



ASIC

Australian Securities & Investments Commission

Update on ASIC's priorities

*A speech by Greg Medcraft, Chairman,
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CHECK AGAINST DELIVERY

Good afternoon everyone. Thank you for inviting me here to speak at this lunch today.

Today I would like to talk to you about what we see as ASIC's long-term challenges and how we are responding.

ASIC's vision and challenges

ASIC's vision is to allow markets to fund the economy and, in turn, economic growth. In doing so, we will contribute to the financial wellbeing of all Australians.

We do this by:

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

How we achieve our vision in the future will be influenced by the five key challenges we face. These challenges are:

- culture and conduct – aligning conduct in a market-based system with investor and consumer trust and confidence
- building financial capability
- digital disruption and cyber resilience in financial services and markets
- globalisation of financial markets, products and services

- structural and demographic change in our financial system.

We have set out these challenges in the annual update of our rolling four-year Corporate Plan, which will be published this week.

How ASIC is responding

Let me unpack for you each of the challenges and how we are responding.

Culture and conduct

Our first challenge is about ensuring conduct that supports investor and consumer trust and confidence.

At the moment, there are some significant changes underway in the regulatory landscape in Australia. Most of you will be familiar with the Financial System Inquiry (FSI), chaired by David Murray, which delivered its final report in December 2014.

The FSI examined what was needed to position Australia's financial system to meet our evolving needs, including economic growth. The FSI made findings about the limitations of the current regulatory framework, including areas in ASIC's regulatory toolkit that should be improved to meet current and future challenges.

The FSI emphasised that the regulatory framework has relied very heavily on disclosure to deal with market problems and poor consumer outcomes. While disclosure is important, it can be ineffective for a range of reasons – such as consumer disengagement, behavioural biases, or misaligned interests between financial product and services providers and consumers.

In December 2016, the Government released a consultation paper seeking feedback on two key proposals from the FSI:

- a design and distribution obligation
- a product intervention power.

Product issuers and distributors would have a legal obligation to consider the type of consumer whose financial needs would be addressed by buying the product or service that is offered, and the channel best suited to distributing that product or service.

As a complement to these obligations, the Government has also consulted on a product intervention power for ASIC, which would enable us to intervene where a financial product is identified as creating a risk of significant consumer detriment.

Further, the Government is reviewing ASIC's enforcement powers and the adequacy of penalties for breaches of the law. In [Report 387](#) *Penalties for corporate wrong doing*, published in March 2014, we identified areas for improvement in ASIC's penalty regime – for example, being able to remove the benefit obtained from wrongdoing, and indexing penalties to inflation. Appropriate penalties are a critical part of deterring misconduct.

These reforms, taken together, will enable ASIC to go beyond individual disclosure when addressing market problems where a traditional disclosure approach is not working. They will enable ASIC to more effectively target those firms and individuals that do the wrong thing.

The FSI also recommended ASIC be given a competition mandate, which the Government has also accepted. Initiatives that promote competition in financial services can also help to ensure that customers receive better quality products at better prices. The Productivity Commission is currently undertaking a review of competition in banking.

Building financial capability

Our second challenge is building financial capability.

Improving the financial capability of investors and consumers is a key piece of ASIC's toolkit. It complements our regulatory activities by empowering investors and consumers to have greater confidence and to make good financial decisions.

Issues that can affect financial capability include:

- cognitive decline
- behavioural biases
- culture and attitudes
- level of financial literacy.

ASIC delivers a comprehensive financial capability program, which includes three key areas:

- leading the National Financial Literacy Strategy, with the support and guidance of the Australian Government Financial Literacy Board, in line with international best practice
- providing impartial and trusted financial guidance and tools to support informed financial decision making for all Australians – predominantly through ASIC's MoneySmart website, which currently has over 7 million users per annum. Research indicates that 89% of users took action on their finances after visiting the website
- delivering ASIC's MoneySmart Teaching program to support financial literacy in the formal education sector. Over 60% of our nation's 10,000 schools have engaged with the program.

Digital disruption and cyber resilience

Our third challenge is digital disruption and cyber resilience.

