for the emerging Fintech sector:



## 1. VISION & STRATEGY

- Fintech start-up activity tends to occur in large metropolitan areas.
- Establish a coherent and supportive entrepreneurial vision and strategy for Fintech at a city level (Sydney).
- Consider Fintech in a broader global financial services context and particularly Asia as an export opportunity.

## 2. COMMITMENT

- It is important for government (and regulatory agencies) to publicly state their commitment to supporting the development of the Fintech sector.
- Maximising the opportunity will take strong commitment from government and industry.

## 3. ALIGNMENT

- To accelerate the development of the Fintech sector, alignment and coordination of activity and investment is required (government, regulators, start-ups, industry, academia).
- Explore adjacent opportunities and benefits across sectors, e.g. financial services, ICT, professional services.

## 4. ACCESSIBILITY

- Critical to any start-up is access to funds and expertise.
- Beyond this there is also a need for access to regulators, government and data.
- Government providing a single point of contact for start-ups to remove bureaucracy.
- Sydney needs a clear point of entry for Fintech where various stakeholders can come together.

## 5. COLLABORATION

- A 'centre of gravity' or physical focal point needs to be established.
- Fintech requires established financial services organisations and new ventures to come together.
- Problems need to be shared and safe environments created to truly foster innovation.

## 6. PROMOTION

- Financial services and Fintech both need a champion and voice at local and global levels.
- This needs to be at both an industry level and also at a political level.
- Promotion can be used as an effective tool to attract capital, investment and the best talent (locally, regionally and globally).

## A number of recommendations have been implemented with significant impact on the growth of the Fintech sector not just in Sydney but across Australia

Whilst good progress has been made on a number of recommendations, there are key areas where limited progress has been made that will impact our ability to compete, both regionally and globally, in the Fintech sector and the financial services industry more broadly.



### RECOMMENDED ACTIONS

### PROGRESS

1. **State Government to continue working with partners in the private sector and the Committee for Sydney on the development of a comprehensive Fintech vision and strategy for Sydney**, providing a focal point for the alignment of effort across the public and private sector and articulating a clear commitment to the Fintech sector
2. **Explore the establishment of a not-for-profit Fintech hub in the heart of the city that co-locates technology start-ups, venture capital and established financial services firms**
3. **Government (local, state and Commonwealth) to promote Sydney as the leading Fintech centre in the ASPAC region and establish a series of events in the city, regionally and globally**, to showcase Fintech in Sydney, in line with our leading financial services position
4. **Form an independent Fintech focussed industry association, based in Sydney**, to give the sector a strong voice and champion
5. **Work with the Federal Government and regulatory agencies, to enhance the current regulatory, tax and business incentives available to the start-up community, as well as introduce measures to target foreign entrepreneurs**, by attracting them to Sydney
6. **Engage the university sector and leverage research institutes, such as the Centre for International Finance and Regulation (CIFR) to research key Fintech themes and explore business opportunities for commercialisation**







## KEY OUTCOMES SINCE THE REPORT

---

- A comprehensive Fintech vision and strategy for Sydney has yet to be articulated and remains a critical piece to focus effort and drive collaboration and commitment across the public and private sector to the Fintech sector
  - This report has the potential to act as a catalyst for this action to progress
- 
- The not-for-profit Fintech hub Stone & Chalk opened its doors in August 2015 and expanded to a second floor in mid 2016 (and recently announced a new location)
  - NSW Government and 25 Corporate partners provide funding and support
  - 101 Fintech start-up companies with 342 members and \$A101m in capital raised
- 
- NSW Government founding member of Stone & Chalk (August 2015)
  - Federal government Fintech advisory panel established with a key focus to make Australia the leading Fintech centre in the Asia pacific region and \$A150,000 provided to support Stone & Chalk's Fintech Asia Program (February 2016)
- 
- Fintech Australia established in August 2015 as an advocacy body and industry association with board members from the national Fintech ecosystem and 100+ Fintech member companies have joined
- 
- ESIC (Early Stage Innovation Company) taxation benefit was introduced to encourage investment by offering a non-refundable carry forward tax offset of up to 20% of the amount paid for qualifying investments capped at \$A200,000 each income year. In addition, a non-refundable carry forward tax offset of up to 10% on contributions made by a limited partner to an ESVCLP was also introduced.
  - ASIC Innovation Hub established to support Fintech's to navigate the regulatory landscape (August 2015)
  - ASIC Regulatory Sandbox to support Fintech innovation (March 2017)
- 
- Engagement with the university sector needs further progress to advance key aspects of Fintech and further develop business opportunities for commercialisation

# WHERE ARE WE NOW

## NSW AND SYDNEY FINTECH DEVELOPMENTS OVER THE PAST 3 YEARS

### The Fintech ecosystem in NSW and Sydney has potential to benefit from national initiatives

Changes to the regulatory environment, tax incentives and visa developments mean that the platform to enable growth in Fintech is much improved to what was available in 2014. There has also been specific government action at a federal level to fund Fintech related activities (such as the Fintech in Asia initiative) which has provided support to programs run out of NSW for the benefit of the nation as a whole.

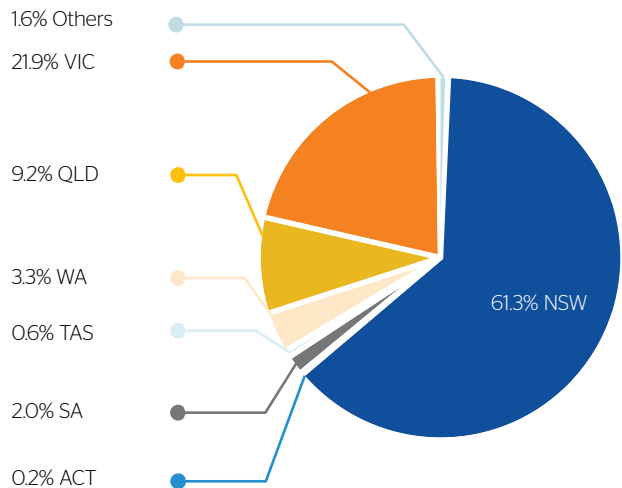
### NSW and Sydney lead the way in purpose built Fintech infrastructure

Perhaps the key differentiator in the growth and development of Fintech in NSW and Sydney is the fact that both Stone & Chalk and the Tyro Fintech Hub are located here. This provides two physical locations purpose built to support Fintech ventures to start and grow combined with education events and accelerator capabilities. Sydney is also home to three specific Fintech investors in Reinventure, H2 Ventures and Apex Capital. This creates a concentration of both talent and capital aligned in a jurisdiction with strong financial services capabilities.

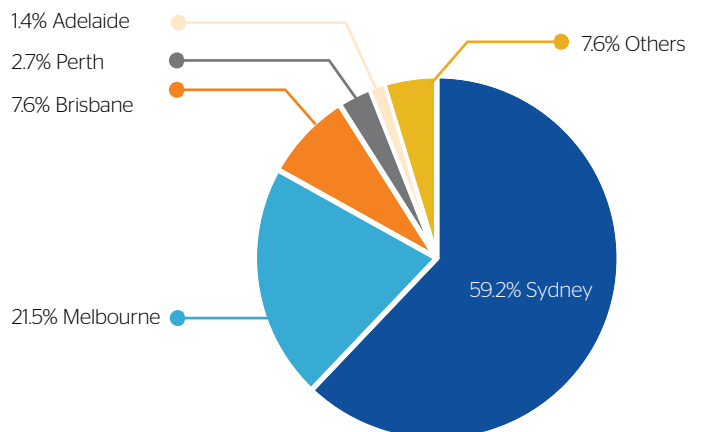
### NSW leads the way in terms of Fintech companies with 61% of all Australian Fintech companies being based here.

Of these the vast majority are located in Sydney with 59% of Fintech's nationally basing themselves in Sydney. By comparison Victoria, which is the next closest in terms of number of Fintech companies has 21% of companies based there, with Melbourne the home base for many of them.

### AUSTRALIAN FINTECH COMPANIES BY STATE



### AUSTRALIAN FINTECH COMPANIES BY CITY



## NSW AND SYDNEY FINTECH DEVELOPMENTS OVER THE PAST 2 YEARS

### Sydney has dominated the Venture Capital landscape in Australia with \$US180m invested between 2012 and 2016

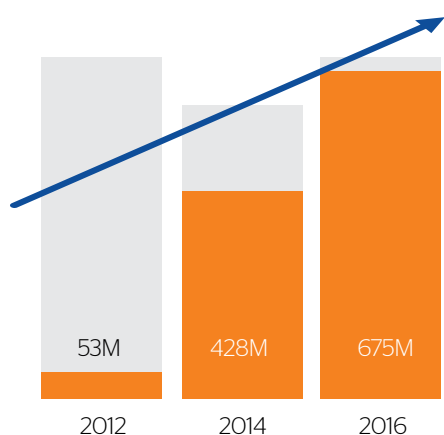
The majority of Sydney's VC investment in Fintech has come in the last two years (\$US129 million) and the last three years combined account for 95% of all investment (\$US171 million). Over the same period (2012-2016) Melbourne based Fintech attracted \$US22 million in VC investment. Jointly Sydney and Melbourne account for 75% of all VC investment nationally.

### Fintech concentration and weight of Venture Capital are driving growth in Fintech for NSW and Sydney but we are seeing strong growth elsewhere in the Asia Pacific region

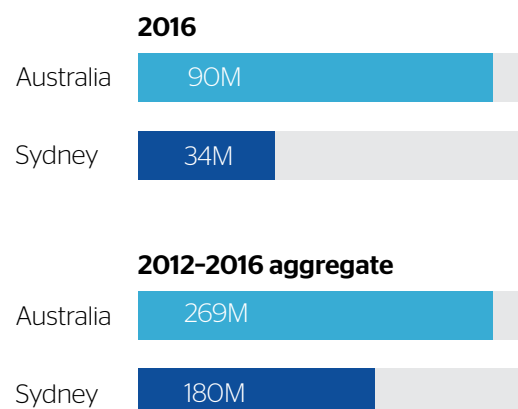
Whilst Sydney has seen an increase in Venture Capital investment into Fintech, both Hong Kong and Singapore have shown equally impressive growth. Hong Kong had Fintech investment for the 2012-2016 period of \$US328 million and Singapore \$US324 million, both substantially outpacing the investment in Sydney.

In Hong Kong 77% of this investment has come in the last two years, reflecting an aggressive increase (71% of Singapore's investment was also in the last two years). This reflects the intense global and regional competition we face in becoming a leading global or regional player.

