



ASIC

Australian Securities & Investments Commission

Meeting our long-term challenges: ASIC's Corporate Plan

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Introduction

Thank you for the opportunity to speak to you at this ADC Forum Boardroom lunch. What I'd like to talk about today is 'Meeting our long-term challenges: ASIC's Corporate Plan'.

At the end of August, we released our Corporate Plan for the next four years. It communicates our current thoughts on how our vision and long-term challenges are shaping our strategy and responses over this period.

To give you some more insight into our plan for the next four years, I would like to talk about:

- firstly, ASIC's role in assisting investor and consumer trust and confidence in the financial system
- secondly, what we see as our challenges over the next four years
- finally, ASIC's strategy to meet these challenges and achieve our vision.

ASIC's role in assisting investor and consumer trust and confidence

So, first I would like to talk about ASIC's role in assisting investor and consumer trust and confidence.

ASIC's vision is to allow markets to fund the economy and, in turn, economic growth – in doing so, contributing to the wellbeing of all Australians.

We do this by:

- promoting investor and consumer trust and confidence
- ensuring fair and efficient markets
- providing efficient registration services.

Making sure investors and consumers have trust and confidence in our markets is at the heart of everything we do at ASIC.

Our challenges

However, in achieving our vision, we see a number of long-term challenges that can threaten investor and consumer trust and confidence.

Our first challenge is aligning conduct in a market-based system with investor and consumer trust and confidence.

Our second challenge is digital disruption – such as marketplace lending, robo-advice, crowd-sourced equity funding, digital currencies and the potential of blockchain – and cyber resilience. Over recent years, there has also been significant growth in the number and severity of cyber attacks around the world.

Our third challenge is structural change in our financial system through increasing market-based financing, which is led by the growth in superannuation.

Our fourth is complexity in financial markets and products, driven by innovation.

And our fifth challenge is globalisation of financial markets, products and services.

These challenges will shape our outlook and strategy for the next four years.

Responding to our challenges

We aim to respond to these challenges we face and, in doing so, we will work to achieve our vision the best we can with the resources we have.

Our Corporate Plan gives a detailed account of these challenges. It also outlines how we are responding in three ways:

- through our 'detect, understand and respond' approach
- strengthening our capabilities – including through developing our data analytics capabilities
- through specific projects and initiatives to address key risks.

Detect, understand and respond

We use our 'detect, understand and respond' approach to identify misconduct or the risk of misconduct.

We detect misconduct by:

- undertaking risk-based surveillance
- using information from gatekeeper breach reports, industry whistleblowers, and complaints and reports from the public
- monitoring industry, market trends and emerging risks, and
- leveraging the knowledge of our stakeholders and collaborating with academics, industry bodies, consumer groups and other agencies.

We understand by:

- using our technology systems, data management and analytics capabilities to gather insights
- enhancing our behavioural insights and research capabilities.

We respond by:

- providing education through our MoneySmart Teaching program and providing independent information and tools for investors and consumers through our MoneySmart website, www.moneysmart.gov.au
- providing guidance and engaging with gatekeepers, individual firms and industry to drive behavioural change
- taking enforcement and other regulatory action to hold gatekeepers to account
- providing policy advice to government and driving the implementation of law reforms.

Strengthening our capabilities

More than ever, we are focused on strengthening our capabilities to detect and respond to misconduct and help us achieve our vision. In particular, we are committed to transforming our regulatory business by more effectively capturing, sharing and using our data.

Over the next three years, we are building an integrated platform that includes a single repository of internal and external regulatory information, with the ability to search across this information easily.

Currently, we have a fragmented collection of largely Lotus Notes databases. We are now extending the roll out of Microsoft Dynamic CRM from our markets stakeholder teams to our financial services stakeholder teams, to better capture, share and use our data, as well as data from third parties.

We are also expanding our predictive data analytics capabilities to better enable us to identify and monitor entities that have a higher risk of non-compliance. For example, we are piloting technology-assisted reviews of evidence, using relationship pattern matching.

