CPA AUSTRALIA PODCAST

Future of FinTech: Opportunities for businesses

Announcer:

Hello, and welcome to the CPA Australia Podcast, your weekly source for accounting, education, career, and leadership discussion.

Jana Schmitz:

Welcome to the CPA Australia Podcast on the future of FinTech. I'm Jana Schmitz, CPA Australia's Policy Research Analyst and I'm joined today by Professor Ross Buckley and Dr. Anton Didenko. Ross is an Australian Research Council Laureate Fellow and the KPMG Law Kingwood Mallesons Professor of Disruptive Innovation at the University of New South Wales. And Anton is a research fellow at the University of New South Wales, specialising in the area of banking and finance law. Anton is also a member of the Centre for Law Markets and Regulation at the University of New South Wales. Welcome Ross and Anton and thank you very much for sharing your FinTech expertise with us today.

Ross Buckley:

Thanks Jana.

Anton Didenko:

Thank you, Jana.

Jana Schmitz:

Before we talk more about the future of the FinTech sector, it's important to make sure that our audience and our CPA members understand what FinTech means. So basically what it stands for. I did a quick online search, a Google search, only to find out that there was no consensus on a standard definition. But organisations such as UI, Accenture, IBM, and FinTech Australia agree that FinTech, which stands for financial technology, describes the evolving intersection, basically, of FinTech services and financial services and technology. I would also add that the word tech in FinTech refers to new technologies. So, for example, cloud computing, artificial intelligence, and machine learning, blockchain technology, distributed ledger technology, and data analytics, just to name a few, given that the list is quite long and seems to get longer.

Jana Schmitz:

It's also important to mention, I believe, that FinTech does not just refer to startups, and that might be a common misconception, but also to technology companies as well as to our traditional financial services firms, such as banks that use technologies to structure and to provide financial services to consumers. Now, Ross and Anton, I hope this very simple definition does justice to the term FinTech. Is there anything that I missed?

Ross Buckley:

No, I think that's pretty good. It's really just the application of technology to finance. It's pretty simple.

Jana Schmitz:

Great. Thank you. So now that we have a better understanding about what FinTech means, it's very important to also understand where FinTech or FinTech development and the industry itself come from Ross. Could you provide some insights into the history of FinTech?

Ross Buckley:

Yes, for sure. It would be a pleasure. We wrote a paper five years ago. There'll be a link on the podcast page to the paper. I wrote it with Doug Honour and Janusz Barbers. And we traced the history of FinTech, and it's been by far our most impactful paper. And I think it's because generally people think FinTech is a new phenomenon, but, actually, we took it back 150 years, because technology interacts with finance simply so well. If you think about it, finance has been a virtual thing for an awfully long time. When you borrow your home loan, the bank doesn't give you the money in any physical sense. It's a book entry. So it happens over a computer. In capital markets, their investments are made in response to information that comes in over the computers and they're made by a computer.

Ross Buckley:

So there's a long standing interaction. We took it back to 1867, hence 150 years ago. And for years, I taught the first great period of financial globalisation was 1867 to the beginning of World War One. But I never knew what the origin of the period was. Why did it start then? And only when we wrote this paper did I work out it's because the transatlantic Telegraph cable was laid connecting New York and London. So all of a sudden, financial transactions could happen in close to real time between these two great financial centres. And that spurred a whole period of financial globalisation between the rich countries of the world. So in our paper, we look at the first period as 100 years. Basically the mid-1860s to the mid-1960s. And that was really essentially the pre-digital era. Basically, an analogue era, but technology continued to evolve and it continued to influence finance more and more.