#### TOTAL FINTECH INVESTMENT IN AUSTRALIA (\$USD)

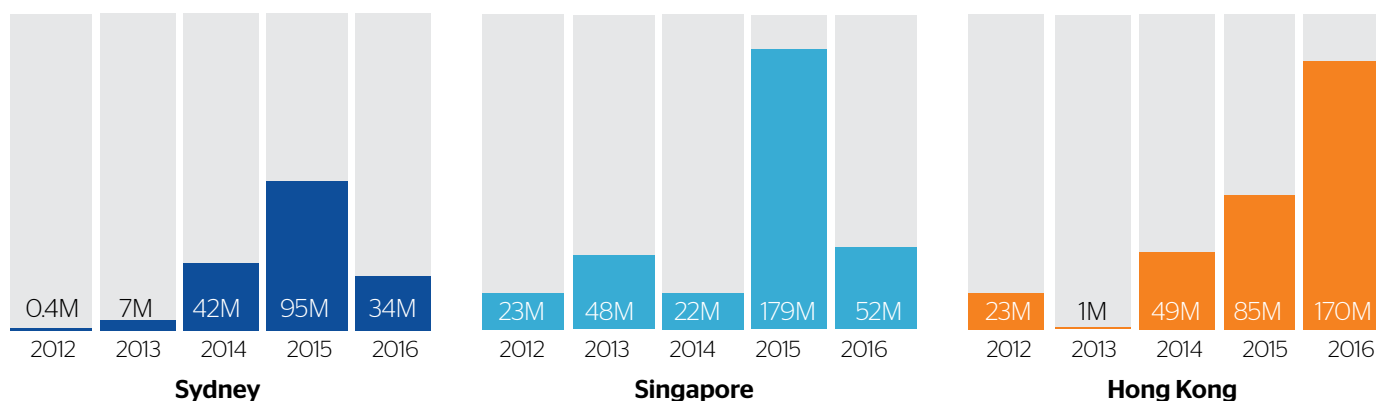


#### TOTAL FINTECH VC INVESTMENT IN AUSTRALIA (\$USD)



#### TOTAL FINTECH VC INVESTMENT

Sydney compared to Hong Kong and Singapore 2012-2016

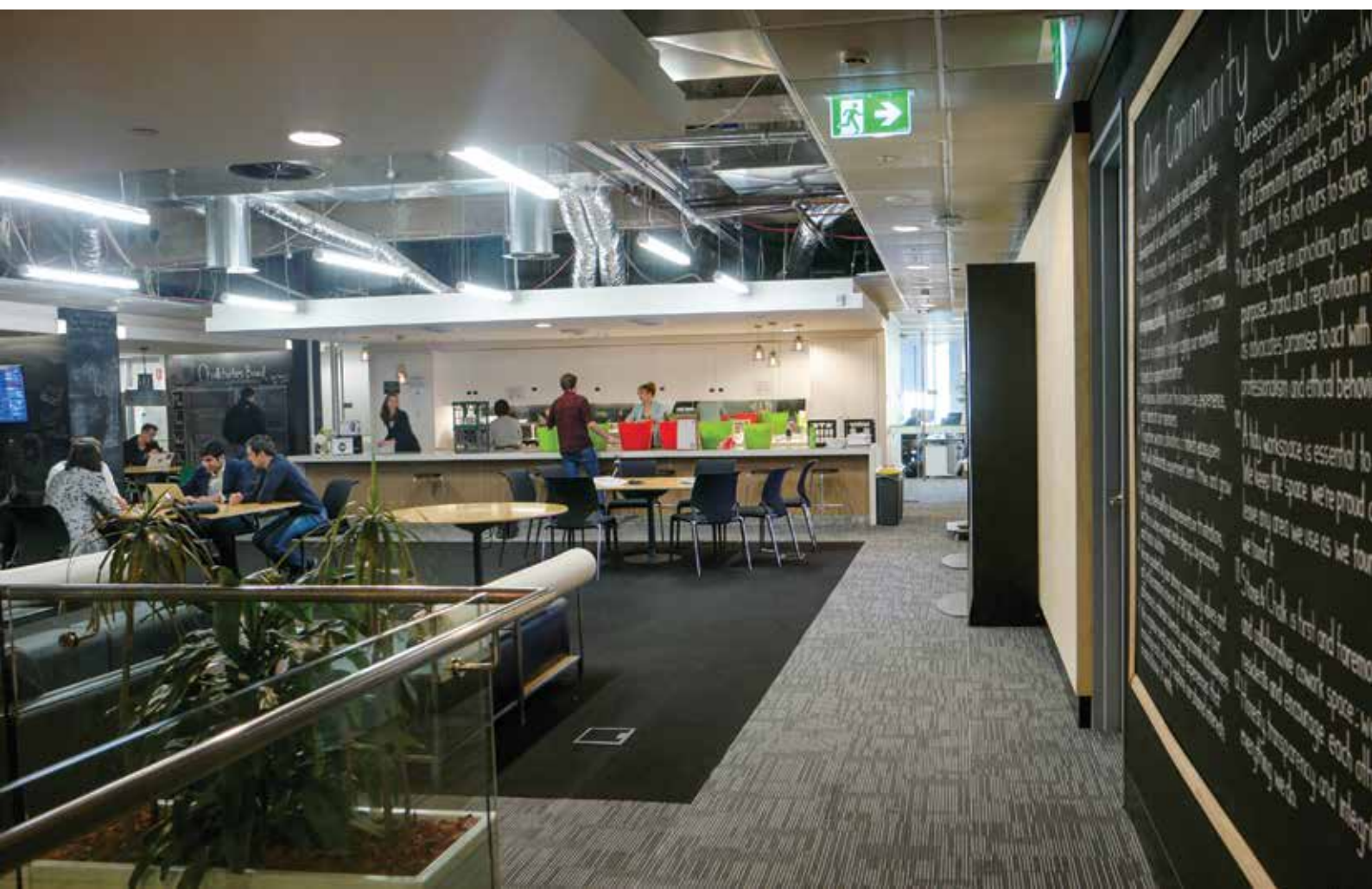


# NSW AND SYDNEY FINTECH DEVELOPMENTS OVER THE PAST 3 YEARS

## Key government policy & regulatory framework changes

- **In March 2016:**
  - ASIC and UK FCA signed a Co-operation Agreement to refer innovative businesses to one another for support before, during and after market entry to reduce regulatory uncertainty and time to market
  - ASIC Digital Finance Advisory Committee formed and includes a cross-section of the Fintech community to help inform regulatory efforts in this sector
  - ASIC guidance provided on marketplace lending to assist peer to peer lenders manage and meet obligations under the National Consumer Credit Protection Act
- **In June 2016:** ASIC and The Monetary Authority of Singapore (MAS) signed an Innovation Functions Co-operation Agreement aiming to help innovative businesses in Singapore and Australia in their foray to the respective markets
- **In November 2016:** ASIC and the Ontario Securities Commission (OSC) Co-operation Agreement to refer innovative businesses to one another for support before, during and after market entry to reduce regulatory uncertainty and time to market
- **In December 2016:** ASIC released class waivers to allow eligible Fintech businesses to test certain specified services without holding an Australian Financial Services Licence (AFSL) or Australian Credit Licence
- **In March 2017:**
  - ASIC launches regulatory sandbox to allow eligible Fintech businesses to test certain services for up to 12 months without an Australian Financial Services or Credit Licence
  - The Corporations Amendment (Crowd-Sourced Funding) Act 2017 released
- **In April 2017:** ASIC and OJK (Indonesia) signed Co-operation Agreement agreeing to share information on emerging market trends and regulatory issues arising from the growth in innovation
- **In May 2017:**
  - the 2017 Budget continues to commit to establishing Australia as a leading global Fintech hub by building on its policies, including reducing barriers for new banks, and removing double taxation of digital currencies
- The Corporations Amendment (Crowd-Sourced Funding) Act 2017 released
- ASIC proposes to establish a new regtech industry liaison network, conduct a number of new technology trials using regtech applications and establish a 'hackathon' later in 2017 to help identify roadblocks to the successful and rapid take-up of the sector (as part of an industry consultation process)
- **In June 2017:**
  - ASIC commencing consultation on the proposed guidance on crowd-sourced funding
  - ASIC and The Japan Financial Services Agency (JFSA) announced the completion of a Co-operation Framework enabling the JFSA and ASIC to share information and support the entry of innovative fintech businesses into each other's markets.
  - ASIC and Malaysia Securities Commission signed a Cooperation Agreement to provide a framework for cooperation to support and understand financial innovation in each economy.
  - The Hong Kong Securities and Futures Commission (the SFC) and ASIC signed a Co-operation Agreement which provides a framework for cooperation to support and understand financial innovation in each economy.
  - Access to Private Venture Capital Funding
- **In July 2015,** the Significant Investor Visa program included venture capital as an acceptable asset class for high net worth individuals seeking investment migration
- **In October 2015,** the Premium Investor Visa introduced to attract a small number of high net worth individuals to contribute their entrepreneurial skill or talent to Australia
- **In July 2016:**
  - Federal government introduced tax incentives for investors in an early stage innovation company (ESIC) offering an upfront benefit and modified capital gains tax treatment
  - Early stage venture capital limited partnerships (ESVCLP) tax benefits modified to include an up-front benefit and an increase in the maximum fund size
- An increase in the availability of venture capital **over the last 3 years** from approximately \$A62 million to \$A156 million





### Attraction of Talent/Skills

- **In July 2015**, ESOP changes introduced to make it easier for small start-ups to attract and retain the talent
- **In September 2016**, Entrepreneur Visa established to attract international talent to Australia to build their ventures through enterprise development or product commercialisation
- **In December 2016**, Australian university graduates in STEM and ICT will receive extra points under the points tested Skilled Migration program to qualify for a permanent work visa.

### Enabling Business Environment & start-up Eco-system

- **In December 2014**, the New Payment Platform Australia (NPP) was formed to build and operate an open access payment infrastructure for the Australian economy to provide real-time, secure and efficient payment options
- **In April 2015**, Tyro Fintech Hub established providing co-working space and potential to Tyro payment and banking infrastructure
- **In August 2015:**
  - Stone & Chalk launched to act as a centre of gravity for Fintech in Sydney and Asia Pacific
  - ASIC Innovation Hub launched to provide support to Fintechs seeking to understand ASICs regulatory system
- **In February 2016**, Stone & Chalk launches Fintech Asia program with \$A150,000 in funding support from the federal government

# AUSTRALIAN FINTECH LANDSCAPE BREAKDOWN

## An emerging number of international Fintech companies are targeting Australia

An important dimension of Australia's developing Fintech eco-system is that increasing numbers of international Fintech companies see Australia as an attractive destination for expansion. There are 13.5% of Fintech companies from international jurisdictions.

## Mature Fintech markets dominate

Unsurprisingly given the maturity of their respective Fintech marketplaces, the US and the UK feature the most Fintech companies in terms of countries of origin.

## The US comprises almost half of total foreign Fintech companies

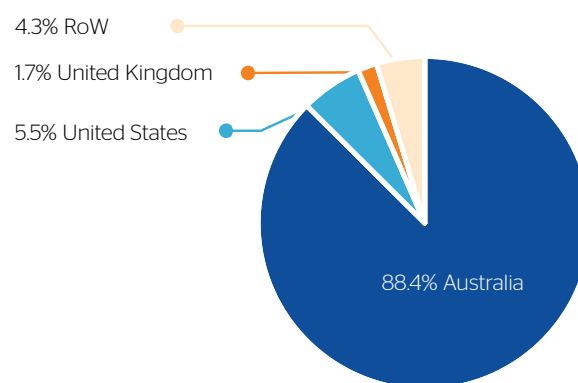
Fintech companies from the US dominate the list of foreign Fintech companies, with 48% of international Fintech from the US. Leading US Fintech companies that are in Australia include OnDeck, Square, Stripe, Ripple and Digital Asset Holdings.

Other notable international Fintech companies in Australia include Transferwise (UK), OurCrowd (Israel), Spotcap (Germany), Xero (NZ), Adyen (Netherlands).

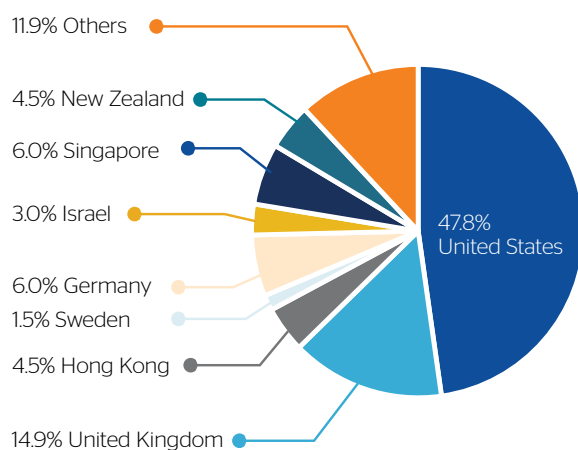
## ASPAC is a surprisingly low source of foreign Fintech companies

Fintech companies from ASPAC are relatively low at around 20% of total foreign Fintech companies. The reason for this is the relatively immature state of Fintech eco-systems from ASPAC and hence, the Fintech companies are still in early stages of growth and have not yet turned their attention to expansion opportunities offshore. This also reinforces the opportunity that ASPAC represents for Australian fintech exports.

