



ASIC

Australian Securities & Investments Commission

Cross-border innovation: Enabling fintech and regtech innovations across borders

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*International Institute of Finance Chief Risk Officer Forum (Singapore)
16 November 2016*

CHECK AGAINST DELIVERY

Introduction

Thank you for giving me the opportunity to speak to you today.

I want to touch on three topics in my introductory comments:

- the benefits, opportunities and risks posed by technological innovation – both financial technology (fintech) and regulatory technology (regtech) – in our region
- how regulators are and should be responding
- how regulators should be and are cooperating in responding.

I will do so as Chairman of ASIC, Australia's financial services and markets conduct regulator, and as a former Chair of the International Organization of Securities Commissions (IOSCO).

My key message is that, because the internet knows no borders, cooperation between jurisdictions is critical to our markets and economies reaping the benefits and opportunities both fintech and regtech offer.

Benefits, opportunities and risks

Let me turn first to the benefits and opportunities of fintech and reg tech.

Put simply, fintech has the potential to do three things:

- reduce the cost and improve the efficiency of product and service delivery across the financial sector

- empower customers who will be able to deal directly with product and service providers
- empower businesses to deliver a better value proposition to their customer base through improved data analytics.

Fintech also has potentially enormous macroeconomic benefits through supporting the enhancement of financial inclusion and bridging the financing gap, particularly in emerging markets.

Regtech, in addition, has the potential to do three things:

- empower businesses to manage their compliance risks more efficiently at a lower cost
- improve confidence in risk management in businesses where liability is in question, such as correspondent banking and financial advice
- enhance our ability as regulators, through improved access to data and data analytic tools, to monitor and analyse risks. We will be able to devote more of our resources to being proactive and pre-emptive, rather than reactive.

We in this region are well positioned to reap these benefits. We are among the biggest users of mobile phones and the internet, and have some of the highest internet speeds globally.

Yet these opportunities come with risks. Greater customer and investor control and direct engagement without appropriate understanding of the risks of the products and services they are accessing raise the risk of investor harm. There will be new channels through which fraud may be perpetrated both within and across borders.

The increased use of technology to capture, store and analyse data increases the risks of that data being misused, and the systems used to capture and store the data being subject to cyber attacks. There are also risks that data will be stored, used and shared with others against the wishes of the consumers providing the data.

Let me turn to how regulators should be responding to these challenges.

The regulatory response

Our challenge, as regulators, will be to create an environment that encourages fintech and regtech without compromising our core objectives of:

- promoting financial consumer and investor trust and confidence
- ensuring markets operate in a fair, efficient and transparent way
- mitigating systemic risks.

Our response to these developments should be driven by four considerations:

- being flexible and adaptable to the speed and content of change

- resisting the temptation to jump before we properly understand developments. This means carefully monitoring and engaging with start-ups at an early stage
- ensuring that we respond in a technologically neutral way, so long as doing so does not impede innovation
- ensuring we have the skills and resources to be a constructive and effective regulator.

Many of us in this region are developing responses based on four sets of programs:

- Innovation hubs, which are points of engagement with fintech entrepreneurs that allow them to understand our regulatory approach and us to monitor and understand developments as they are happening.
- Regulatory sandboxes, or ‘light touch’ regulatory environments, which give entrepreneurs the opportunity to test products while ensuring those who access their products and services have access to basic protections.
- Developing guidance that reflects and applies our regulatory approach to these developments as we understand them.
- Developing the skills, systems and processes that allow us to effectively monitor and assess what we are seeing and to analyse the data we collect.

Yet we cannot and should not be doing this in isolation. Because the internet knows no boundaries, cooperation and collaboration is critical to ensuring the benefits I’ve outlined can be reaped.

Cooperation

So, what should this cooperation involve? And, where we have taken steps, what have they been? I want to touch on four such steps.

Sharing information

The first is sharing information about developments we are seeing as they happen. We are doing this primarily through a network of cooperation agreements.

We have struck agreements in recent months – with the UK Financial Conduct Authority (FCA), the Monetary Authority of Singapore (MAS), the Ontario Securities Commission (OSC) in Canada and the Kenyan Capital Markets Authority (CMA) – which provide a foundation for us to share information about developments and work together in addressing them.

Some of these agreements also require us to assist start-ups engaging with an Innovation Hub (or similar) in one jurisdiction to receive similar assistance from a hub in another jurisdiction. This is intended to make it easier for entrepreneurs to take their ideas into other jurisdictions.

Ultimately, it would be good to see these bilateral arrangements evolve into a regional or global multilateral agreement.

We also continue to engage with others on an informal basis. Domestically we are in regular dialogue with the Reserve Bank. Internationally we are also in regular contact with our counterparts in the United States and in Europe on developments.

Harmonisation

The second is working to harmonise our regulatory responses and approaches.

Consistency of approach will make it easier for start-ups who want to access other markets to market their offerings in other jurisdictions without unnecessary additional regulatory burdens.

This will, I think, be a challenge as jurisdictions compete to attract entrepreneurs. We need to balance this competitive urge against the costs to start-ups of meeting a number of different sets of regulatory requirements to deliver the same value proposition to financial consumers in a number of jurisdictions.

In the long run, we don't know what a harmonised response will look like. In Asia, it is possible that we may settle on something close to a 'fintech passport', easing entry for fintech developments in each other's jurisdictions. It might simply be about developing equivalence processes around relevant regulation.

In any event, it is important that we use the formal and informal communication channels I have outlined to work toward aligning our philosophies and approaches to regulation.

Supervision and enforcement

The third – which is a little way down the track – is ensuring we cooperate in supervising and enforcing our regulations.

In the enforcement space, IOSCO has a multilateral Memorandum of Understanding (MMOU), signed by 109 of its members, intended to facilitate information sharing and cooperation in the conduct of investigations. Early next year, we plan to open an updated MMOU for signatory that will cover the sharing of information accessed through internet service providers (ISPs).

The supervision space is, we think, the area in which our current arrangements will need to be reviewed to facilitate this cooperation. Some thought will also need to be given to developing global standards around how data and information is collected, tagged and reported – to improve the efficiency and ease with which we can monitor regulatory compliance.

Supporting emerging markets

And the fourth will be providing support to emerging markets in developing their capacity to support and regulate this activity. This is where there is enormous potential –

given the macroeconomic benefits I outlined before – globally, and in this region in particular.

At ASIC, we stand ready to work with jurisdictions in our region to help them address the regulatory challenges we face.

Conclusion

So, in conclusion, I want to reiterate that fintech and regtech offer our financial services industry and capital markets huge opportunities.

As regulators, our challenge is to ensure these innovations are encouraged without compromising the things which make our markets work. Regulators and policymakers need to work together in this region and globally to ensure we reap the benefits of these innovations.