Ross Buckley:

Then, in the second period that starts at the end of the '60s or early '70s, a number of significant things happened. Barclays pioneered what Paul Volcker called the most significant financial innovation, the ATM machine. Barclays put the first ones of those on the streets of London in about '67 or '68. In the early '70s, NASDAQ, the first fully computerised stock exchange, was established in the U.S. Texas Instruments pioneered the handheld financial calculator, which changed capital markets. There were a number of really significant things. So we take that as the beginning of the second period, which runs for 40 years up until 2008. And only then, after 140 years, do we get to the time when most people think FinTech started to evolve, because the GFC in 2008 provided a lot of impetus. It constricted conventional credit supply so there was a demand for new sources of credit. It, to put it politely, liberated a whole lot of human capital. A lot of people who'd been working in financial markets were now not working in financial markets and needed to find a new job.

Ross Buckley:

And there were these FinTech startups starting up that absorbed quite a lot of those people. And the technology came along just at about that point. The bandwidth and speed of the internet was accelerating quickly in the mid-2000s and the smartphone critically was launched in 2007. So the modern period of FinTech development, people traditionally think of as starting after the financial crisis. And then, at the same time, there was a different period. At the same time, but in poor countries, which was the mobile money story in Kenya. M-Pesa, Vodafone worked out ways to put money on people's phones in response to real money, cash money, that had been deposited in a commercial bank's trust account. So an electronic representation of conventional money. And this was very important in terms of financial inclusion, in terms of extending financial services to people whose quality of life was compromised because they hadn't had them before.

Ross Buckley:

So, for the next 10 years, we had these two parallel developments. In the rich developed world, lots and lots of FinTech startups. There's now about 700 in Australia, all out to make a profit or out to target pain points in financial services and do things better than the conventional approach provides. At the same time, in poorer nations, a real FinTech revolution but around mobile money, around financial access over smart phones or dumb phones for that matter. And the impetus was totally different. The impetus was government policy. This was the countries' governments deciding that they had too many people who are locked out from financial services, and the answer was to put electronic representations of money on their phone. And so that takes us through three eras in the development with a division in the last 10 years.

Ross Buckley:

And what's really interesting now, and the point I'll finish on is that what's happening in poor countries and rich countries is coming back together. So looking forward, there'll be a fourth era, but it will be much more global and consistent because I spend a reasonable amount of my time these days advising developing country governments on things like cryptocurrencies, initial coin offerings, blockchain applications, sophisticated technology from the West that is seen by these governments as really important to the future evolution of financial services in their countries. So all of a sudden the same issues apply in rich and poor countries. So that's a long answer to a short question, but I hope it's helpful. And there should be a link on the podcast page if you have the stomach to read a very long paper about it.

Jana Schmitz:

Thank you, Ross. That was very informative and I liked that you mentioned cryptocurrencies, blockchain technology, and the fact that you advised governments on the implementation or on the uptake of such technologies. That's probably a separate podcast in itself. I want to touch on crisis, because you mentioned the global financial crisis just now. And I believe while it's important to take the GFC into conservation, we are currently finding ourselves in a very different environment due to COVID-19, which is certainly a crisis different from all crises that we've experienced so far. So many financial sector leaders have been interviewed over the last couple of months. So perhaps since March, since COVID-19 broke out in Australia and in other parts of the world, even earlier than that, and they have been asked, how they helped their businesses, how they help managing their organisation in pivoting and in transforming digitally.

Jana Schmitz:

And some of them said something like, "Never waste a good crisis," referring to the uptake and implementation of technology. And some of those leaders who made such statements or similar statements particularly referred to financial technology and how they adopted FinTech in order to help their businesses survive during these difficult times. So that poses the question of why and how a crisis such as the GFC and COVID accelerate the FinTech development and even the uptake. Could you elaborate on that, Ross?

Ross Buckley:

Yeah, for sure. I mean, I think I already said quite a bit about the impetus the GFC provided, and I think, for FinTech, it really kicked off the modern era. But COVID-19 is doing much the same thing I think. And the important thing to grasp about this crisis is that we won't return to the old normal. That's not going to happen. And I think a lot of the former industries that relied on physical things like take, for instance, airlines, in March or up until March, Warren Buffett owned, I think, 10% of each of the major U.S. airlines and in March, he sold a lot of them. And I think he's right. Airlines won't be going back to anything like the business model they had before because of Zoom and Microsoft Teams and other applications that have got so much better. So much resources have flowed into them, they've been developed so much, and critically people have learned how to use them.

