



ASIC

Australian Securities & Investments Commission

The future of fintech and regulation

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CHECK AGAINST DELIVERY

Introduction

It is great to be here at the British Australian Fintech Forum 2017 and to bring the perspectives of the Australian financial services and markets regulator. I am very excited about the opportunities financial technology (fintech) presents and I am keen to talk to you about some of our thinking in this area today.

As regulators, in this fast paced environment, we want to keep our eyes on the transformative changes on the horizon. We want to engage with these trends, and truly understand them – so we are best placed to ensure that trust can be maintained in the financial sector.

To start off today, I would like to give you my thoughts about getting the right balance between innovation and maintaining trust and confidence in the market. Second, I will talk about how regulators are supporting innovation – including through our Innovation Hub, Regulatory Sandbox, guidance and international cooperation. Finally, I'll also touch on the importance of remaining mindful of the risks that come alongside the opportunities of fintech and innovation.

Balancing innovation with trust and confidence in financial markets

Technology is enabling the development of new products and services that can meet consumer needs more efficiently, and more cheaply.

Put simply, in financial services, we see that fintech has the potential to do three things:

- reduce the cost and improve the efficiency of product and service delivery
- empower customers who will be able to deal directly, more seamlessly, and flexibly with product and service providers
- empower businesses to deliver a better value proposition and customer experience to their customer base. This process is assisted by improved data analytics which can lead to a better understanding of customer behaviour and customer needs.

Fintech also has potentially enormous macroeconomic benefits through enhancing financial inclusion and bridging the financing gap – particularly in emerging markets.

At ASIC, we are focused on harnessing the opportunities of innovation, while ensuring that investors and consumers can have trust and confidence. Our guiding principle is maintaining sensible and appropriate regulation that fosters consumer trust and confidence in financial services.

Our vision informs the approach we take towards existing regulation, and new regulation or regulatory change. The three objectives of our vision are:

- promoting investor and consumer trust and confidence
- ensuring fair, orderly and transparent markets
- providing efficient registration and licensing of financial services and market participants.

As technology changes over time and new developments emerge, it is natural to experience disruptions that challenge the prevailing regulatory framework. ASIC has always had a focus on not standing in the way of technological change that may improve outcomes across the financial system.

How regulators are supporting innovation

Our philosophy at ASIC, when looking at the regulation of fintech, has four components:

- being flexible and adaptable to the speed and nature of change
- resisting the temptation to jump before we properly understand developments
- ensuring – as far as we can – that our regulatory responses are technology neutral. We should not be creating new arbitrage opportunities nor should we ‘pick winners’ from the many opportunities that are presented
- ensuring we have the skills and expertise to be an effective regulator in this space.

We have carried through this philosophy in multiple ways. The ones I will focus on today are ASIC’s:

- Innovation Hub
- recent guidance

- regulatory sandbox
- coordination with international regulators.

Innovation Hub

Our Innovation Hub is at the heart of ASIC's response to, and engagement with, the opportunities presented by innovation.

We engage with fintech entrepreneurs through our Innovation Hub. This allows them to navigate the regulatory framework and understand our regulatory approach. It also enables us to monitor market developments.

We understand that innovative products and services often do not fit clearly within existing rules and policy.

We set up our Innovation Hub in 2015 because we realised there were unique challenges faced by start-ups – including issues such as lack of experience with the regulatory framework and limited resources.

Our Innovation Hub is made up of five components:

- engagement with fintech and regulatory technology (regtech) entities, as well as the physical hubs and co-working spaces for start-ups
- informal assistance from us through our website for eligible entities – this guidance is intended to help new businesses consider important issues early on in their development
- tailored guidance for innovative businesses to access information and services relevant to them via our website
- a senior internal taskforce to assist in analysis of new business models – the taskforce draws together knowledge and skills from across ASIC, and is complemented by internal working groups on digital financial advice, marketplace lending, equity crowdfunding and blockchain
- Our Digital Finance Advisory Committee (DFAC), which provides ASIC with advice in this area. DFAC includes members from the fintech community, academia and consumer advocates as well as other financial regulators.

As you know, evolution in this area is rapid. Our Innovation Hub is now extending to a broader range of areas to assist businesses in meeting their regulatory obligations.

Guidance

Turning to our regulatory guidance.

