The Role of

FinTech in Modernising Businesses

CPA Australia

Airwallex

February 2021

ISBN: 978-0-6487513-1-1

01. Foreword

Dr Gary Pflugrath CPA

**Executive General Manager,
Policy & Advocacy, CPA Australia**

This white paper offers some sobering insights. 70 per cent of businesses surveyed do not currently use any FinTech, while 40 per cent of businesses are unaware of FinTech and the benefits it offers.

The solutions offered by FinTech can be a gamechanger. For businesses with international suppliers, employees and/or customers, adopting FinTech could reduce the cost and effort of international payments, while also increasing visibility over such transactions.

So, what's holding businesses back from adopting FinTech? Our research suggests cybersecurity concerns remain a critical barrier to wider FinTech adoption. Increasing cybersecurity frameworks and resilience in the FinTech sector must be a priority for the industry, regulators and policymakers.

The challenge for regulators is to maximise the benefits of FinTech while minimising potential risks for consumers, business and the financial system.

Regulatory authorities across the world must work together with the sector to understand novel business models and their underlying risks, to adequately assess potential implications for financial markets and respond with agility.

Jack Zhang

CEO, Airwallex

The new opportunities created by FinTech have transformed the global economy, levelled the playing field for businesses large and small. With the pandemic accelerating the adoption of online payments and the wider digital economy, FinTech services are now crucial for businesses to remain viable in an increasingly competitive environment.

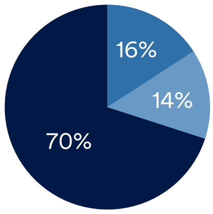
At Airwallex, we've seen businesses - from startups to large-scale enterprises - benefit immensely from modern and innovative technologies. These solutions not only unlock new revenue streams and business growth opportunities, but also help senior leaders achieve more efficient business operations.

Airwallex is proud to partner with CPA Australia to present "The Role of FinTech in Modernising Businesses" white paper. This white paper will demystify FinTech's role in business operations and highlight how your organisation can capitalise on new technologies and solutions.

Using case studies and practical comparisons with traditional solutions, this white paper provides practical advice on how to assess a potential FinTech solution fit for your business and the subsequent benefits to your organisation.

02. Executive Summary

FINTECH ADOPTION: MAJORITY OF BUSINESSES ARE YET TO ADOPT FINTECH



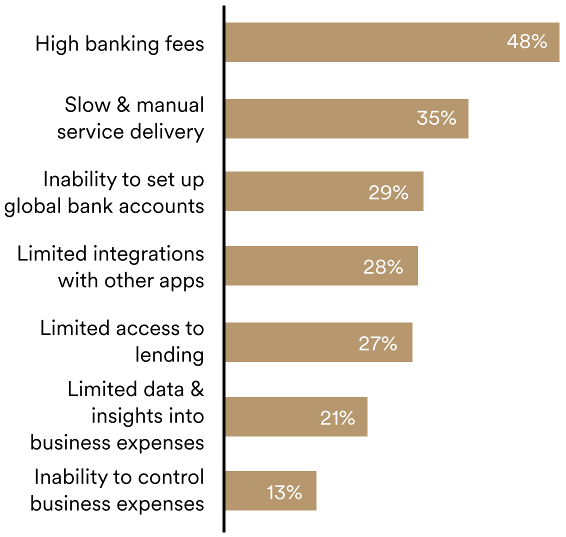
70%
of businesses have not used any FinTech solutions

16%
of businesses use at least one FinTech solution

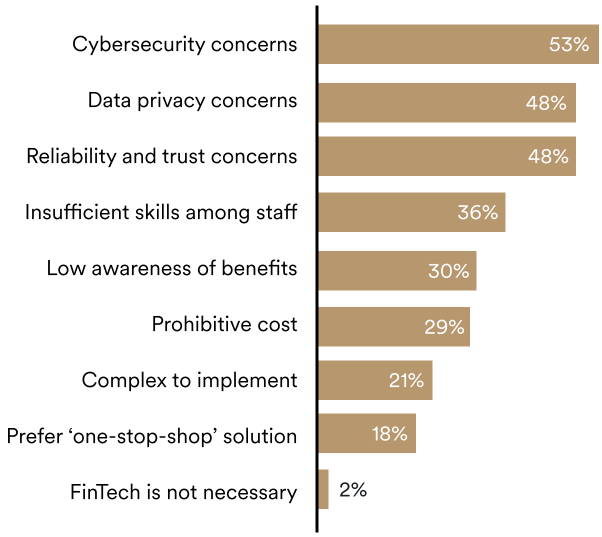
14%
of businesses uses two or more FinTech solutions

ADOPTION BY TYPE: RECURRING DIRECT DEBIT IS LEADING FINTECH ADOPTION

BUSINESS BANKING PAIN POINTS: UNMET NEEDS ON COST AND SPEED



BARRIERS TO FINTECH ADOPTION: SECURITY & SKILLS ARE TOP BARRIERS



REGULATORY PATH FORWARD

Globally, financial regulators and policymakers are responding to the FinTech development.
Policy frameworks and regulatory approaches to FinTech are being adapted based on their assessments on the implications of emerging technologies in the financial sector.