Ross Buckley:

One of the lessons with technology, and we learned this in that developing country story, the mobile money story in Kenya. There was a particular natural disaster and some other events in Kenya which gave people a reason to master this new technology. Without a reason, people can be a bit slow to go to the effort of downloading technology and learning how to use it. But we've all learned how to use these things in this crisis. So the amount of airline business travel after the crisis is going to be much reduced. Companies worked out they can do a lot of this stuff much more efficiently remotely.

Ross Buckley:

A lot of this stuff, much more efficiently remotely. So that's just one example, but in lots of ways, people have learned how to do their banking more online. They've learned how to make payments electronically. They've learned how to do all sorts of things. So, and you see that in the run-up in the wealth of the billionaires in America at the moment. In one month or two months, the wealth of the billionaires increased by hundreds of billions because that most of the modern billionaires are in digital industries. And it's digital industries that are really benefiting in this crisis, and it's the old fashioned physical industries that are suffering.

Ross Buckley:

So it won't be the same after COVID-19, and FinTech should stand to be one of the real beneficiaries of it because people will have become accustomed to it. They've learned how to use it. And it also, as a side note, will accelerate the decline in the use of cash. Australia was already on track for cash to stop being used sometime in the future. Sweden leads the world on this. Sweden, there's probably only cash circulating for another two years, perhaps, but that decline in the use of cash has been dramatically accelerated here. And there's lots of those sorts of changes across lots of different aspects of the digital process.

Anton Didenko:

And I'll just jump in with my two cents. I think it's true, looking at the crisis, at the numbers and the problems within the FinTech sector, I think it's true that many startups have suffered due to the COVID-19 pandemic. However, some have managed to ride the wave, so to speak.

Anton Didenko:

I was looking at KPMG reports the other day, and there was an interesting trend out there. On the one hand, 2019 was the biggest ever year for FinTech deals in the payment sector. There were over 300 acquisitions and investments, combined worth over $77 billion. But on the other hand, in 2020, just during the first three months after the 1st of March, there were 420 deals that, more than in the entire previous year, in the payment sector. Of course, their combined value was much lower, just 12 billion, but still, I think this suggests that the payments sector is likely to be one of the most contested areas going forward. It's definitely an opportunity, and COVID-19 has created an opportunity, for the FinTechs to further compete in the sector.

Jana Schmitz:

Thank you, Ross and Anton. Anton, you made some very interesting statements and Ross, you did too. I just want to pick up on something that Anton just mentioned, regarding FinTechs riding the wave. I guess if we look at, for example, the buy now pay later sector, it's absolutely impressive how fast this entire sector emerged, basically, because of COVID-19. I think it's fair to say that COVID-19, at least for some FinTechs, has become part of a success story because under normal circumstances, they would most likely not have been able to develop and to establish themselves so quickly. Is that an assumption that we can make, Anton and Ross?

Ross Buckley:

Certainly for some, Jana, yes. It's made life very difficult for some, and it's certainly boosted the performance of others. Its effect is very uneven, and I think you're right. Buy now pay later, the Afterpay model, has done extremely well.

Jana Schmitz:

Yeah, absolutely. And I just want to note also that the interim report, published by the Senate committee on the FinTech and RegTech inquiry came out earlier this week, and this report makes similar statements about some FinTechs having had a huge advantage because of COVID-19, whereas for others, it was certainly difficult to survive. Thank you.

Jana Schmitz:

The interim report published by the Senate committee on the FinTech and RegTech inquiry will be listed in the show notes to this podcast. Once we are back, I will ask Anton and Ross about the latest regulatory developments relevant for Australia's FinTech sector. And we will also talk about opportunities and challenges the FinTech sector faces in 2020 and beyond.

