



ASIC

Australian Securities & Investments Commission

Harvesting the opportunities from financial innovation: How can ASIC help you?

*A speech by Greg Medcraft, Chairman,
Australian Securities and Investments Commission*

*Australian Financial Review (AFR) Banking and Wealth Summit (Sydney, Australia)
Tuesday, 28 April 2015*

CHECK AGAINST DELIVERY

Introduction

Ladies and gentleman, it's a privilege to be speaking at the AFR's Banking and Wealth Summit – the first event in its inaugural National Policy Series.

For over 50 years, the *Australian Financial Review* has been a leading source of independent news and commentary on the financial sector. And, I think forums like this provide an important venue to discuss the big issues confronting our sector. I congratulate Michael Stutchbury and his team for putting this event on.

My topic today is – Harvesting the opportunities from financial innovation: How can ASIC help you? The key to harvesting these opportunities is investor and financial consumer trust and confidence.

In exploring how we do this, I would like to talk about:

- ASIC's role in creating trust and confidence
- the challenges to trust and confidence, and
- how ASIC will respond to the challenges created by digital disruption and financial innovation.

ASIC's role in creating trust and confidence

So, what is ASIC's role in creating trust and confidence?

ASIC's fundamental objective is to allow markets to fund the real economy and in turn economic growth. This contributes to improved standards of living for all Australians.

For markets to do their job, investors need to have trust and confidence in them. Without it, you don't have a market.

Making sure Australians have trust and confidence in our markets is at the heart of everything we do and is reflected in our twin regulatory strategic priorities of:

- investor and consumer trust and confidence, and
- fair, orderly and transparent markets.

Our first strategic priority has three areas of focus:

- *Education*: investor responsibility for their own financial decisions remains core to our free enterprise system. We empower investors and consumers through our financial literacy work conducted under our MoneySmart brand.
- *Gatekeepers*: we hold gatekeepers – such as directors, advisers, auditors, product manufacturers, market participants and stock exchanges – to account.
 - ASIC is a law enforcement agency, first and foremost.
 - 70% of our regulatory resources are devoted to surveillance and enforcement.
- *Lastly, consumer behaviour*: we recognise how consumers really make decisions and look to apply insights from behavioural economics in our work.

Our areas of focus for our second strategic priority – fair, orderly and transparent markets – are:

- our role in market supervision
- surveillance of market conduct, and
- our corporate governance work.

Challenges to trust and confidence

For my second topic, I'd like to outline the challenges we see to trust and confidence in our markets. At ASIC, our focus is on being proactive and forward looking to help manage these challenges, which are:

- getting the right balance between a free market based system and investor trust and confidence
- digital disruption to existing business models and channels, which we will talk about later
- structural change in our financial system through:
 - the movement of savings from the banking sector to the superannuation sector, and
 - the growth of capital markets driven by the growth of superannuation
- financial innovation-driven complexity in products, markets and technology – much of this is driven by the digitisation of our economy, and

- globalisation, which also affects:
 - products
 - markets, and
 - technology.

Responding to challenges created by digital disruption and financial innovation

My third topic and focus for today is how ASIC responds to our challenges – particularly the challenges presented by digital disruption and financial innovation-driven complexity from technology.

I'd like to focus on three areas:

- digital disruption
- cyber resilience, and
- ASIC's innovation hub.

Digital disruption

At this moment in history, the time is ripe for disruption. Drivers for this include the fact that:

- today's technology is yet to fully make its impact on our financial services and markets
- investor and consumer trust and confidence in some sectors is low and they are looking for a better deal, and
- investors and consumers are becoming more empowered through social media.

The great drawcard of digital disruption is the opportunity it brings. Digital disruption offers:

- new forms of access
- greater competition, and
- greater efficiency.

It provides business with new ways of creating and sharing value with their customers. For example, think of the potential of:

- digital currencies
- peer-to-peer lending, and
- robo-financial advice.