And we are enhancing the use of behavioural insights across our regulatory work to understand how people make choices and how gatekeepers behave. Individual behavioural insights help us to understand that in everyday decisions – including financial decisions – all of us, including investors and financial consumers, are influenced by personal preferences, beliefs and decision-making shortcuts.

In our markets stakeholder teams, we are using individual trading patterns to better detect and respond to insider trading.

Specific actions

Now I will talk about the specific ways in which we are responding to each of the challenges over the next four years.

Challenge 1: Aligning conduct in a market-based system with investor and consumer trust and confidence

A positive gatekeeper culture – at both the firm and industry level – driving good conduct is central to investor and consumer trust and confidence and fair markets.

We are addressing this challenge by focusing on the conduct of our gatekeepers – conduct which has sometimes damaged trust and confidence. We will pay particular attention to culture and conduct within the financial advice, credit, insurance, and superannuation and managed fund sectors.

Our target areas in financial services include:

- reward and incentive structures
- recruitment and training
- whistleblower policies
- complaints handling
- remediation.

Good culture should be at the heart of industry practice, as it increases a firm's reputation and brand loyalty and can directly affect its bottom line and business valuation.

Our target areas in markets include:

- corporate governance
- quality of financial reporting and financial information in prospectuses
- handling of confidential information, and management of conflicts of interest.

Challenge 2: Digital disruption and cyber resilience

To respond to digital disruption, we will focus on:

- monitoring the use of emerging technologies in financial services and markets, and compliance with obligations
- facilitating initiatives that support better cyber resilience and identifying potential cyber attacks in markets through real time market monitoring
- ensuring compliance with licensing obligations, particularly in relation to adequate risk management arrangements
- continuing to foster innovation through our Innovation Hub. Much innovation in financial services comes from start-ups and from outside the regulated sector
- keeping abreast of market developments through our Digital Finance Advisory Committee.

Challenge 3: Structural change

Our challenge is to manage the more direct role played by the growing pool of managed funds – particularly as savings move from the banking sector to the super sector. This is in part driven by compulsory superannuation, but also by an aging population.

In responding to this challenge, we will also focus on gatekeeper culture and conduct. Specifically in superannuation and managed funds, we will focus on:

- practices that can deliver good outcomes for disengaged super members
- improving risk management practices in the managed funds sector
- reviewing the advice, disclosure and inducements provided to employers by superannuation funds.

Challenge 4: Complexity driven by financial innovation

Much of this complexity is driven by the digitisation of our economy.

To respond to this challenge, we will focus on products, services and distribution models that pose the highest risk to investors and consumers. We will pay particular attention to:

- selling and distribution practices in credit, insurance and retail structured products
- practices in the life insurance industry
- compliance by superannuation and managed funds – especially disclosure practices for fees and performance.

Challenge 5: Globalisation

We see greater cross-border activity, competition and integration. Misconduct across borders can undermine fair and efficient markets and stability.

In responding to globalisation, we will continue to:

- influence international policy, actively participating in international cooperation and standard setting with Australia's context in mind
- where appropriate, take cross-border enforcement or other regulatory action
- keep abreast of international market developments
- analyse intelligence on innovative businesses, services and transactions in global markets to make sure we are up to speed and can respond in a timely fashion as needed.

What good looks like

Finally, I'd like to mention that for the first time in this year's Corporate Plan, we outline our view of 'what good looks like' for the sectors we regulate.

You can find this on pages 36 and 37. We will continue to build on this, with input from our stakeholders – and would welcome any thoughts you have on this.

Conclusion

So I've outlined today ASIC's strategy for meeting our long-term challenges and vision. Our Corporate Plan is our roadmap for the future.

I'd like to conclude by emphasising the importance of industry and regulators working together to face the challenges of the future, to ensure continued trust and confidence by investors and consumers in the markets.

Markets have a fundamental role in funding economic growth in the coming decades. And if you don't have trust and confidence, you don't have a market.

I would be happy to take any questions you might have or open up for general discussion.