Announcer:

The Public Practice Conference will be going virtual this year on Thursday, the 8th of October. This one day flexible programme is designed to provide you with the tools and knowledge to navigate today's challenges and build your firm for the future. Confirmed speakers include Bernard Salt. Registrations and now open. Go to cpaaustralia.com.au/ppc or look for the link in the show notes.

Jana Schmitz:

Welcome Back to our podcast on the future of FinTech. Anton and Ross, you have recently conducted a CPA Australia research study on the policy approaches to encourage the FinTech development. And the link to the study is provided in the show notes. This study, as well as your other academic research, emphasises the important role that policy and regulation plays in the development of the FinTech sector. Now, can you give us some insights into the latest regulatory or policy developments in Australia and explain how those developments affect the FinTech industry?

Anton Didenko:

Well, first I would say that FinTech remains a regulatory priority in Australia. Clearly. The interim report of the Senate committee on FinTech and RegTech that Jana has already mentioned, has just been released. It includes 32 recommendations to the government to improve the FinTech climate. And one of the highlights in the interim report, for me at least, was the proposal to establish a framework for Australian council of financial regulators, to regularly consider and report on Australia's external competitive position. And that is considering the development of FinTech and financial services more broadly. In other words, we need to understand how competitive we are internationally, in terms of FinTech. And this is acknowledged in the interim report.

Anton Didenko:

As part of our research for CPA Australia, we compared the number of FinTech startups across the leading FinTech jurisdictions. And in terms of sheer FinTech numbers, startup numbers, Australia is doing really well, compared to, say, Hong Kong, where there are around 600 FinTech firms. But we are still lagging behind Singapore, where there are 1000 companies, and the UK, where it's been reported over 1500 FinTech startups.

Anton Didenko:

So to remain competitive, Australia must facilitate FinTech innovation. And in terms of the most recent developments, I'll just flag two of them. That's first, the enhanced FinTech Sandbox, and secondly, consumer data right and its implementation in the banking sector. Just three days ago, on the 1st of September, the new FinTech sandbox regulations came into force in Australia. And the new Sandbox framework aims to reanimate the so-called FinTech licensing exemption. I think it's a good word because it's pretty much dead. The licensing exemption we had until now allowed unlicensed Australian FinTechs to test their business model with actual customers for limited time, without obtaining a licence. And the changes we have now have been a long time coming.

Anton Didenko:

Just think about it. The previous model had been used by just seven firms after more than three years. If we compare these numbers to the leading FinTech Sandboxes overseas, this number is abysmal. For example, the UK Sandbox has already accepted six cohorts of FinTechs, each with more than 20 firms on average. I think close to 30. And the Hong Kong monetary authority has over 150 trials down the track. And if that wasn't enough, all of our key regional competitors have recently modernised their sandboxes. So for example, the monetary authority of Singapore has launched its Sandbox express in addition to its standard Sandbox, which by the way, wasn't that useful. It just had about eight or nine firms at the end of the previous year.

Anton Didenko:

And in terms of content Australia's enhanced FinTech sandbox is pretty much an expanded version of the previous model, just with fewer restrictions. For example, it offers a much longer testing period, 24 months instead of just 12. And it admits new types of activities, such as crowdfunding services or provisional credit.

Anton Didenko:

And finally, just a few words about the consumer data right and open banking. The consumer data right is essentially an Australian invention. It was introduced in the Competition and Consumer Act, and in short, it enables consumers in certain sectors to obtain information about themselves and to direct that such information be shared with certain third parties. And the consumer data right was first introduced in the banking sector in July this year, and there, it is called open banking. And open banking should generally give customers greater access to their own banking data and greater control over their data because banks will be required to share customer data with the third party directed by the consumer.