I consider that the businesses that will end up succeeding – from both the incumbents and the disruptors – will be those that provide a sustainable demand-driven offering, which

puts the customers' interests at the core of what they do – that is, those businesses which have a culture that emphasises the best interests of their customers. For example:

- having a culture that targets products and services to the right customers, not just any customer, and
- putting the customer first – both when things are going well and when they are not.

This requires strong leadership. The tone has to be set from the top, maintained from the top and embodied in the day-to-day of how employees conduct themselves.

What does digital disruption mean for ASIC? We want to work with the industry to harvest the opportunities while mitigating the risks. Digital disruption does not change the outcomes we achieve for the Australian public. However, it changes the process by which we achieve them. We are increasingly using technology in detecting and responding to misconduct. For example:

- our Market Analysis Intelligence (MAI) system allows us to gather, match and analyse data to detect suspected misconduct in real time, and
- we also review the operation of the algorithms used by high frequency traders.

Cyber resilience

In responding to the challenges created by digital disruption and financial innovation, the second area I'd like to talk about is cyber resilience.

The links between market players and infrastructure mean that the impact of a cyber attack can spread quickly and has the potential to dangerously affect:

- the integrity and efficiency of global markets
- the protection of investors, and
- ultimately, trust and confidence in the financial system.

Potentially, it is a systemic risk.

A firm's survival depends on its ability to manage cyber risk through granular risk management systems.

For critical infrastructure, we must develop a consistent language to identify, evaluate and communicate the capability and maturity of an organisation's cyber resilience. Adopting the same standard around the world would provide a consistent baseline needed to tackle this global problem.

The Framework for Improving Critical Infrastructure Cybersecurity (NIST Cybersecurity Framework) released by the US National Institute of Standards and Technology may provide a good starting point.

At ASIC, we are also keen to help firms reach their desired level of cyber resilience. Last month, we released our cyber resilience report (Report 429 *Cyber resilience: Health check*), which:

- considers how obligations to manage cyber risks might arise in the laws that ASIC administers, and
- explains how the NIST Cybersecurity Framework can assist firms assess and mitigate cyber risk.

Our report also notes that cyber resilience is a governance issue. Boards should be aware of cyber risk as part of their risk oversight role. For example, directors should ask themselves:

- Do you know your company's level of cyber resilience and is it where you want it to be?
- Is the right information about cyber risk and cyber resilience getting reported to the board?
- Do you know enough to challenge the information you've been given?

ASIC's innovation hub

My final topic for today is ASIC's innovation hub.

ASIC is committed to cutting unnecessary red tape and facilitating business generally.

Last month, at ASIC's Annual Forum, I announced that we will be launching an innovation hub to help make it quicker and easier for innovative start-ups and fintech businesses to navigate the regulatory system that we administer.

Today, I am pleased to announce further details of what we will do under our five-point plan for the hub:

- *Point 1:* We will participate in other fintech initiatives, such as Stone & Chalk, where appropriate. We want to work cohesively with government and industry in this area. We will closely monitor any other new initiatives and offer our assistance where we can.
- *Point 2:* We will streamline ASIC's approach to facilitating business for new business models – for example, by looking to streamline common application processes, including applying for or varying a licence and in granting waivers from the law.
- *Point 3:* We will look at making ourselves more accessible to new types of businesses – for example, by developing a portal on our website – a one-stop shop for innovative businesses to access information and services directly targeted at them.
- *Point 4:* Within ASIC, we will adopt a coordinated approach to applying any reforms that may apply to innovative businesses in the future.
- *And lastly, Point 5:* We will establish a Digital Finance Advisory Committee with members from a cross-section of the fintech community to help inform how we focus our efforts in this area.

To businesses wanting to introduce ground-breaking financial products or services that genuinely benefit consumers – ASIC is open for business. We are ready to help.

Conclusion

I'd like to conclude by again emphasising the importance of industry and regulators working together to harvest the opportunities from digital disruption and financial innovation.

We all have a common interest in seeing these opportunities harvested, while at the same time mitigating the risks so that we all enjoy the benefits of:

- investor and consumer trust and confidence in our markets, and
- sustainable growth.