## FINTECH COMPANIES BY COUNTRY



## BREAKDOWN ON INTERNATIONAL FINTECH COMPANIES IN AUSTRALIA



### The Fintech eco-system in Australia is increasingly diverse

As demonstrated by the analysis of sub-sectors, the Australian Fintech eco-system is increasingly diverse. The two largest sectors by number of Fintech companies, as well as investment, continues to be Payments and Lending, similar to our report in 2014, with substantial growth in the number of Fintech companies in both categories.

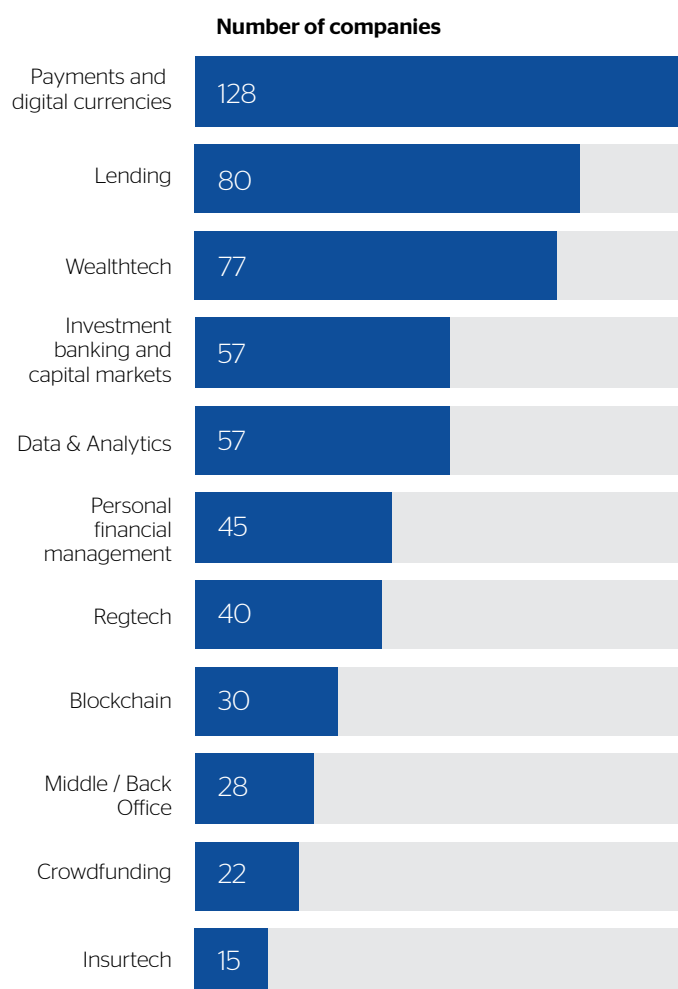
Payments is expected to continue its growth, particularly on the back of the New Payments Platform going live later in 2018, as Fintech companies, locally and globally, seek to benefit from this new national infrastructure. Areas such as Wealthtech and Capital Markets have also continued to grow, reflecting the sophisticated state of our financial services industry.

### Emergence of new Fintech sub-sectors

Regtech, Blockchain and Insurtech are new categories that have emerged since 2014, with more than 90 Fintech companies in these sub-sectors. Regtech in particular has been a fast-growth sub-sector which has grown rapidly over the past 12 months which is a reflection of the substantial regulatory and cost burden for financial institutions, as well as policy makers and regulators who are supportive of the industry finding more effective means to better manage risk, compliance and transparency for stakeholders.

A relatively new sub-sector which has grown substantially has been Data & Analytics, which is also an important enabler for other categories of Fintech, and therefore, is a positive dimension for the continued expansion of Fintech.

### AUSTRALIAN FINTECH COMPANIES BREAKDOWN BY SUB-SECTOR



**A KEY INDICATOR OF THE GROWTH IN THE FINTECH SECTOR HAS BEEN THE INCREASE IN FINTECH COMPANIES TO OVER 575**

## Australian Fintech Landscape (575+)





## Australian Fintech Landscape (575+)

### Middle and Back Office



### Crowdfunding



### Personal Finance Management



### Insurtech



### Blockchain



### Capital Markets



## Key to this growth has been the impact and influence of Stone & Chalk and Fintech Australia which have been government and industry led outcomes from the 2014 report



### Stone & Chalk

Stone & Chalk was established in August 2015. Since its opening it has grown to house close to 100 start-ups and 350 residents. These start-ups have collectively raised over \$100m in capital and employed an additional 300 people so far. In only 18 months since opening Stone & Chalk has already been recognised as one of the top 10 Fintech hubs globally.

Stone & Chalk operates as a not-for-profit and is able to do this through the support of 25 corporate partners including NSW Government. Its corporate partners are a mix of banks, insurers, super funds, technology companies and professional service firms. Stone & Chalk has also recently announced its new location in Sydney (the Sydney Start-up Hub at Wynyard Green and its expansion in Melbourne.

Stone & Chalk residents and partners are a good representation and strong cross-section of the broader Fintech ecosystem. It acts as “ground zero” for driving industry initiatives and has a running agenda of events and programs to promote Fintech including: Women in Fintech, Insurtech, Cyber Security Innovation program, the ‘Fintern Fever’ program which places top students from leading universities in to internship opportunities with startups, the Fintech Connect Asia program which brings together a network of Fintech hubs, investors, corporates and startups across Asia and supports TechFugees which aims to help place recent refugee arrivals with paying work in technology companies.

Stone & Chalk residents are a combination of different industry and technology verticals including:

- Alternative lending
- Investment management
- Payments
- Regtech
- Insurtech
- Capital markets
- Data analytics
- Internet of Things
- Blockchain

### FinTech Australia

#### Fintech Australia

Fintech Australia was established in November 2015 and appointed its inaugural CEO in June 2016. This complemented the establishment of the Federal Government’s Fintech Advisory Group in February 2016. The group’s board is made up of a committee of seven members who are nationally located in Australia’s major cities i.e. Sydney, Brisbane, Melbourne and Perth. Membership has grown from 52 in March 2016 to 110 paid members in April 2017.

Fintech Australia’s vision is to be the leading market for Fintech innovation and investment in Asia. Its objectives are to create the best environment for Fintech start-ups to establish and grow their companies and to create an eco-system of partners to support the development and growth of the Fintech community.

In 2016 Fintech Australia produced a Fintech Census (undertaken by EY). The Census noted a number of interesting findings including:

- 54% of start-ups were located in NSW (28% VIC, 18% Other)
- Only 13% Female participation (87% Male)
- 41% of participants nominated building partnerships with banks and other financial institutions as a key external challenge
- 76% agreed government mandated open data protocols would be effective
- 40% were operating with a financial licence

## There are many success stories in the Australian Fintech eco-system, across payments, alternative finance and data & analytics



- Founded in 2003 after the RBA announced that they were offering a special bank license and access regime to attract 'non banks' into the payment space to generate innovation and competition.
- Tyro has brought banking to the internet by marrying its tech DNA with its banking DNA. It provides a suite of integrated, mobile, cloud-based banking solutions to Australia's small-to-medium enterprises.
- It became the first technology company to be granted a banking licence by the Australian Prudential Regulatory Authority, allowing it to take money on deposit and to advance money to Australian businesses.
- Established Australia's first Fintech Hub 'for entrepreneurs, by entrepreneurs' which has seen many start-ups mature into significant growth companies, including Neu Capital, Spaceship and HashChing.
- Raised \$AU100 million from Tiger Global Management in New York, TDM Asset Management in Sydney and Australian tech-entrepreneur, Mike Cannon-Brookes, to accelerate its growth initiatives and new product development.
- In 2017, partnered with Afterpay to integrate Afterpay's services ("buy now, receive now, pay later") with its point of sale software terminals to help customers increase sales.



- Secured a deal with AFG to sell Prospa's loans via its broker platforms.
- Raised \$60 million from The Carlyle Group, Ironbridge Capital, Entrée Capital, AirTree Ventures and David Fite.
- Partnered with Mortgage Choice to deliver a broader range of commercial lending and cash flow financing solutions to customers nationwide.
- In February 2017, raised \$25 million in funding round led by AirTree Ventures with Entrée Capital and Ironbridge Capital.
- Have received multiple awards for being the fastest growing tech company in Australia and Asia-Pacific, including recently awarded as the Lending Innovator of the Year in the inaugural Fintech Business Awards.



- Raised \$10.5 million from NAB, Qantas Loyalty and Westpac's Reinventure Fund.
- Partnered with Westpac to launch a world first in the banking of data – a Personal Information Databank.
- Co-founded Data Governance Australia with ADMA, an association to help Australian industry jointly manage and self-regulate ethical data governance.
- In August 2016, launched world's first Open Data Marketplace allowing organisations to list, exchange and collaborate on data exchange projects in a secure environment.
- Founded a data-for-social Not For Profit, The Minerva Collective, to connect social impact organizations with access to data and analysts to help them solve social issues.
- Former EMC Chief Solutions Strategist and Tyro co-founder joined Data Republic as Chief Technology Officer and Chief Operating Officer respectively, to drive expansion strategy in the United States.



- In Feb 2014, raised \$5 million from Westpac Group's Reinventure Fund
- In Dec 2015, raised \$20 million from Australian Capital Equity, Consolidated Press Holdings and News Corp Australia
- Partnered with Veda to promote getcreditscore.com.au and offer more credit scores for free
- In May 2016, raised \$25 million from existing and new shareholders
- In April 2017, set new lending record of \$250 million for marketplace lending
- Recently awarded by Fintech Australia for "Excellence in Peer-to-peer Lending" for stringent security measures, a strong market reputation, ease of application and competitive interest rates and loan terms.

There are many success stories in the Australian Fintech eco-system, across payments, digital automation, capital markets and including H2 Ventures, the only stand alone Fintech accelerator in Australia



- More than 2,000 retailers use the platform, including the Super Retail Group, Myer, Big W, Officeworks, Optus, Cotton On and General Pants Co.
- In May 2016, listed on Australian Securities Exchange (ASX).
- Partnered with Tyro to integrate Afterpay's services ("buy now, receive now, pay later" in four fortnightly instalments) with Tyro's point of sale software terminals.
- In February 2017, announced merger with payments system Fintech, Touchcorp, to form a new public company.
- Expanding its reach by partnering with New Zealand's marketplace and classifieds website, Trade Me, to offer Afterpay's services as an option exclusively on its platform.



- Established H2 Accelerator, an accelerator program dedicated to support Fintech, data and AI start-ups across Australia and New Zealand.
- Invested in over 20 Australian Fintechs.
- In collaboration with KPMG, releases an annual "Fintech 100" report identifying the leading 50 'established' Fintech companies across the globe, and the most intriguing 50 'emerging stars'.
- Attempted to raise \$55 million in investment capital through an IPO; however, failed to achieve sufficient interest from institutional investors.
- Instead secured \$4 million funding from Investec to invest in up to 40 start-ups underwritten by a New South Wales Government-backed guarantee of \$2 million.



- Over 100 financial institutions worldwide use Avoka's platform to improve their digital sales experience.
- Received numerous awards for innovative customer experience solutions from Fintech Australia Finnie Awards and Fintech Business Awards.
- Raised \$12 million to invest in security elements of its technology and hire more product developers, and sales and marketing staff.
- Founded in Sydney (Australia) and have since expanded its operations to Denver (USA) and London (UK).
- Releases an annual "State of Digital Sales in Banking" report that ranks and compares the digital account opening capabilities of 32 of the largest banks in North America, Europe and Australia.