Our work in this space often also extends to more traditional forms of guidance to help entities in new areas. Examples have included:

- [Regulatory Guide 255](#) *Providing digital financial product advice to retail clients* (RG 255), which aims to assist industry to understand ASIC's approach to regulating digital advice.
- [Information Sheet 213](#) *Marketplace lending (peer-to-peer lending)* (INFO 213) products, which gives guidance to assist providers of marketplace lending products and others providing financial services in connection with these products. It outlines disclosure requirements, regulatory obligations and good practice examples.
- [Information Sheet 219](#) *Evaluating distributed ledger technology* (INFO 219), which helps those who are considering operating market infrastructure, or providing financial or consumer credit services, using distributed ledger technology (DLT) – or blockchain. This guidance was prepared because there has been intense interest in DLT and we want to help facilitate the range of potential applications. It also gives fintechs and existing players the opportunity to evaluate whether the use of DLT would allow an entity to meet its regulatory obligations, as well as to fast track any discussions those entities have with ASIC.

Regulatory sandbox

Another key step we have taken to assist fintechs is to establish a regulatory sandbox framework – essentially a 'lighter touch' regulatory environment.

Our solution was developed after wide consultation with the sector in the middle of last year to understand the issues and barriers faced by new businesses seeking to enter the financial services market in Australia.

Part of this process involved looking at alternative approaches that other regulators were scoping, as well as looking at our existing framework, and deepening our understanding on the unique challenges fintechs face in Australia.

Our framework is based around additional guidance and a limited licence exemption. It includes a world-first class waiver that allows eligible fintech businesses to test certain services for up to 12 months without an Australian financial services or credit licence.

At the same time, it ensures those who access their services still have fundamental protections under the law, such as dispute resolution and professional indemnity insurance.

This is a 'whitelist' approach as there is no ASIC review of each proposed test and, by contrast, sandbox proposals in other jurisdictions have involved the regulator selecting applicants and negotiating individual testing terms.

Launched in December 2016, the sandbox is currently being marketed to the sector at home, and we are excited to see the opportunities it creates. Although it is early days, I anticipate that it will improve the opportunity for Australian fintechs in three key areas:

- speed to market – by providing an environment for testing without a licence
- organisational competency – by bridging knowledge gaps with more examples and also greater flexibility

- access to capital will be addressed reducing testing costs.

Ultimately, entities using the sandbox exemption will have the opportunity to prove a business model and investigate what strategy will best work for their business.

We'll review the entire framework in 12 months and will seek feedback from industry and other stakeholders as part of this process.

Cross-border cooperation

I've covered how we are helping our fintechs test their ideas and get to market. Now I would like to turn to other types of support or, in this case, some heavy lifting we are doing on their behalf to help with expansion.

ASIC collaborates closely with other regulators to understand developments, and to help entrepreneurs expand their target markets into other jurisdictions. We have signed fintech cooperation agreements with a number of other regulators, including the Monetary Authority of Singapore; the United Kingdom's Financial Conduct Authority; the Ontario Securities Commission; and Capital Markets Authority, Kenya.

These agreements provide for information sharing, as well as support for Australian fintech start-ups to access markets in each other's jurisdictions. Some also enable us to refer Australian fintechs to other regulators' fintech assistance programmes – and vice versa.

Given that many fintechs are truly global, or operate across borders, it is critical that we leverage these opportunities to share views, exchange information, and discuss the challenges that face the fintech businesses and the community.

We are also a signatory to the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding. This multilateral agreement gives commitment among over 100 securities regulators to provide each other with mutual assistance and cooperation, particularly in relation to enforcement of securities laws.

Remaining mindful of the risks

The opportunities on the horizon are plentiful. However with change and new developments, also come risks.

Greater customer and investor control and direct engagement without appropriate understanding of the risks, raises the likelihood of investor harm.

New channels will be created though which fraud may be perpetrated – both within and across borders – if not monitored carefully.

The growing 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.

Privacy is also an issue. There are risks data will be stored, used and shared with others against the wishes, or reasonable expectations, of those providing the data.

As machine learning and artificial intelligence play an increasing role, we also need to look to the algorithms behind these services.

The algorithms will need to be transparent so their decisions can be challenged, and not just be considered opaque 'black boxes'.

Conclusion

To finish my remarks, I want to say that I feel privileged and humbled to come and speak to you today. It is you – the fintechs and innovators – who will drive many of the developments that will bring critical benefits for consumers and more broadly, society.

We are entering a period where innovation and new thinking is critical. We need to be constantly imagining new ways and new possibilities – forging a new path. Along with this, we also need responsible leadership, especially in those leaders who will drive and shape the innovative strategies of the future. Our efforts must be focused on fostering trust and confidence.

Part of this story is putting the customer at the centre of your business strategy – and looking at the broader impact on our local and global community. Agile and creative fintechs are remarkably well placed to do this.

Our future success requires this societal orientation to help maintain a foundation of trust. And we must always remember that trust will not be given automatically – it must be genuinely earned.