



ASIC

Australian Securities & Investments Commission

Digital disruption and how regulators are responding

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

*The Regulators Panel, FINSIA (Sydney, Australia)
5 November 2015*

CHECK AGAINST DELIVERY

Introduction

Good morning all. It's a pleasure to be here today. Today I am going to talk about the impact of new technologies, digital disruption and cyber resilience.

Five years ago, we weren't thinking about digital disruption. Now ASIC considers it to be one of our five key challenges to achieving our strategic priorities. In particular, today, I will talk about two things:

- the challenge posed for ASIC by digital disruption to existing business models and channels, and
- how ASIC is responding, in particular:
 - ASIC's innovation hub, and
 - our robo-advice taskforce.

The challenge posed by digital disruption

I believe that the great drawcard of digital disruption is the opportunity it brings. Businesses have seen the potential for new ways of creating and sharing value with technologically savvy investors and consumers. For example, the potential of:

- peer-to-peer lending/marketplace lending
- robo-advice
- crowd-sourced equity funding, and
- payments infrastructures (e.g. digital currencies, Apple Pay).

In the future, we will likely see further developments in:

- individually tailored insurance (e.g. QBE's 'Insurance Box'), and
- exchanges using the potential of blockchain technology.

But financial innovation brings both opportunities and risks.

New digital strategies continue to challenge traditional business models, disrupting financial services and markets and changing how they interact with investors and consumers, across a range of platforms and devices. Often these businesses have innovative business models that may not fit neatly within existing regulatory frameworks or policy.

Over recent years, there has also been significant growth in the number and severity of cyber attacks around the world.

How ASIC is responding

So how is ASIC responding to this? ASIC's fundamental objective is to allow markets to fund the real economy and, in turn, economic growth. For markets to do their job, investors and financial consumers need to have trust and confidence in them.

Ensuring 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, transparent and efficient markets.

In *ASIC's Corporate Plan 2015–2016 to 2018–2019* released in August this year, we identified a number of challenges to achieving our strategic priorities.

We identified that one of our key challenges is digital disruption – such as market place lending, robo-advice, crowd-sourced equity funding, digital currencies, blockchain and cyber resilience.

To respond to digital disruption, we are continuing to focus on the following:

- Promoting cyber resilience and identifying potential cyber attacks in markets through real-time market monitoring. To this end, we have focused on risk management by licensees. We issued a report earlier this year, particularly focused on the National Institute of Standards and Technology (NIST)'s Cybersecurity Framework.
- Ensuring compliance with licensing obligations.
- As a pro-active and forward-looking regulator, we are also taking steps to help industry take advantage of the opportunities on offer while ensuring that investor and financial consumer trust and confidence is not compromised. Our Innovation Hub and work on robo-advice are two good examples of this.
- Monitoring overseas developments on regulating fintech, such as the proportional approach evolving in many jurisdictions, including China.

ASIC's Innovation Hub

This year, we launched our Innovation Hub to foster digital innovation and help innovators navigate our regulatory system. This will, in turn, deliver potential benefits to investors, consumers and markets.

It fits with ASIC's commitment to cutting unnecessary red tape and facilitating business generally.

The Innovation Hub has five key components:

- *Engagement*: ASIC engages with fintech initiatives, including physical hubs and co-working spaces that have been established for start-up businesses.
- *Streamlining*: We are streamlining 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.
- *Access*: We are making ourselves more accessible to new types of businesses. For example, a portal on our website that offers a one-stop shop for innovative businesses to access information and services directly targeted at them.
- *Coordination*: Within ASIC, we are adopting a coordinated approach to applying any reforms that may apply to innovative businesses in the future.
- *DFAC*: We have established a Digital Finance Advisory Committee, or DFAC for short. This committee advises ASIC on its engagement with innovative businesses.

Robo-advice

Now, turning to robo-advice. In the last three years, robo-advice has been growing in popularity in the United States and the United Kingdom.

Australian licensees and some start-ups have observed the growing popularity of robo-advice models offshore. They are now actively looking to develop, or are developing, their own robo-advice models.

ASIC is very supportive of the automated provision of advice. We see it has the potential to offer a convenient, low-cost advice service to consumers. We also see benefits such as improved compliance and record keeping; and the potential to reduce conflicts of interest.

We want to better understand robo-advice business models. We need to understand the risks and issues that underlie robo-advice. The same laws and obligations for giving advice apply to digital advice – we see the legislation is technology neutral in the obligations it imposes.

Robo-advice does, however, raise some interesting regulatory issues and challenges. Particular issues ASIC will focus on include:

- how robo-advice providers comply with the best interests duty
- how robo-advice providers develop and test their algorithms

- the training and competency requirements for those sitting behind robo-advice models, and
- the adequacy of a robo-advice operator's compensation arrangements.

We have set up an internal Robo-advice Taskforce to look at robo-advice issues. We are discussing these issues with robo-advice providers and those looking to join the space.

Digital advice is growing rapidly and we will be working with operators to ensure they are getting it right and that investors can have trust and confidence in the advice they receive.

Conclusion

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

We expect that all of industry – including those developing new and innovative offerings – will have the customer interest front of mind. And that they will act in a way that fosters the trust and confidence of consumers.

In this regard, I also briefly want to mention the Banking and Finance Oath. Around 500 signatories have now signed up to the oath. The oath is an important sign of individuals taking personal responsibility for ethical behaviour.

At ASIC, we often talk about the importance of culture and behaviours starting at the top. The oath is one way that senior executives can demonstrate to their organisation and staff a personal commitment to an ethical customer-first culture.

We all have a common interest in seeing the opportunities of digital disruption harvested. At the same time we need to mitigate the risks, so that we all enjoy the benefits of investor and consumer trust and confidence in our markets, and sustainable growth.