- Over 100 global customers use Metamako's hardware, including a UK-based FX market (FXexchange), and the Australian Securities Exchange who selected to employ Metamako's hardware in its new trading systems as it provides the most accurate and reliable network monitoring technology on the market.
- Founded in Sydney, and have since expanded its operations to London (UK), New York (US) and Tokyo (Japan).
- Received numerous awards for most disruptive and emerging Fintech in Australia and globally.



**Importantly for our Fintech ecosystem Australia's major financial institutions have continued to embrace emerging technologies and are counted amongst the world's innovation leaders**



- In December 2015, announced the acquisition of TYME.
- Established three Innovation Labs in Sydney, Hong Kong and London.
- Partnered with a number of Fintechs; notably with OnDeck which has been recognised as the "Best Fintech-Bank Collaboration" at the inaugural Australian Fintech Awards 2016.
- Various blockchain collaboration initiatives with global banks, including:
  - R3 CEV (consortium with 42 global banks, including Westpac and NAB) investigating how to employ blockchain technology in financial services (e.g. trading fixed income based on bitcoin technology);
  - with Barclays, developed a cross-border funds transfer platform enabling fast, streamlined, secure payments between Australia and the UK with just a mobile number; and
  - with Wells Fargo, conducted the world's first cross-border transaction using blockchain involving a \$US35,000 cotton shipment to China from the US.



- Established NAB Labs: an incubator to design new products, e.g. the QuickBiz Loan, Medipass (healthcare booking and payments solution) and Proquo (an online marketplace for small business).
- Launched NAB Ventures: a \$A50m fund with a focus on connected business, home ownership, payments and wealth management startups; and have invested in Data Republic, Medipass, Veem, Wave and Basiq to date.
- Entered into a number of partnerships, including with Xero, REA, Visa and Telstra.
- Formed an alliance with:
  - Melbourne Business School to share talent, insights and research initiatives.
  - Israel's Bank Leumi and the Canadian Imperial Bank of Commerce (CIBC) to share technology innovations, knowledge and solutions; including blockchain initiative with CIBC to trial international payment transfers using Ripple technology.
- Launched new travel tools functionality into its mobile banking app; the tools were a collaboration with Visa and CIBC.



- Established "The Garage" in Sydney – an innovation centre that responds to and anticipates changing market and customer needs.
- Through its investment arm, Reinventure, Westpac has committed \$100m to new disruptive ventures and has invested in 16 Australian Fintechs (e.g. SocietyOne, Data Republic, Assembly Payments).
- Collaborations with Fintechs, including investing \$A21.5m in Uno Home Loans with a view to collaborate on online mortgage technologies, and partnered with Prosopa to provide online access to small unsecured business loans.
- Westpac also invested in Australian cyber-security firm, Quintessence Labs.
- One of the founding corporate partners of Fintech hub, Stone & Chalk.
- Various blockchain collaboration initiatives with global banks, including:
  - Invested in R3 CEV (along with CBA); and
  - participated in a pilot using Ripple technology that moves money between Australia and New Zealand.



- Established Innovations Labs in Sydney (as co-investment with IBM) and Singapore (ANZ BlueSpace).
- Supports the Fintech ecosystem through various partnerships, including co-working spaces (Stone & Chalk and York Butter Factory), local Fintechs (Honcho) and global Fintechs (Invapay).
- Partnered with Apple to develop contactless payments and digital wallets.
- Various blockchain collaboration initiatives with global banks, including:
  - with Wells Fargo, built a shared distributed ledger platform to test correspondent banking for cross border transactions; and
  - with Linux Foundation, developed an open-source enterprise-grade blockchain framework for the finance industry.

**Importantly for our Fintech ecosystem  
Australia's major financial institutions  
have continued to embrace emerging  
technologies and are counted amongst  
the world's innovation leaders**



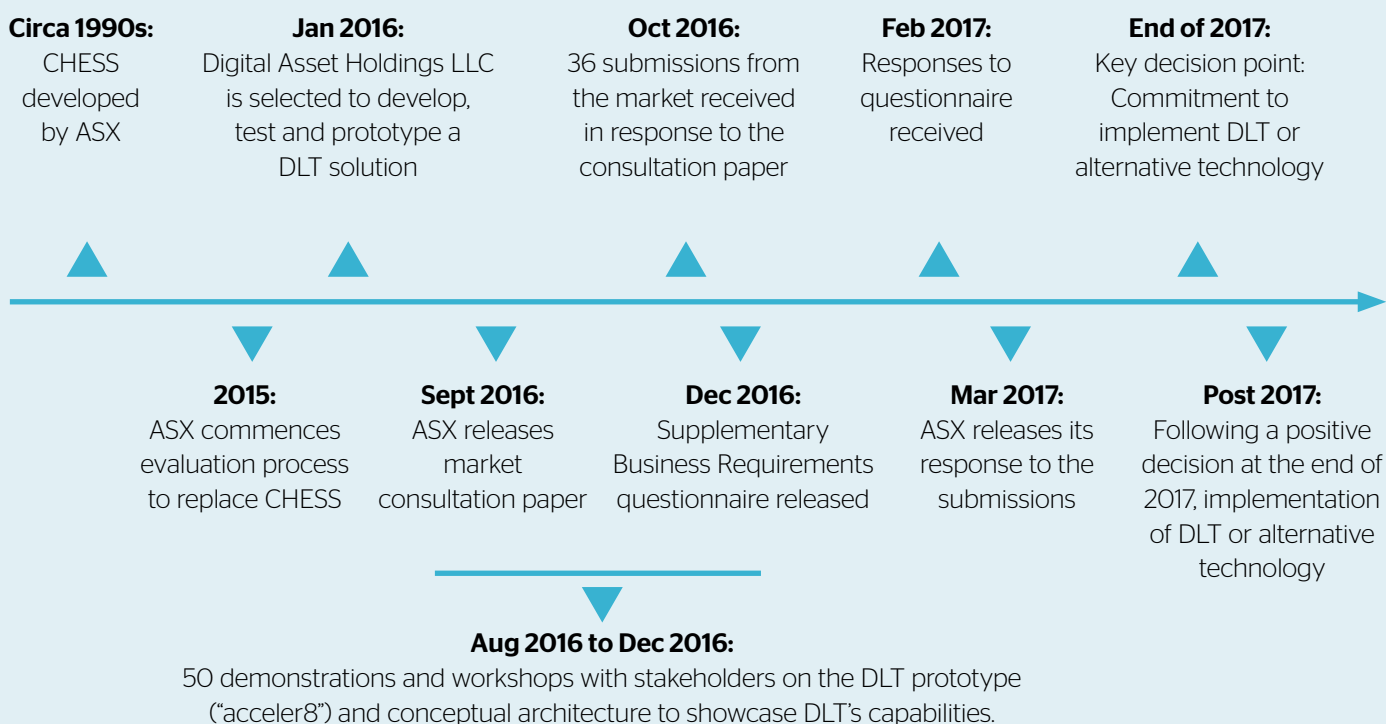
- Recently announced the launch of Macquarie Open Platform – a new service to provide customers with more control over their data and the ability to securely share their banking information with other platforms and service providers.
- Recently announced the trial of DEFT Auction Pay – a new service that allows buyers to pay their deposit electronically at property auctions, while also giving real estate agents a secure online service to increase business efficiency; wider launch expected in second half of 2017.
- Built a highly personalised and intuitive new digital banking offering with features that are the first of their kind in Australia, including search-how-you-speak technology, tag and track transactions, upload receipts and warranties, set saving and spending goals, and automatic categorisation of spending through machine learning technology.
- Became one of the first financial institutions in Australia to launch Android Pay, and has also since launched Apple Pay.
- Collaborated with four commercial broking firms to launch a first to market technology platform to provide a cloud-based business loans origination platform for brokers, "Kubio".
- Collaborated with Xero and Tyro to provide in-product integrations for BPAY via the DEFT platform.
- Entered into a £40 million warehouse financing deal with LendInvest, a UK based online platform for financing short-term mortgages.
- Entered into a portfolio financing deal with MoneyLion, a US based mobile personal finance platform.





## Key industry participants like the ASX are also embracing Fintech and world leading in developing a solution based on blockchain technology to potentially replace CHES

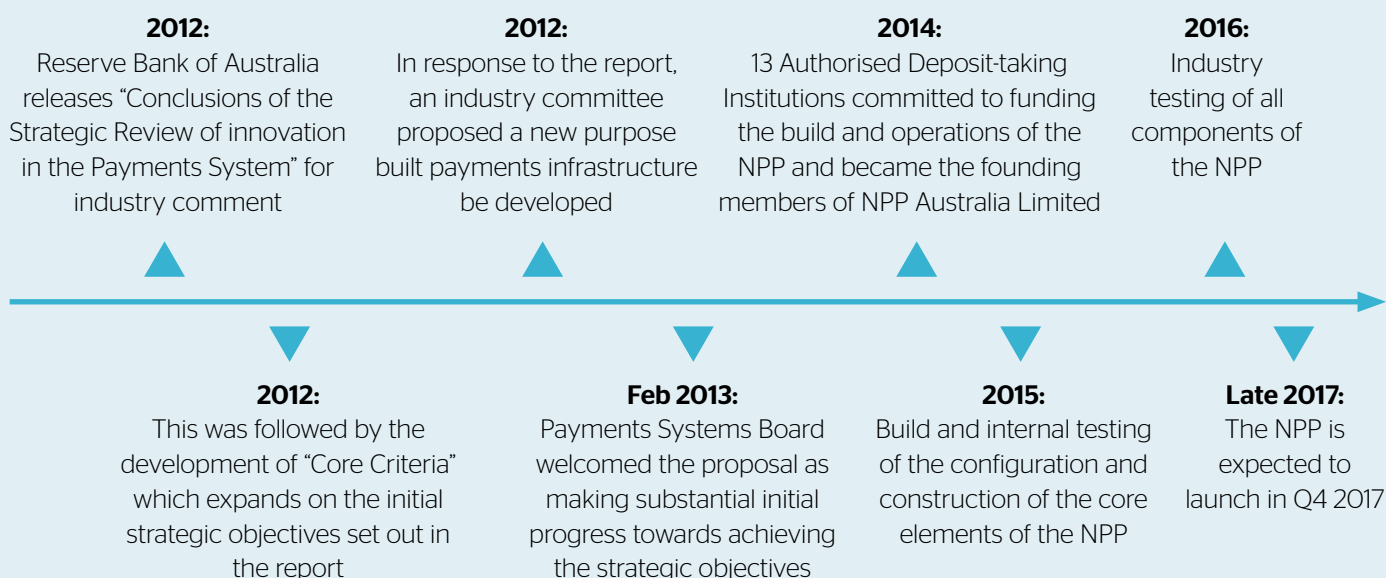
- CHES (the Clearing House Electronic Subregister System) was a world-leading core system that perform the processes of clearing, settlement and asset registration that led to the development of a proprietary electronic messaging standard.
- Whilst CHES continues to be stable and effective at delivering these services, ASX has been considering options to replace CHES with more contemporary technology that will provide a broader range of benefits to a wider cross section of the market.
- A distributed ledger technology (DLT, also known as blockchain) software company, Digital Assets Holdings LLC, has been selected to develop, test and prototype a solution to be designed and tested with market consultation. The solution will need to meet ASX's requirements of scalability, security and performance.
- Market consultation indicated that "respondents were generally supportive of ASX investigating DLT as a potential replacement technology for CHES. However, there was widespread interest expressed by respondents in being provided with more information about DLT, including how it works and what its potential application to post trade processing might enable" (ASX) (source: AFR 6th March 2017).
- Next steps leading to a final decision to commit to DLT or alternative technology include deep engagement with clearing and settlement participants, further engagement with other users such as listed companies, investors and peak representative bodies, formation of six specific user working groups, ongoing demonstrations of the DLT prototype, and further formal public consultation.