Anton Didenko:

Our government expects to improve price transparency, help customers choose the most appropriate product, and make it easier to switch from one provider to another by using open banking framework.

Anton Didenko:

And just to finish coming back to the interim report of the Senate committee on FinTech and RegTech, I was looking at it the other day, and I think it recommends expanding the consumer data right in the finance sector beyond banking to superannuation sector and then to general insurance. And one thing to look out for is the result of the ongoing inquiry into the future directions of the consumer data right. That's prepared by Scott [Farrell 00:00:22:58], unless I'm mistaken.

Ross Buckley:

Yes, that's right. I'd like to endorse what Anton said about the consumer data right. It's really going to revolutionise the economy in Australia. Most Australians haven't come to grips with it yet. It's too early. But the government is determined to roll it out across all sectors of the economy.

Ross Buckley:

And what it's designed to do is address the great inertia built into the system that we have at the moment. For instance, Australians are more likely to change their spouse at the moment than they are to change their bank because it's very difficult to move all your business from one bank to another. You've got to change all the credit card numbers, all the account details, and all the automatic payments, et cetera, et cetera. And it's very difficult to get a comparison quote for what the new bank is going to offer you.

Ross Buckley:

CDR overcomes that. It allows you, the consumer, to move your raw data across to anybody else. Eventually, it will allow you to do it in any sector, energy, healthcare, superannuation, whatever. And the potential, with the click of a button on an app, you can move your data across-

Ross Buckley:

You have a button on an app. You can move your data across. The new provider knows everything about you. They can make a more competitive quote and they can easily facilitate all of your business moving across to them if that's what you want to do. So it gets rid of that inertia. It will really increase competition and remove a lot of rent seeking, I think, out of a lot of these sectors. So keep your eye open for that one.

Jana Schmitz:

Yeah. Thank you, that was really informative. And Ross And Anton, if I remember correctly, I believe that the interim report that we mentioned a couple of times now has dedicated an entire chapter to the consumer data right. So that's definitely a big thing. As Anton said, it's an Australian invention. Is it correct that the CDR is the Australian equivalent to the European GDPR?

Anton Didenko:

Well, in my opinion, the objectives of the two legal regimes, the GDPR and the CDR in Australia are quite different. The GDPR is all about data protection, essentially. It does offer the subjects of the personal data, certain additional rights to prevent further use of their personal data and so on. But the major objective of the consumer data right in Australia is to promote competition. It's not about protecting and restricting, but about sharing, but within a protected environment. That's my view, at least.

Ross Buckley:

Yep. I agree.

Jana Schmitz:

Yeah. That's a very important point to emphasise. Thank you, Anton. So now, based on what we have just discussed in regards to the CDR, I take that the CDR provides some great opportunities for FinTechs to enter the market, but also to gain greater market share basically in the financial services sector. But I would also argue that there is some challenges that the CDR poses or the entire new market environment poses, perhaps. So I would like to know from you, Ross and Anton, what the key opportunities, but also the key challenges for FinTechs are in 2020 and beyond that.

Anton Didenko:

First of all, I'd say that at least in the FinTech sector, to me, opportunities and challenges go hand-in-hand for sure. And I think a good example is the Facebook's Libra cryptocurrency that was announced last year, which was expected to be a form of a stable coin. Stable coins existed for years and attracted very little attention before Libra. But the situation dramatically, when Facebook came up with this proposal last year, which had called global stable coin, which targeted billions of people, it was immediately clear that the whole project would be instantly systemic upon launch. And so the backlash from the regulators was immediate. It came from all sorts of international bodies; G7, G20, FSB, IOSCO, and also individual regulators. And so the bigger players like PayPal, eBay, Visa, MasterCard, all quickly left the Libra association, but this was not the end for Libra as a project.