We are living in a technology-driven world, with innovation happening at an unprecedented pace. Regulators seek to create the right environment to encourage financial technology (fintech) and innovation, while also ensuring that consumers and investors can maintain trust and confidence in markets. It is not always easy to find a balance between these goals. Fintech businesses do not always fit with traditional business models and regulatory frameworks.

As regulators, it is important for us to listen to industry – we are continuing to engage to ensure we understand new developments. We do this through our Innovation Hub, which helps fintech businesses navigate the regulatory environment. In the last two years we have had over 150 start-up businesses through our hub. These start-up businesses work in a range of areas, including robo-advice, peer-to-peer lending, payment systems, distributed ledger technology and regulatory technology (regtech).

In order to keep pace with the rapidly changing world around us, regulators must be proactive in understanding how our actions can influence the ability of fintech businesses to grow and flourish. We have recently established a data science lab to assist start-up regtech businesses to test their ideas. We have also issued guidance on robo-advice, peer-to-peer lending and distributed ledger technology.

Regulators are already doing a lot of work, through the International Organization of Securities Commissions (IOSCO), to prepare for the inevitable transformation of the financial sector. For example, IOSCO completed and released a detailed research report on fintech in February this year.

Globalisation

Our modern financial system is global in nature, and we see globalisation as one of our key challenges.

We now take for granted the ability for investment to flow across borders. The system we have built has helped to bring prosperity to many parts of the world. Globalisation is increasing the interconnectedness of markets, which can heighten the impact of market risk events and, in turn, confidence in the global financial system.

In my role as the Chairman of ASIC, and previously as the Chair of the IOSCO Board, I have seen how effective regulators can be when we work together to solve problems. Global challenges often require global solutions. The risk is that, if we allow too much fragmentation in the system – for example, as a result of differences in national approaches or along technology lines – we will not be able to realise the benefits of the new technologies that are currently being developed.

Coordination is important across the board, but especially in the rapidly growing area of fintech, regtech and technology-enabled crime. Global regulatory coordination efforts are a big way of preventing the risk of fragmentation from becoming a reality. And global regulatory bodies, such as IOSCO, play an important role in encouraging coordination, by bringing countries together to research and discuss the challenges we face and then agree on common standards and principles.

Through IOSCO, we are building better frameworks to allow regulators to share information. Currently, 112 IOSCO members are signatories to the global Multilateral Memorandum of Understanding (MMOU). Under this MMOU, securities regulators can provide information and assistance, including bank records, to one another to help combat cross-border fraud and misconduct.

We are now going one step further with the enhanced MMOU, where signatories will agree to expand information exchange even more – for example, to metadata from call recordings and internet-based communication.

Structural and demographic change

Structural and demographic change is one of our key challenges.

On the structural side, superannuation growth is expanding the pool of funds under management – often, in turn, invested in markets. On the demographic side, there are changes in Australia – we have an increasing number of retirees and an ageing population. At ASIC we recognise that this raises issues of fundamental and strategic importance to the financial services sector, the community and the economy.

These are the generally well-known issues in this area:

- Retirement planning is complex and requires people to consider the long term and think conceptually about difficult concepts, including their own mortality.
- As people age, they may be faced with their own cognitive decline and lack the ability to make sound decisions for themselves.
- Older Australians may also be more vulnerable to scams or elder abuse.
- Older Australians may lack familiarity with the technology used to deliver financial products and services.

Internally, ASIC has established an Older Australians Co-ordination Group, chaired by myself, to reflect ASIC's focus on ageing and financial services. Through this work, we will seek to understand and address concerns that arise in each major stage in the retirement and ageing process.

These range from the initial decision making relating to commencing retirement income, to the ability to continue to manage retirement income products and structures with the onset of cognitive decline and, later, to the need to interact with aged care.

We intend to release a report on older Australians in November on this work and our strategy to deal with the issues we identify in our perimeter. This month, we released [Report 537 *Building seniors' financial capability* \(REP 537\)](#), which sets out our key research findings about older Australians.

Conclusion

In conclusion, I think that there are real reasons for optimism. We live in exciting times. But these are not without significant challenges.

I do think that Australia has now set the foundation for a broad program of reforms to ensure we are better placed to regulate our fast-changing financial system. At ASIC, we continue to focus on the opportunities to harness the benefits of innovation and change, while we minimise the risks.