## Development of major infrastructure to support Fintech innovation will be further enhanced with the imminent release of the New Payments Platform in Australia

- The New Payments Platform (NPP) is a new national, open access infrastructure for fast payments in Australia. It provides consumers, businesses and government departments with a secure and efficient platform which they can use to make fast, versatile and data-rich payments to meet the evolving needs of a 24/7 digital economy.
- It was developed in collaboration with 13 key industry players (including Reserve Bank of Australia, ANZ, CBA, NAB, Westpac, Cuscal and ING Direct). The design of the NPP consists of three components:
  - Basic Infrastructure: this will enable transaction accounts to be identified by a smart payment (the 'Addressing Service', e.g. email address, mobile number, or ABN) in a matter of seconds, 24 hours a day, 365 days of the year.
  - Fast Settlement Service (FSS): Provided by the Reserve Bank of Australia, this capability will enable every single payment to be made on the NPP, regardless of size, to be settled in real time in central bank funds, across each financial institution's Exchange Settlement Account (ESA); effectively, allowing completion of settlement between financial institutions prior to crediting the payee's bank account.
  - Overlay Services: This refers to payments-related products or service that use the Basic Infrastructure. The first Overlay Service to go live on the NPP will be offered by BPAY.
- The possibilities of the kinds of products and services that could be offered as Overlay services are endless. As the NPP offers speedier, more convenient and richer data information to be transferred along with a payment (thereby solving customer pain points such as efficiency, improved customer service and reducing costs), it is likely that there will be emerging innovations around business applications in the funds management, stock exchange, insurance and superannuation industries – further driving the growth of the Fintech sector in Australia.



## Major Australian insurance companies in response to potential disruption are exploring new strategies, initiatives and technology innovations with Insurtech emerging as a key global focus for Fintech



- Established an insurtech hub, Firemark Labs, in Singapore to connect with, and contribute to, a thriving entrepreneurial community in a global technology hotspot.
- Soon-to-be launched Sydney-based insurtech incubator, also called Firemark Labs, will focus on co-creating new insurance products and services. The incubator will have a central role in bringing the 'outside in' to IAG to help strengthen its core proposition.
- This activity is supported by IAG's \$75 million new ventures fund which has been set up to invest in, and partner with, both start-ups and established businesses that have the potential to disrupt the value chain.
- Underpinning IAG's customer focus is its Customer Labs division which is responsible for the customer experience strategy and driving product, pricing and digital innovation through data and insights, brand architecture and new business incubations and venturing. Through a customer-led and data-driven approach to innovation, IAG has delivered a number of 'insurance firsts' to market, including:
  - ShareCover: a pay-per-night insurance cover for common risks associated with renting a home or room out via platforms like Airbnb and Stayz; and
  - Insurance 4 That: alternative to home and contents insurance, offering affordable, single item insurance for just the gadgets or valuables the customer chooses to protect.



- Introduced digital offerings to streamline life insurance product applications, including 'Click to Chat' which provides members to directly message TAL during the underwriting process.
- Partnered with Jade Software to create new and innovative life insurance software for customer facing applications.
- Corporate partner of Fintech hub, Stone & Chalk.
- Developed capabilities by introducing new and comprehensive platforms that enable members to access and manage their superfund insurance.



- Established a venture capital unit (AMP New Ventures) and invested in 3 start-ups (Macrovue, MoneyBrilliant and Employment Hero); however, in early 2017, following a strategic review, AMP closed this unit.
- Prior to the closure of AMP New Ventures, it bought out the remaining equity stakes in MoneyBrilliant as a complete acquisition.
- Corporate partner of Fintech hub, Stone & Chalk (former).
- Undertook a \$US500m customer transformation program focusing on intelligent robotic process automation (RPA), emerging innovations from Fintechs, and technological advances in cybersecurity.



- Collaborated with Traity to develop a P2P micro-insurance platform using 'Kevin' (Traity's chatbot).
- Introduced fingerprint login option to its iOS mobile banking application.
- Corporate partner of Fintech hub, Stone & Chalk.
- Invested \$US5m in Trov Protection and collaborated with Trov to develop a platform providing access to insurance for single items (e.g. computers, cameras).

## To remain competitive with the major banks and keep pace with emerging innovations, mutual banks have sought to overhaul and future-proof their systems and strategies including engagement with Fintech



- Invested \$A60m in upgrading IT systems to be competitive with the big four banks in the retail banking space, as well as a further \$A20m+ on loan origination and mobile banking
- Supports the Fintech ecosystem by being a corporate partner of Stone & Chalk, as well as River City Labs where resident start-ups pitch to CUA's digital team every quarter.
- Partnered with a number of Fintechs, including Cloudcase and Spriggy.
- Created in-house accelerator within its organisation to explore new ideas and create a culture of innovation.
- Participated in KPMG's mutual bank accelerator program (mLabs) with 6 other mutual banks connecting them with emerging Fintechs designed to develop collaborative digital solutions.



- With DXC Eclipse, deployed entire Microsoft Stack as a comprehensive cloud-based IT solution to transform its operations and customer interactions.
- Partnered with Glory Global Solutions to develop a teller-assisted service solution ('Gloria') that connects with the bank's core system to allow customers to do many of the transactions typically undertaken by a teller.
- Partnered and invested in SocietyOne demonstrating and increasing its commitment to personal loan funding.
- Participated in KPMG's mutual bank accelerator program (mLabs).





- Deployed Qlik's data analytics solutions to transform its internal processes, improve reporting times and deliver a more comprehensive view of business operations to Executive and Senior Management, facilitating faster and more informed decisions.
- Delivered an Enterprise Data Warehouse capability fully populated with clean data from TMBL's core banking platform, integrated new external data sources for targeted marketing campaigns.
- Restructured its IT operations division to reskill its workers for new technologies that will better align to the needs of the bank and set up for the future.
- Participated in KPMG's mutual bank accelerator program (mLabs)




- Launched a new and improved version of their internet banking platform (Heritage Online) to improve customer experience in terms of functionality (e.g. UX and compatibility with mobile devices) and security.
- Developed a new mobile banking application with functionalities such as fingerprint login option on its mobile banking services and temporary locks on credit/debit cards.
- Partnered with Inamo to launch a new waterproof, wearable device for tap-and-go payments ('CURL').
- Participated in KPMG's mutual bank accelerator program (mLabs).


However whilst significant activity has taken place in Sydney and Australia our global competition has not stood still with key cities in the US, UK and Asia continuing to build their own ecosystems

CITY	GOVERNMENT POLICY & REGULATORY FRAMEWORK	PRIVATE VC FUNDING	SKILLS/TALENT	BUSINESS ENVIRONMENT & START-UP ECOSYSTEM
<b>Silicon Valley</b> 	<ul style="list-style-type: none"> <li>Great strides have been undertaken to address the constantly changing financial services regulatory landscape driven by the growth of Fintech by the Office of Comptroller of the Currency (OCC), Consumer Financial Protection Bureau (CFPB), and US Treasury Department.</li> </ul>	<ul style="list-style-type: none"> <li>Silicon Valley has a third of all venture capital in the US.</li> <li>However, in 2016, there was a 28% decline in venture capital funding, with 21% decrease in deal volumes.</li> <li>Start-ups with both financial and social benefits are currently capturing the attention of investors ('impact investment').</li> </ul>	<ul style="list-style-type: none"> <li>In 2016, Silicon Valley had a Fintech pool of 74,000 people (compared to 61,000 in the UK).</li> <li>However, the revision of the H-1B visa program poses a threat to Silicon Valley's talent pool.</li> </ul>	<ul style="list-style-type: none"> <li>There are over 100 co-working spaces, multiple incubators, investors and ample infrastructure to support Fintech start-ups in Silicon Valley.</li> <li>Silicon Valley conducts many beginner start-up events, such as, '106 Miles', 'Creative Coffee San Francisco', 'Got start-up?', 'Latino start-up Alliance'.</li> </ul>


CITY	GOVERNMENT POLICY & REGULATORY FRAMEWORK	PRIVATE VC FUNDING	SKILLS/TALENT	BUSINESS ENVIRONMENT & START-UP ECOSYSTEM
<b>New York</b> 	<ul style="list-style-type: none"> <li>New York State supports and encourages business growth with a variety of funds and grants (e.g. Innovation NY Fund Program, Global NY Fund Grant Program), tax incentives (e.g. START-UP NY, NY Employment Zone Program), and visa programs (IN2NYC).</li> </ul>	<ul style="list-style-type: none"> <li>In 2016, 35 NY Fintech companies raised \$US459m.</li> <li>The average early stage funding per start-up in New York was valued at \$US568,000, while the global average was at \$US252,000</li> </ul>	<ul style="list-style-type: none"> <li>In 2016, NYU Stern School of Business announced the expansion of its MBA curriculum to prepare students for future jobs in Fintech as the finance industry faces one of the most significant disruptions in its history. The MBA program will allow students to choose Fintech as a specialization.</li> <li>However, the revision of the H-1B visa program poses a threat to NY's talent pool.</li> </ul>	<ul style="list-style-type: none"> <li>The presence of NYSE and NASDAQ fosters a citywide ecosystem for financial innovation in markets and commerce and inspires technologists to create products for financial markets.</li> <li>"New York City has the largest concentration of financial resources along with high quality talent in a city of over eight million people" – Rubicon Ventures.</li> </ul>



CITY	GOVERNMENT POLICY & REGULATORY FRAMEWORK	PRIVATE VC FUNDING	SKILLS/TALENT	BUSINESS ENVIRONMENT & START-UP ECOSYSTEM
<b>London</b> 	<ul style="list-style-type: none"> <li>The UK government continues to provide support to the thriving Fintech sector through various financial incentives and policies.</li> <li>The UK DIT has committed to providing £500,000 p.a. to Fintech specialists and introducing a network of regional Fintech envoys, in a bid to consolidate the UK's position as a leading Fintech player in the post-Brexit era.</li> </ul>	<ul style="list-style-type: none"> <li>UK is a major investment destination for technology investments in Europe.</li> <li>Venture capital investment in London-based tech firms increased from £1.36b in 2015 to £1.43b in 2016.</li> <li>The government-backed London Coinvestment Fund (LCIF) addresses the funding gap for tech start-ups seeking seed investment.</li> </ul>	<ul style="list-style-type: none"> <li>In May 2016, the UK was ranked as the largest Fintech hub in the world, generating revenue of £6.6 billion and employing 61,000 personnel.</li> <li>However, the advent of Brexit has become an important issue as the Fintech industry relies heavily on skilled migrant labour.</li> </ul>	<ul style="list-style-type: none"> <li>London has been ranked on the top in Z/Yen Global Financial Centers Index, despite exiting European Union.</li> <li>London seeks to maintain its status quo as a lucrative business destination by introducing government schemes and encouraging banks to improve access to finance.</li> </ul>

CITY	GOVERNMENT POLICY & REGULATORY FRAMEWORK	PRIVATE VC FUNDING	SKILLS/TALENT	BUSINESS ENVIRONMENT & START-UP ECOSYSTEM
<b>Singapore</b> 	<ul style="list-style-type: none"> <li>The Monetary Authority of Singapore (MAS) and the National Research Foundation announced the establishment of a Fintech office in order to facilitate the development of Singapore as a Fintech hub.</li> <li>MAS allocated a budget of S\$225 million to aid in the development of the Fintech ecosystem from 2016 to 2021.</li> <li>Singapore has signed a number of cooperation agreements with overseas regulatory authorities in an effort to promote collaboration and innovation across jurisdictions.</li> </ul>	<ul style="list-style-type: none"> <li>In Feb 2017, MAS announced plans to further ease regulations for venture capital investors assisting early-stage start-ups (e.g. reduce application time for receiving a VC license).</li> <li>The government also provides generous funding mechanisms for start-ups.</li> </ul>	<ul style="list-style-type: none"> <li>Singapore was ranked fourth in recruitment of talent in a global research project released by Economist Intelligence Unit (EIU) and ranked 15th in the world-talent ranking by Swiss business school IMD.</li> <li>Various organisations across the financial services and Fintech and start-up communities have supported industry-specific partnerships and education programs (e.g. via Byte Academy).</li> </ul>	<ul style="list-style-type: none"> <li>In 2016, Singapore was ranked 10th in a Compass report ranking start-up ecosystems.</li> <li>Singapore created a Financial Sector Technology &amp; Innovation (FSTI) scheme for the creation of a comprehensive ecosystem for innovation. The FSTI promotes experimentation, and accelerates the development of nascent innovative technologies in the financial services</li> </ul>