Anton Didenko:

It was an opportunity to rethink their approach, to revise the white paper that we can see now, Libra white paper 2.0, and to move on basically with the other FinTechs that are still members. So I'm actually excited to see the end result of this project that frankly seemed to be dead in the water last year, following the initial regulatory response. And going forward, I think cybersecurity is going to be both an opportunity and also a big challenge for any FinTech. The reason a simple here. For any FinTech firm, regardless of technology used, data is key and ensuring the safety of that data becomes absolutely critical. At present, financial ecosystems are becoming more and more complex and interconnected, and participants exchange more data within those systems. So we have seen, for example, the rollout of full digital banks in multiple jurisdictions. And also we have just discussed the consumer data right and its implementation in open banking.

Anton Didenko:

This multiplies the risks of contagion, and it creates new entry points for attackers and naturally calls for greater overall cybersecurity within the entire sector, not just within the largest institutions. But the problem here is that smaller FinTechs, especially startups are particularly vulnerable to cybersecurity risks. So for example, cybersecurity rules, and in one of my recent papers, I compared those rules across a number of jurisdictions, those rules tend to be abstract and high level. They are really specific about the types of defenses that need to be implemented on a company level, on a technology level, and FinTechs may lack specialist expertise. They may lack resources to understand these requirements. They may lack the expertise to decipher the technical standards and translate them into action. And so straight forward cybersecurity requirements, I think, might greatly help in the future, particularly for FinTechs to boost cybersecurity.

Anton Didenko:

And for many FinTechs, I think outsourcing of their cybersecurity obligations could be a source of convenience and also specialist's knowledge. But again, it could also be a source of vulnerability because smaller firms may not have the resources to analyse the programming code, to negotiate the appropriate contractual terms with the software vendors, and those firms are genuinely more likely to use a black box software they don't understand. So this may lead to information asymmetry between FinTechs and cybersecurity services providers, and also lack of effective control over the operations of such service providers. I think this is potentially a big issue going forward with the increased digitalization in the sector.

Ross Buckley:

Yes. I agree, Anton, because I think Australians have become accustomed to banks holding our data, and the banks are generally very good at keeping the data safe. One of the biggest existential challenges to the consumer data right is going to be whether the entities that the data is transferred to are as good as the banks have been at keeping that data safe. Cybersecurity is going to be the big issue, I think.

Jana Schmitz:

Yeah. Thank you so much, Anton and Ross. I fully echo the points that you've just raised. I just remembered that recently, there was a discussion paper put out by the NSW government on the cybersecurity strategy. And CPA Australia also made a submission to that discussion paper, which will be linked in the show notes to this podcast in the hearing or in the focus group to this particular discussion paper. Many participants who made submissions discussed the recommendation of establishing cybersecurity startup hubs basically in Australia. So similar to all the FinTech startup hubs that we already have, especially in Victoria and New South Wales and in Queensland, I believe, they are recommending to establish cybersecurity hubs. So it seems that cybersecurity is becoming the next big thing, and also the next big thing that will definitely be needed once the world went fully digital.

Jana Schmitz:

So thank you for emphasising the cybersecurity aspect. Now I would like to talk a little bit about how small and medium-sized firms can benefit from the FinTech movement. I guess that's a very important topic to discuss given that small and medium-sized enterprises seem to be often overwhelmed by this very fast moving FinTech development and all the different services that are out there now. And Anton and Ross, you emphasised earlier that the number of FinTechs available are growing rapidly. So could you perhaps give some insights into the benefits that small and medium-sized firms could get from FinTech services?

Ross Buckley:

Yes, absolutely, Jana. I mean, the starting point is most FinTechs are themselves. RegTechs are mostly small firms that apply technology to regulation. FinTechs supply technology to finance more generally. They are nearly all SMEs in Australia, so they are benefiting just by their core business. But also, a lot of what they do helps other small businesses. And one of my favourite examples in this context is Tyro, which is an alternate payments platform. So if you have a look the next time you're in your fruit and vegetable store or your cafe, have a look at the little device that you tap your tap-and-go card, your credit card on, and see whether it's provided by one of the big banks or whether it's provided by Tyro. And if it's by Tyro, the cafe owner or the small business person is getting better technology for a cheaper price.

