ASIC

Australian Securities & Investments Commission

Banks and financial technology: will banks become back offices for fintech companies?

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CHECK AGAINST DELIVERY

Fintech is today changing many aspects of financial services. The success of fintech seems a reflection of both a more fundamental shift in the global economy and also a response to declining trust in traditional institutions—including those in the financial sector.

At ASIC, we view fintech positively —it offers enormous possibilities. It has real potential to lead to customer-focused benefits such as increased efficiency, affordability, innovation and competitiveness.

Customers are demanding better alternatives to traditional financial services providers, and fintechs are delivering these via the use of technology. New fintech start-ups are also increasing competition and choice by providing alternatives to existing banking offerings.

Fintech start-ups vs existing banks

An important question though is: Will all these changes shift risk to consumers?

A further question is: Will fintechs take over or will existing banks be able to use their advantages over start-ups to dominate the financial sector in a more technology-driven environment?

In my view, fintechs have the following advantages over the incumbents they seek to challenge:

- they often empower customers to deal directly, more seamlessly and more flexibly with product and service providers
- new technology can help them deliver a better value proposition and user experience to their customer base through reduced costs and improved efficiency of product and service delivery, and
- the fintechs themselves tend to be nimble entities, using a design thinking approach with a customer focus and they are not afraid to fail.

Of course, existing banks have significant advantages over fintech start-ups such as a large customer base, access to big data and access to capital.

And the winner is?

My own view is that, more and more, we will see existing banks partnering with fintech start-ups. Regardless of who wins markets share however, I believe that the winner of this contest ultimately has to be consumers. My message is that the focus should be on innovation that meets consumer needs, treats consumers fairly and delivers value for money. I believe whoever does that best will win the day.

ASIC's approach in all of this is that we should not stand in the way of innovation and development in the financial sector.

We encourage real innovation, including in business models, not just improved efficiency. But we expect effective oversight and controls to be in place to mitigate the risks of these developments and to ensure consumer trust and confidence is maintained.

An important part of ensuring the sector gets this balance right is through engagement with the fintech and financial services community, something ASIC has been doing for some time. Through our Innovation Hub, we engage directly with fintech and regtech entities to improve our understanding and monitor developments. We also make it easy for fintech and regtech businesses to contact us and get assistance.

Through this engagement, in areas where our existing guidance does not address new business models and technologies, we have adapted or developed tailored guidance. Our recent guidance on things like robo-advice, distributed ledger technology and initial coin offerings are just some examples.

Competition and choice

For ASIC, our legislation requires us to do a number of things as a regulator:

- We have to enforce the law,
- We have to maintain and improve the performance of the financial system and the entities within that system, and
- We have to do that in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy.

So, we work to reduce costs and improve the performance of the financial system to support the economy. The promise of fintech to increase choice and reduce costs is a key reason we are looking to facilitate this part of the financial sector.

Importantly, this is in the context of a broader government focus on increasing competition and customer choice in the financial sector. With that in mind, one particular area I think banks should be alert to is the coming open banking regime.

Our Government has committed to implementing an open banking regime in Australia by 2018. As currently planned, the regime will require the banking sector to share product and consumer data at the consumer's request, and is intended to provide greater choice and support competition in financial services.

A review is currently underway, which is considering:

- what data should be shared, and between whom,
- how should data be shared,
- how to ensure shared data is kept secure and privacy is respected, and
- what regulatory framework is needed?

These are all very important questions.

This reform has the potential to reshape how we all use data, how banks interact with fintech business and how consumers interact with financial products and services.

Regulatory risks

Now I should move on to some of the regulatory risks of the innovation we are seeing.

If we assume that all of the above happens, that there are increased partnerships between fintechs and the banking sector and an open banking regime comes in as anticipated, there are certain risks we need to consider.

Some of these include:

- changed business models that move risk to consumers without them having an adequate understanding of this happening
- the possibility of major changes outside the banking sector fundamentally changing banking. This could include new entities entering the market, potentially from outside the prudentially regulated sector and becoming systematically important without appropriate oversight
- the governance of algorithms, including the issue of accountability when these go wrong. For example, who will be responsible as machines start to make more decisions for themselves?
- cyber security - which is a topic of growing importance as data becomes more and more valuable, and
- privacy issues, including their impact on consumers.

These are just some of the challenges that keep me awake at night as a regulator and I suggest should also be on the minds of Board members everywhere.

Conclusions

So, what are the lessons here?

Firstly, I think engagement and partnerships are critical both between start ups and banks but also between regulators and business. At ASIC, we have made it very clear that we are open to engagement on fintech and on regtech issues as we see opportunities.

Secondly, we expect innovation to lead to better consumer outcomes. We also expect that the risks of innovation will be managed carefully, not simply moved to consumers.

Finally, it is important to be responsive to market changes and innovation, while remaining committed to our fundamental regulatory objectives. That is because unless investors and consumers believe there is integrity in our markets, and have trust and confidence in the financial system there will be no booming market for these innovative new products and services. In fact, without consumer trust and confidence there will be no market at all. Sensible regulation can help achieve market integrity and promote investor and consumer trust – for that reason regulation should be seen a friend of fintech and the financial sector rather than just a hindrance.