However whilst significant activity has taken place in Sydney and Australia our global competition has not stood still with key cities in the US, UK and Asia continuing to build their own ecosystems

CITY	GOVERNMENT POLICY & REGULATORY FRAMEWORK	PRIVATE VC FUNDING	SKILLS/TALENT	BUSINESS ENVIRONMENT & START-UP ECOSYSTEM
<b>Hong Kong</b> 	<ul style="list-style-type: none"> <li>The Hong Kong government has been active in establishing multiple initiatives to develop its Fintech ecosystem and promote the country as a Fintech hub in Asia (e.g. HKMA's Fintech Facilitation Office and Fintech Supervisory Sandbox, SFC's Fintech Contact Point and Fintech Advisory Group, Cyberport's Smart-Space Fintech).</li> </ul>	<ul style="list-style-type: none"> <li>A number of accelerators are present that assist with funding, including Standard Chartered Bank's SuperCharger, the DBS Accelerator, and the AIA Accelerator.</li> </ul>	<ul style="list-style-type: none"> <li>Hong Kong is recognized as a major financial hub in South East Asia and offers flexible visa policies to attract talent.</li> <li>To cater to the growing demand for talent and maintain its position as a global Fintech hub, local regulatory authorities, banks and universities have rolled out initiatives to develop talent (e.g. FCAS, SuperCharger, Fintech Undergraduate program).</li> </ul>	<ul style="list-style-type: none"> <li>Hong Kong has a free-enterprise, free-trade economy, where it takes approximately 1.5 days to start a business.</li> <li>In Jan 2017, the government announced the National 13th Five-Year Plan and the Belt and Road Initiative which generates new opportunities in financial and professional services and innovation and technology.</li> </ul>

CITY	GOVERNMENT POLICY & REGULATORY FRAMEWORK	PRIVATE VC FUNDING	SKILLS/TALENT	BUSINESS ENVIRONMENT & START-UP ECOSYSTEM
<b>Shanghai</b> 	<ul style="list-style-type: none"> <li>China's regulatory regime is positioned to be supportive of entrepreneurs and to encourage sector growth through numerous government and regulatory initiatives that support international and local entrepreneurs, investors and the financial services sector.</li> <li>Shanghai seeks to be a leader in blockchain technology, which is supported through the Chinese Government's national 5 year plan.</li> </ul>	<ul style="list-style-type: none"> <li>In June 2015, the Chinese government announced a \$US6.5b seed-stage venture capital fund, which includes investments from the private sector.</li> <li>In January 2017, a consortium of Chinese state-owned companies and private enterprises created a \$US1.44b investment fund for Fintech mergers and acquisitions.</li> <li>A number of policy measures have been adopted to encourage international investors to invest in start-ups in Shanghai.</li> </ul>	<ul style="list-style-type: none"> <li>The average education level in Shanghai is higher than the rest of China; however, when compared to Hong Kong, Shanghai lacks a significant pool of financial sector and tech professionals.</li> <li>However, the government has recently introduced a number of initiatives to attract foreign talent.</li> </ul>	<ul style="list-style-type: none"> <li>Shanghai is the epicentre for the financial services sector in China, and is designated as a national innovation demonstration zone.</li> <li>In the 2017 KPMG Global Technology Innovation report, Shanghai scored as the number 1 emerging new tech hub in the world.</li> <li>In 2016, more than 70,000 start-ups set up in Shanghai, a growth of 20 percent from the previous year.</li> </ul>



## INTERNATIONAL CITIES FINTECH PROMOTION ACTIVITIES

### London



The London Fintech Week, had its fourth annual event in July 2017 and is a series of conferences, exhibitions, workshops, hackathons, meetups and social events, with around 3,000 to 5,000 individuals participating from across 50 different countries.

The event aims to enhance collaboration across the global Fintech landscape with a view to enhance dialogue between large multi-national corporations, innovation firms, disruptive start-ups, governments and investors.

The various events are hosted across a number of locations across the city of London.

### Hong Kong



The first Hong Kong Fintech Week, hosted by InvestHK, was held between 7 and 11 November 2016 and attracted more than 2,500 participants as well as a number of Fintech companies, start-ups, incubators and investors.

The event was supported by a number of government agencies, including the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA), as well as organisations from the financial services sector, including NexChange and the Finovate Group.

With a mix of local and international firms actively participating in the event, it witnessed more than 100 Fintech experts share their insights and opinions on Fintech.

### Singapore



The first edition of the Singapore Fintech Festival took place in November 2016 and was hosted by the Monetary Authority of Singapore (MAS) in partnership with the Association of Banks in Singapore (ABS).

The week-long festival provides a platform for collaborations, connections and co-creations within the Fintech ecosystem in Singapore and around the region.

The festival also included the MAS Fintech Awards, which recognizes innovative Fintech solutions that have been implemented by start-ups, financial institutions, and technology companies.

# FUTURE OPPORTUNITIES & CHALLENGES

Our research has identified a number of emergent opportunity areas for Fintech...

## INNOVATION AROUND EVOLVING CUSTOMER EXPECTATIONS

- As customers are increasingly demanding more, keeping up with expectations and retaining relevance presents as both an opportunity and a challenge
- Firms will need to break away from traditional banking methods and instead, create engaging and unique customer experiences, such as an integrated end-to-end property app for buying a home, receiving a loan and managing a mortgage
- An entrepreneur starting a tech company will have different needs to an established business owner. Serving the various needs of retail customers presents another opportunity for financial institutions to create tailored products for the different segments
- With the complex language, regulation and processes in banking, insurance and superannuation, financial technology could provide solutions to customers to help them understand policies and to engage with different products

## CONTINUED GROWTH IN CUSTOMER DIGITAL ADOPTION

- Digital adoption by customers continues to grow, providing an opportunity for firms to create more services and improve customer engagement through mobile devices, AI and robotic process automation (RPA)
- However, the level of digital adoption is not as high within the older population and is tempered by Gen Y's general reluctance to digitally engage with larger transactions, such as applying for mortgages online
- Further, with increased digital adoption, cyber security will become of paramount importance to increase consumer awareness and confidence in digital products



## FURTHER INDUSTRY COLLABORATION

- Industry collaboration should continue, including leveraging partnerships with start-ups and collaboration across industries
- Fintech can reduce the costs of services and improve the quality of the customer experience. Rather than developing technology in-house, incumbents (with their implicit established advantage of holding customer trust) could partner with start-ups to create synergies

## LARGE SUPERANNUATION POOL

- Australia's capital structure and pool of superannuation funds, one of the largest in the world, presents opportunities in wealth tech (e.g. robo-digital) and provides an existing advantage and leadership potential in attracting international Fintechs
- Superannuation is an arbitrary product designed to disperse risk. Due to it being a relatively untapped market, there is an opportunity to engage with customers, create individualised experiences and to provide cost effective advice
- Super funds could become an important source of capital to Fintech start-ups (currently, most super funds do not invest in risky tech, especially compared to the US)

## COMPETITIVENESS IN ASIAN MARKET

- Asia has high levels of unbanked populations and a need for financial inclusion, creating opportunities in micro-lending, pension schemes and non-bank financing
- Australia should aim to increase its competitiveness in order to capitalise on the Asian market



...at the same time there are a number of key challenges to be addressed for the sector to truly flourish

## THREAT FROM INTERNATIONAL TECH GIANTS (ALIPAY, GOOGLE, APPLE, AMAZON) AND DISRUPTIVE START-UPS (UBER, AIRBNB)

- Competition in financial services is increasingly coming from global platform companies or technology giants
- These companies have lower barriers to entry and infrastructure costs and they are less concerned with different elements of the value chain
- Their repositories of consumer and retailer data are deep and they have strong and exportable technological capabilities
- However, these companies are unlikely to invest in infrastructure, data retrieval will become an issue, and if they begin to dominate, the result would be a significant impact on industry and a potential economic loss to Australia

## REGULATORY CHALLENGES

- The high levels of regulation in Australia are in place to reduce failure rates of institutions. However, the negative effects of trying to avoid systemic risks by burdening banks with substantial capital requirements and strict regulations are particularly manifest in a Fintech context.
- The significant and growing volume of policy and regulatory requirements are stifling innovation as there is no capacity for firms to engage with innovative processes and to take risks
- The strict regulations can also create adverse effects. For instance, due to the difficulty of obtaining banking licences, new companies may try to partner with those that already have licences: this is not necessarily a favourable commercial outcome
- If the regulatory environment allowed for failure to occur (up to an acceptable level), this could become a competitive advantage
- New regulation can also be an opportunity as it drives some level of innovation to factor in cost/benefit trade-offs and design solutions to enable easy access for regulators

## UNEVEN PLAYING FIELD BETWEEN START-UPS, TECH GIANTS AND INCUMBENTS

- Start-ups and some tech giants are not subject to the same regulations and capital requirements as larger financial institutions
- They also do not have the same establishment and overhead costs as incumbents or the reputational risks associated with innovation
- Conversely, as the industry structure in Australia is dominated by a relatively small number of established financial institutions, it is often difficult for start-ups to access funds and data to enter the industry.
- The long and complex reporting requirements also adversely affect Fintechs as they do not normally have the resources and range of expertise to satisfy or understand requirements
- The uneven playing field, as a result of policy and regulation, extends to preventing general insurers from accessing tax concessions available to super funds and banks
- In order to create a level playing field, competition and new policies should be reframed. For instance, shared data could improve accessibility for start-ups and compensate incumbents, who bear reputational risks around APIs

## TALENT ATTRACTION

- Access to talent and talent retention, ranging from entrepreneurs to product developers, is proving to be an increasing challenge, for both Fintech start-ups, companies and established institutions
- There is concern that the current ecosystem does not have the right culture to foster innovation and attract talent and that not enough students are interested in technology-related degrees

## FRICTION IN BANKING

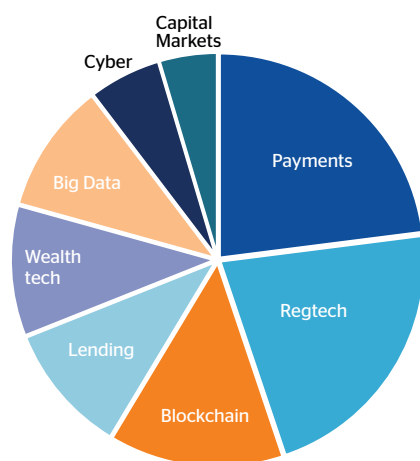
- There are high levels of friction in account switching due to the absence of a functional digital identity initiative. This could be improved by regulatory intervention with KYC or open data mandates

# STAKEHOLDER CONSULTATION

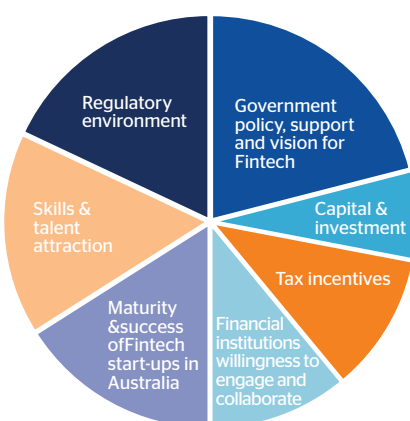
## Industry leaders see a number of key opportunity areas for Fintech in Australia, opportunity to lead in Asia and government policy, support and vision as key to growth

- As well as speaking with industry leaders from financial services, government, investors, industry bodies and emergent ventures we surveyed all on three key areas.
- The first being on what sectors did they see potential for Australia to be global leaders in. With the investment in world leading infrastructure such as the New Payments Platform 23% of respondents identified payments as a key focus area for innovation; this was closely followed by Regtech with Blockchain coming in third. Surprisingly, Wealthtech did not rate in the top 3 despite our large superannuation pools.
- Closely related to this question is where do we need to focus to accelerate and drive Fintech growth in Australia. Here respondents focussed on the role of government policy support and vision with 21% identifying this as the most important focus area.
- The regulatory environment (18%) was also seen as a key area of focus and in part this reflects the potential opportunity in Regtech. The qualitative interviews reflected a view that there is generally good availability of capital and investment for Fintech and this is reflected in the survey results with capital and investment ranking lowest in terms of areas to focus on.
- In terms of leading global centres for Fintech, unsurprisingly London, Silicon Valley and New York were the top three. Outside of these centres, here in Asia, Sydney ranked between Singapore and Hong Kong with 7% of respondents identifying Sydney as a Fintech leader. The implication of this is that, whilst Sydney is not seen as a global top three within the Asian region, we are seen as credible and could potentially challenge Singapore.
- These survey findings give an indication of where opportunity lies for Australia to be world leading and the steps we need to take if we want to compete on a global level in Fintech.