Ross Buckley:

It will typically do things like take the cost of the transaction from the cash register directly into that little device where you tap your card so it doesn't have to be re-entered by hand and there's not a risk of putting the wrong digit in, et cetera, and it's cheaper to the merchant. And that's typical sort of innovative startup... Not a startup anymore. Tyro's a reasonable size, but it was a startup a while ago, that really helps sort of small businesses. I also would point out, you're right, Jana. A lot of small businesses are overwhelmed by the FinTech options on offer, but so are the banks. The banks are struggling with technology as well. Everybody is struggling. And in terms of that challenge, what I personally really encourage small and medium enterprises to do is to be demanding users of this technology. A lot of people, when there's new technology in the market, they don't fully understand it.

Ross Buckley:

So they often go a bit passive and tend to accept whatever the vendor of the technology is telling them, and that's not necessarily the best way to approach this. For instance, artificial intelligence programs, often the developers will say they can't really explain how it works. It's a black box, it's an AI black box. It's self learning, it's self steering. So as the user of it, you've just got to accept whatever it produces. Well, that's not good enough. They actually can programme AI to explain itself. They can programme it to be completely clear what's happening, at least in a retrospective case, and to regularly spit out reports. The reason developers often don't want to do that is for commercial comparative advantage reasons, it's not because it can't be done. So the users of it have to ask questions and they have to insist on what they need, and then they'll get what they need. So it's partly being an educated consumer of these tech services.

Jana Schmitz:

Yeah, that makes a lot of sense, Ross. Thank you. That's very interesting. I guess we talked a little bit about regulation and the government. And Anton, I think you mentioned regulatory sandboxes earlier. So I'm wondering-

Jana Schmitz:

... earlier. So, I'm wondering in the current environment, or in more general even, what measures the government could take to enhance Australia's FinTech development?

Anton Didenko:

Well, I can't help mentioning the interim report of the Senate committee on the FinTech and RegTech, again, because it's just been released, and I think it sends all the right signals and makes some very useful recommendations. If the listeners have the time, please take a look, at least just the first couple of pages where the recommendations themselves. Some of the really good recommendations include the call for digital transformation to simplify compliance and corporate procedures that should be very useful, or incentives to encourage collaboration between large businesses and startups, and also the recommendation to hold event-based challenges to enable FinTechs and RegTechs to solve actual policy challenges. So, all the good stuff.

Anton Didenko:

I think there's one aspect that the report really doesn't address, and to me it has been overlooked so far, and that relates to our sandbox, which as I mentioned previously, has just been enhanced. Well, in short, I think that the current FinTech sandbox model, even in an enhanced version is just not fit for the task. The enhanced sandbox, just like the original version, follows what I call the non-authorization model, where participants do not need to apply for approval, but only notify the regulator that they wish to make use of the sandbox, and wait for a certain period of time to pass after the notice. And if the regulator doesn't say, "No," they are in.

Anton Didenko:

One of the perceived benefits of this approach is that the regulator doesn't really have to address whether a certain technological solution is sufficiently innovative. So, that's basically a blessing for ASIC, which manages the sandbox. This sandbox model is quite unusual. Almost every other sandbox around the globe uses a straightforward application-based model. But I don't think really that the problem is that we are different. I think the problem is that the implementation of the current sandbox has been inconsistent. So, on the one hand, there is no application process. On the other hand, participants still need to submit a 30-day advance notice, which strongly suggests that ASIC would actually review each notice and may prohibit entry into the sandbox.

Anton Didenko:

Also, ASIC may terminate one's access to the sandbox at any time during test, if it thinks that the relevant service is not sufficiently innovative. And that to me is quite strange. In almost any other sandbox around the globe, once you are accepted, you need not worry that your proposed business model solution is not innovative, because the regulator has already reviewed it and approved your participation. But in Australia, ASIC may decide that the service was not innovative at any time after the fact, and this generates uncertainty.