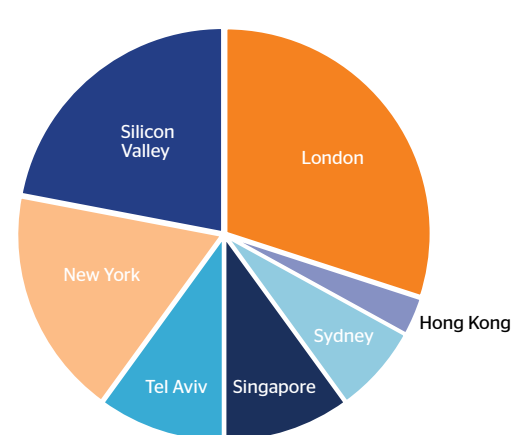
Potential Fintech sector for Australian to lead



Areas requiring attention for future Fintech growth



Leading Global Fintech centres



# FINANCIAL INSTITUTIONS PERSPECTIVES

## CHALLENGES



"There is no clear guidance on cloud, digital verification and other digital technology uses"

"It is easy to overestimate digital adoption when working in the corporate sector"



"There is a macro issue here: if all enterprise is dominated by a small number of globals then Australia will be a very poor nation"

"We need more clarity around future areas of regulation rather than after-the-fact regulatory responses"



"Barriers to entry are lowering and the value chain is unbundling"

"Given the strength of our super sector, we should be doing Wealthtech better but there is no evidence that we are"



## OPPORTUNITIES



"Having a deep understanding of customer needs is essential"

"Retaining relevance and creating unique customer experiences is an opportunity in this sector"



"Large institutions collaborating with Fintechs helps with talent attraction and retention"

"We need to get the right culture to foster innovation and attract talent"



"Regulatory settings need to be equal for all players- the sandbox should be available to incumbents"

"The NPP is a good example of collaboration- this should be emulated with blockchain or AML"



# FINTECH START-UP AND INVESTOR COMMUNITY PERSPECTIVES

## CHALLENGES



"Competition is increasingly coming from global platforms, creating a loss to home grown services and an economic loss to Australia"

"In Australia, there is a lack of skill and capability in STEM- a lot of international students are coming in to fill this gap"



"The government should simplify legislation- it is currently so confusing that no one knows how to use it"

"We need access to talent; from entrepreneur to developer"



"Crossing borders is a huge barrier to Fintech growth and access to capital"

"The lack of a functional digital identity layer creates too much friction in switching banks"



## OPPORTUNITIES



"Super profits are being made and this has the potential to change service and tech propositions"

"Start-ups need an export mindset from the start so they work harder and better than anyone else in the world"



"Given what is happening in terms of policy, levelling the playing field with data availability is important"

"With Trump's new immigration policies, a lot of specialists will have to leave the US- the Australian government should follow what Canada and New Zealand are doing and target this talent"



"Sydney is one of the most liveable cities in the world- we should promote this to attract talent"

"Government and regulatory intervention will be needed to create an open-data regime"





## REGULATOR PERSPECTIVES

### CHALLENGES



"Investment in risk management is not commensurate to investment in tech"

"There should be more clarity around ownership- VC's say this is their biggest issue"



"Current tax incentives are not enough- we need to match tax settings in other countries to remain competitive"

"Digital identify and data are critical enablers but there has not been a collaborative flagship effort between the public and private sector in these areas"



"How to engage with unconventional financial entities is the biggest issue facing regulators at the moment"

"Large institutions are huge adopters of tech but with this comes cyber risks"



### OPPORTUNITIES



"The government needs to be less risk averse and enable companies to experiment"

"The process of KYC should be centralised and deployed in a similar way to the NPP"



"Perhaps regulation needs to apply to 'services' instead of 'legal entities' so that regulators have powers across a number of different legal vehicle entities"

"A greater level of coordination is needed between state and federal authorities"



"All of the key public policy issues will affect/relate to millennials"

"Regulators need more guidance from the government"



## OTHER STAKEHOLDER PERSPECTIVES

### CHALLENGES



"Avoiding systemic risk by burdening banks with huge capital requirements is creating negative effects"

"There is a lack of alignment between government and regulators"



"Open API and open data could also bring negative effects, such as privacy issues concerning the amount of information that is publicly available"

"Australia should be more focused on interoperability between systems rather than creating standards"



"We need to be careful not to create a climate for collaboration without law"

"Singapore has a much clearer commercial and political focus"



### OPPORTUNITIES



"Australia's capital structure and large pool of superannuation funds presents a massive opportunity"

"Leveraging partnerships should also be done across industries"



"AML is an opportunity for collaboration"

"NPP is an example of an industry-led initiative that has potential for the future development of Fintechs in Australia"



"Industry and government should be working with, and supporting, universities- Hong Kong and Singapore do this well"

"Tax incentives for early stage funding are provided to well structured businesses- this filters in quality start-ups"





# RECOMMENDATIONS

To further enhance and scale our Fintech ecosystem we have identified 10 core recommendations for both the private and public sector

## ALIGNMENT

**1** NSW Government to continue working with the Committee for Sydney and the private sector to refresh the existing NSW Government Financial Services Strategy, articulating a strong commitment to support and champion the growth of the Fintech sector, providing a focal point for the alignment of effort between the public and private sectors

## PROMOTION

**2** Foster greater alignment and coordination between and within Commonwealth and NSW Government agencies to actively promote Australia and Sydney as a leading global financial services centre, with a specific focus on Fintech and digital innovation

**3** Provide continued promotion of and support for Fintech hubs, such as Stone & Chalk and Tyro Fintech Hub, assisting them to provide opportunities for cross-industry collaboration and Fintech community engagement

## CAPABILITY DEVELOPMENT

**4** Drive public and private sector collaboration efforts and investment to develop 'priority' areas of capability in Payments, Regtech and Blockchain, leveraging our world leading financial services infrastructure

**5** Build meaningful international pathways for Australia's Fintech sector, helping to support the export of our leading Fintech capability offshore and to attract the best international Fintech companies to Sydney (Australia)

## SKILLS AND EXPERIENCE

**6** Develop Fintech skills and experiences (e.g. entrepreneurial, technology, etc.) in the local workforce and attract international talent to enhance the quality of ventures and support their ability to scale, as well as gain greater levels of capital (locally and globally)

## POLICY AND REGULATORY SETTINGS

**7** Facilitate active cross-industry engagement to support the Commonwealth Government to expedite policy frameworks in 'enabling' areas of capability, such as digital identity, open data and cyber-security

**8** Engage policy makers and the regulatory community to improve the effectiveness of existing grants, incentives and regulatory settings, as well as introduce new measures to further enhance the Fintech sector's continued development

## EDUCATION

**9** Work with the regulatory community and private sector to create more effective mechanisms to educate consumers and businesses on digital financial services, helping to raise the awareness and understanding of new Fintech and/or digital financial products and services

**10** Engage the university sector and leverage the capabilities of research institutes, such as Data61 to research key Fintech themes and explore business opportunities for commercialisation (supporting 'priority' and 'enabling' areas of capability)\*

## ALIGNMENT

- 1** NSW Government to continue working with the Committee for Sydney and the private sector to refresh the existing NSW Government Financial Services Strategy, articulating a strong commitment to support and champion the growth of the Fintech sector, providing a focal point for the alignment of effort between the public and private sectors
  - Fintech is a fast-growing segment of the financial services industry in NSW and nationally. Therefore, it is important to consider policy decisions, investment activity and initiatives to promote the growth of Fintech in the context of developments in the broader financial services industry
  - In order to scale the local Fintech eco-system, alignment between the public and private sector is required to fully maximize the benefits of investment activity and initiatives in Fintech
  - Building on the existing NSW Sector Strategy for the Financial Services Industry, and leveraging the FS Knowledge Hub, it is recommended that the strategy be refreshed to continue to provide a focal point for the development of Fintech and to reinforce the State Government's commitment to the Fintech sector, as well as more visibly champion it
  - This Strategy should also examine the impact of new technologies on the financial services industry and potential changes to the workforce, as well as explore the implications for policy and investment, as well as cross-industry collaboration initiative
  - It is recommended that an annual event be held each year to inform and refine this Strategy, convening key stakeholders across the Fintech eco-system

---

## PROMOTION

- 2** Foster greater alignment and coordination between and within Commonwealth and NSW Government agencies to actively promote Australia and Sydney as a leading global financial services centre, with a specific focus on Fintech and digital innovation
  - Compared to other regional Fintech centres, such as Singapore and Hong Kong, it was frequently cited that the lack of alignment and coordination between agencies of both the Commonwealth and NSW Government (as well as other states) is an issue
  - This misalignment is evident in Fintech start-ups misunderstanding the availability of and access mechanisms to programs that can support them to expand abroad, as well as in promoting the strengths of Australian Fintech to international start-ups, financial institutions and investors
  - The high degree of digital adoption by Australian consumers is a point of positive differentiation for our local Fintech sector and is widely acknowledged
  - However, the strong track record, significant scale of technology investment and digital innovation by our established financial institutions is not well understood locally and could be leveraged to attract international start-ups, talent and capital
  - This is an increasingly important dimension of promoting Australia and NSW as an attractive destination for Fintech companies and investors, particularly in those categories of Fintech which are 'enablers' (seeking to provide capability to financial institutions)
  - It is recommended that the NSW Government, work with Commonwealth and other states, as well as Fintech Australia, to facilitate greater alignment of programs, marketing and promotional efforts internationally.
  - It is also recommended that NSW Government work with relevant industry associations to leverage SIBOS being held in Sydney in 2018 to showcase Australian payments and Fintech capabilities to the international



## PROMOTION

3

Provide continued promotion of and support for Fintech hubs, such as Stone & Chalk and Tyro Fintech Hub, assisting them to provide opportunities for cross-industry collaboration and Fintech community engagement

- International Fintech hubs, such as Level39 (UK), Lattice80 (Singapore) and the Floor (Israel), as well as Stone & Chalk and Tyro Fintech Hub in Sydney, have played (and continue to play) a critical community-building role. They support Fintech start-ups and companies, as well as foster the development of the broader eco-system in their respective geographies
- Importantly, they also play a role in supporting the promotion of the city's/country's Fintech eco-system and capabilities, helping to attract talent and capital from international markets
- A unique point of differentiation for Sydney is the collaborative, cross-industry model of Stone & Chalk (with established financial institutions, Fintech start-ups, accelerators and investors/VCs interacting in a physical environment and across a range of programs)
- In order to support Sydney and Australia's aspiration to be a leading international Fintech centre, it is important that Fintech hubs, like Stone & Chalk, continue to be actively promoted and supported by all levels of Government, regulators and industry
- The NSW Government's (Jobs for NSW) recent announcement to create the Sydney Start-up Hub, which will be the location of Stone & Chalk's new Sydney location is a tangible example of valuable support
- Another example is using the hub and their entrepreneurs in the community to 'hack' specific problems/ opportunities for Government and local municipalities (in regional areas) where Fintech could be a key enabler

## CAPABILITY DEVELOPMENT

4

Drive public and private sector collaboration efforts and investment to develop 'priority' areas of capability in Payments, Regtech and Blockchain, leveraging our world leading financial services infrastructure

- Through our stakeholder survey, Payments, Regtech and Blockchain were identified as the three areas of Fintech where Australia (and Sydney) has the potential to scale locally and to grow internationally through exporting capability. These areas are designated as 'priority' areas of capability for NSW Government support and investment as they offer benefits to domestic markets, as well as international export potential.
- Payments is the largest sub-sector of Fintech and leverages world-leading infrastructure in the form of the New Payments Platform. The NPP is expected to be a further catalyst for growth in Fintech, in particular attracting international Fintech companies to Australia.
- Blockchain is an emerging area of substantial potential for the Fintech sector and broader financial services industry. The ASX's world-leading efforts to explore distributed ledger's application in Australian capital markets also provides an opportunity to leverage this infrastructure to develop local blockchain capability and attract international Fintech companies to Australia, similar to Digital Asset Holdings.
- Regtech is another emerging area of Fintech. Given Australia's globally respected financial system and regulatory framework, it is an area that offers the potential to enhance the efficiency and stability of our local industry and export potential for Australian Fintech companies and established financial institutions (leveraging 'brand Australia').
- Given the Commonwealth Government and regulator support, as well as industry interest in Regtech, it is recommended that NSW Government facilitate private-public sector collaboration, including regulators, to explore the potential to develop a Regtech solution for a known industry issue. One common issue/ opportunity identified through the survey, was KYC/CTF requirements and how this could be more efficiently and effectively managed through the application of emerging technology capabilities, such as blockchain.

## CAPABILITY DEVELOPMENT

5

Build meaningful international pathways for Australia's Fintech sector, helping to support the export of our leading Fintech capability offshore and to attract the best international Fintech companies to Sydney (Australia)

- Building on recommendation 3, the Commonwealth and NSW Governments are encouraged to develop an "International Pathways Program" to accelerate the development and scaling of local Fintech companies offshore. This program should be targeted at supporting established Fintech companies and would involve stream-lined support from all levels of Government, as well as regulators
- In addition, creating more global 'exchanges' (such as the NSW Government did last year to Israel with a number of Fintechs) would be valuable for Fintech companies seeking to scale offshore. The NSW Government should also provide \$10k grants that Fintech start-ups can access to travel to international markets
- More broadly, it is also recommended that the NSW Government explore and establish more meaningful international bridges with other leading Fintech and financial services centres, such as Shanghai, London, etc. similar to the NSW-Shanghai MOU. China in particular, with a strong mobile payments environment, should be a focus given rec 2
- These bridges can serve as a means to help Australian Governments, regulators, financial institutions and Fintech start-ups to understand world-leading developments in international jurisdictions, as well as to foster opportunities for Australia's eco-system in offshore markets
- They will also provide a more deliberate and structured process for identifying and attracting the best international Fintech companies to Sydney

## SKILLS AND EXPERIENCE

6

Develop Fintech skills and experiences (e.g. entrepreneurial, technology, etc.) in the local workforce and attract international talent to enhance the quality of ventures and support their ability to scale, as well as gain greater levels of capital (locally and globally)

- Australia has a highly regarded education system that produces a high quality talent pool, however it is not enough to satisfy the growing levels of demand in many employment and skills categories (e.g. software engineers, data scientists, cyber-security, etc.), which will limit the ability to scale the Fintech opportunity
- Building upon Sydney being widely regarded as one of the most liveable cities in the world and a highly attractive destination for skills migrants, the NSW Government should capitalise on this to attract top talent to address this short-term labour market shortfall. Sydney also stands to benefit from Brexit (UK) and Trump (US) policies
- Coupled with this, home grown talent should also be fostered over the medium-to-long-term. For example, greater encouragement and incentives for universities to work with Fintech start-ups (for instance, MBA graduates to intern in the Fintech community and are permitted to take credit time back to their MBA) should be facilitated by Government
- In order to attract international talent and experience to Australia, it is recommended that the NSW Government, working with Austrade, initiate a program to actively target and invite international Fintech start-ups to come to Australia or to set up regional offices in Sydney (to service the ASPAC market)
- Financial services leaders should look to build skills, capability and knowledge within their organisations to enable engagement with and development of Fintech. This would include developing an understanding not just of enabling technologies but new business building tools such as design thinking, lean start-up and agile
- Finally, it is important that collaboration to enable cross-skilling between established financial institutions and Fintech startups is encouraged - both have relatively different skills and work in different ways - hence, they need to be able to effectively interact, and would benefit from having some of the inherent skills of the other

## POLICY AND REGULATORY SETTINGS

7

Facilitate active cross-industry engagement to support the Commonwealth Government to expedite policy frameworks in 'enabling' areas of capability, such as digital identity, open data and cyber-security

- A number of capability areas were identified during the stakeholder survey that were deemed as critical 'enablers' to foster greater levels of digital adoption in the financial services industry, balancing innovation, consumer safety and system resilience
- The three 'enabling capabilities' identified in our survey included digital identity, open data and cyber-security, and they are key to enabling better consumer outcomes. These are important enablers for the growth in the Fintech sector, the financial services industry, as well as the Australian economy more broadly
- Whilst the Commonwealth Government has the policy responsibility in these areas, NSW Government should actively facilitate areas of safe experimentation and trial/pilot adoption, collaborating with stakeholders in the Fintech eco-system, as well as established financial institutions. Through this, NSW Government can play a role in helping to improve both the quality and speed of policy decision-making (which has been relatively slow in a number of areas, e.g. Crowd-source equity funding)

## POLICY AND REGULATORY SETTINGS

8

Engage policy makers and the regulatory community to improve the effectiveness of existing grants, incentives and regulatory settings, as well as introduce new measures to further enhance the Fintech sector's continued development

- Grants and incentives take time and investment to compete for and many respondents asked for greater clarity of eligibility and availability to help companies assess where to focus resources
- Recent developments in taxation settings contribute to a continued perception of an uneven playing field for incumbents with many incentives being aimed at emerging companies and existing incentives being wound back from larger organisations (e.g. R&D).
- A common area of feedback from respondents was the ability to measure the effectiveness of policy and regulatory measures, and where possible, create an ability to amend them more easily and quickly
- A number of areas were regularly suggested for consideration of policy-makers and regulators:
  - Clearer regulatory guidance on topics, such as digital verification, cloud computing, etc., to facilitate greater investment and activity from both FIs and fintech companies
  - Expanding access to the regulatory sandbox, making it available to established financial institutions (as is the case in the UK, HK, Singapore), as well as increasing access to categories of the industry, such as superannuation
  - Encouraging a more effective engagement and public support from APRA and the RBA of Fintech developments, e.g. bank licensing, digital currencies, etc.
  - Including AUSTRAC in the Council of Financial Regulators to allow for more effective engagement and coordination between agencies for Fintech start-ups and companies
  - Regulators seeking to experiment with and adopt Regtech solutions; this could be done through regulator sponsored hackathons, similar to what the FCA and MAS have done in the UK and Singapore respectively
  - Government as a procurer of services to provide greater access and opportunities for Fintech/tech companies to solicit for Government related work

## EDUCATION

9

Work with the regulatory community and private sector to create more effective mechanisms to educate consumers and businesses on digital financial services, helping to raise the awareness and understanding of new Fintech and/or digital financial products and services

- Digital enablement, as well as being an efficient distribution mechanism, offers significant opportunities to enhance consumers access to, and service experience, of financial services (and the financial, social and economic benefits that accrue)
- With the rise of digital in traditional financial services, the Fintech sector and potentially, as non-traditional entrants enter the value chain, an increasing concern will be around consumer awareness, education and understanding of new Fintech and/or digital financial products and services. This may present a growing obstacle to adoption and increase the risk to consumers and businesses, which could result in reduced system efficiency and confidence.
- It is recommended that Governments (Commonwealth, States) and regulators, work with industry representatives (including the Fintech sector) and the relevant consumer/business groups, to promote improved education and awareness of digital financial products and services (e.g. access, use, benefits, risks, etc.)

---

## EDUCATION

10

Engage the university sector and leverage the capabilities of research institutes, such as Data61 to research key Fintech themes and explore business opportunities for commercialisation (supporting 'priority' and 'enabling' areas of capability)\*

- Given the fast-moving nature of emerging Fintech and, technology developments more broadly, understanding the potential benefits and risks, from an economic, social and commercial perspective, are critical to obtain any form of competitive advantage, over other aspiring centres
- As such, it is recommended that greater collaboration between NSW Government, industry, Fintech start-ups, regulators and the university sector be addressed through co-funding for new research and commercialisation projects
- This research agenda should have an initial focus to support the 'priority' (Payments, Regtech, Blockchain) capability areas, as well as 'enabling' infrastructure (digital identity, open data and cyber-security)
- It is recommended that the NSW Government elect a representative group of stakeholders across the entire financial services and Fintech eco-system to form the creation of a Digital Financial Services Research and Commercialisation Taskforce, as well as commit funding to support new research projects

# INTERVIEW LIST

The Committee for Sydney and KPMG would like to thank the following individuals and organisations for their contribution to this report

- Cathy Kovacs, Westpac
- Toby Norton-Smith, CBA
- Todd Reichmann, NAB
- Ben Tabell, HSBC
- Pratham Karkal, Macquarie
- Ron Arnold, IAG
- Dan Taylor, TAL
- Sue Coulter, CUA
- Stuart Warwick, Beyond Bank
- John Heaton, Heritage
- Scott Morgan, Greater Bank
- Richard Womald, Mastercard
- Rob Walls, VISA
- David Carter, Suncorp
- Peter Hiom, ASX
- Max Cunningham, ASX
- Sally Loane, FSC
- Carla Hoorweg, FSC
- Pip Freebairn, ABA
- Eober Whelan, Insurance Council of Australia
- Martin Fahy, ASFA
- John Price, ASIC
- Mark Adams, ASIC
- Deborah Ralston, Digital Finance Advisory Committee, ASIC
- Neil Grummitt, APRA
- Sarv Ginn, RBA
- Jost Stollmann, Tyro
- Gerd Schenkel, Tyro
- Jason Yetton, SocietyOne
- Beau Bertoli, Prospa
- Scott Newham, Metamako
- David Snowden, Metamako
- Alex Scandurra, Stone & Chalk
- Mario Hasanakos, Spriggy
- Toby Heap, H2 Ventures
- Ben Heap, H2 Ventures
- Danny Gilligan, Reinventure
- Jason Gellert, Apex Capital
- Scott Farrell, King & Wood Mallesons
- Claire Wivell Plater, The Fold Legal
- Craig Dunn, Government Fintech Advisory Committee
- Dainelle Szetho, Fintech Australia
- Adrian Lovney, New Payments Platform Australia
- Gavin McCairns, AUSTRAC



The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2017 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.



“The Committee for Sydney provides critical thought leadership for a city we all love; they are pushing the boundaries.”

**THE HON. GLADYS BEREJIKLIAN MP**  
PREMIER OF NSW

**The Committee for Sydney**  
Level 10  
201 Kent Street  
Sydney  
NSW 2000

**[sydney.org.au](http://sydney.org.au)**  
**@Committee4Syd**  
[committee@sydney.org.au](mailto:committee@sydney.org.au)  
+61 2 9320 9860