Anton Didenko:

Our model has not really delivered. It has become a notorious example, at least in the literature, in the academic literature, of a rare non-authorization sandbox model that nobody really uses or very few firms actually use. Some of my colleagues in academia have actually argued that our sandbox model should not be exported to other jurisdictions, because there's very little interactivity going on, there is no application, there is no information sharing with the regulator as the test proceeds. I think the only real logical solution here in the future, going forward, maybe in the annual review of the sandbox model would pay to ditch the current non-authorization model and switch to the same familiar format that most other jurisdictions are using. And that's the model based on individual applications. It's going to be much less confusing, more easily understood by end users, by the FinTechs themselves, compared to what we have now, partly hands-on, partly hands-off regime.

Anton Didenko:

I can see why our government may like the idea of having an unusual sandbox model that we've had for three years now, but I think it is more important to have a sandbox that's easily understood by FinTechs. So, clarity and certainty should be the driving factor in sandbox development, not optics. Then perhaps our sandbox model will be started as an example of how things should be done, and not the other way around.

Anton Didenko:

Last thing, just to conclude, because Jana previously mentioned the cybersecurity strategy, 2022 to which CPA Australia, I think, made a submission, we're really now at the beginning of an international trend towards bespoke cybersecurity regulation in the finance. Thanks to numerous contributions, and CPA Australia included, on the 6th of August, 2020, Australia adopted the new cybersecurity strategy. It indeed promises numerous measures to assist smaller firms to improve cyber resilience. It's not specific to finance, it's across the sectors, but still. But the measures there are really organisational, such as cybersecurity advice and training. I think going forward, it's not going to be enough, and I think that regulatory changes would also be necessary.

Ross Buckley:

If I can just come in there on the issue of what more governments could do, FinTech has changed the regulatory landscape around the world. These FinTech startup companies are highly mobile. So, it's introduced an element of competition among regulators to be perceived, to be flexible and FinTech-friendly. This lays down a real challenge for Australia's regulators, because we have one of the more competitive, effective regulators in the world, sitting right above us in Singapore, the Monetary Authority of Singapore. So, you'll see, if you look at the evolution of FinTech in the region over the last, say, five years, a lot of the activity has moved to Singapore, because the regulator is very good, very solid, very competent, but flexible in pro-market, and so young entrepreneurs setting up their FinTechs increasingly vote with their feet.

Ross Buckley:

What this means for the Australian government is it's really got to be prepared to fund our regulators better than they have been. The innovation hub in ASIC has done a lot of good work assisting innovative entrepreneurs over the years and have hundreds and hundreds of entities have benefited from interacting with the innovation hub, which is distinct from the sandbox. I agree with Anton, the sandbox hasn't worked at all up until now. But the innovation hub has done a lot of good work, but it's constrained in what it can do by a funding problem. I know it's not particularly trendy or popular for governments to fund regulators, but this is an unusual area where having really knowledgeable expert regulators is a source of comparative advantage in industry, in this sector. It's the opposite of the conventional idea that regulators slow things down. Here, knowledgeable well-funded, well-equipped regulators can speed things up. So, there's a call there from me that Australia would be better served with a bit more investment in our regulatory infrastructure.

Jana Schmitz:

Thank you very much, Anton and Ross. Based on what we just discussed, I can see many more podcast episodes emerging, because I have many more questions. But for now, I just want to say, thank you very much, I certainly learned a lot today. And I'm certain that our audience is much better informed now about the FinTech sector, particularly the regulatory and policy development after listening to this episode. So, thank you, Anton, and thank you, Ross.

Anton Didenko:

Thank you so much. It has been a pleasure.

Ross Buckley:

Thanks, Jana. Thanks a lot.

Jana Schmitz:

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Announcer:

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