The challenge faced by regulators and policymakers is to maximise the benefits of FinTech while minimising potential risks for the financial system.
FinTech developments present issues that are beyond the scope of traditional financial regulation. The speed of innovation makes this difficult for regulators and policymakers to respond in a timely manner.

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More businesses are embracing emerging technologies across all business functions

Business technology and software adoption is on the rise

Businesses are adopting a range of new technologies to improve operational efficiency, deliver better customer experiences and grow their businesses. One way businesses are accessing new technology is through software-as-a-service (SaaS) – Some SaaS uses cloud-based apps that allow business to access technology through their web browser.

This increase in SaaS usage is seen across different business functions including marketing, sales and finance. These new technologies are enabling businesses to have greater cross-team collaboration, information sharing and deliver personalised customer experiences on websites.

50%

increase in SaaS spend per company, according to Blissfully[1]

Financial technology brings a range of business benefits

Financial technology, or FinTech, serves a range of users from retail consumers to international businesses. Common examples of FinTech include Buy Now Pay Later for consumers to digital business lending.[2]

> **“FinTech innovations deliver tremendous economic and social benefits, connecting unbanked and underbanked populations to the digital economy, contributing to small business growth and empowering consumers in new and exciting ways.”**
>
> Sunil Seshadri, Chief Information Security Officer, Visa[3]

FinTech’s SaaS model significantly lowers the upfront costs

Some FinTechs are adopting the SaaS model with ‘pay-as-you-go’ pricing. This can cut the upfront investment needed to implement such technology in comparison with purchasing software outright, reducing the barriers to implementing FinTech.

> **“In the past, large multinational institutions have driven disruptions in corporate banking. Change is now originating from multiple angles, including fintech innovators, fast-growing B2B platforms, and savvy customers open to new models offering greater ease and efficiency.”**
>
> McKinsey, Global Payments Report 2019[4]

Awareness and adoption of FinTech solutions has room to grow

SME FinTech adoption is low, however there are indicators of strong growth

Results from a CPA Australia survey of 620 members found that 70 per cent of businesses do not currently use any FinTech, while 40 per cent of businesses are unaware of FinTech and the benefits offered.

This result is consistent with EY's Global FinTech Adoption Index 2019[5], which discovered that 25 per cent of global small and medium-sized enterprises (SMEs) have adopted FinTech into their business. According to EY, this adoption rate is expected to surge over the coming years to 64 per cent, with many SMEs expressing plans for future use of FinTech solutions.

EY also found that FinTech adopters share common characteristics. They found higher adoption rates in SMEs with an international customer bases and that 96 per cent of FinTech adopters place strong importance on online and mobile sales channels.

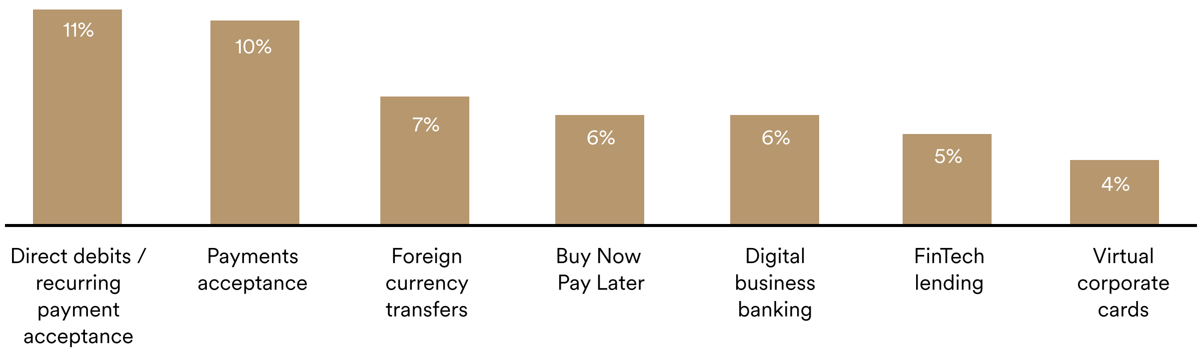
70%
have not used any FinTech

40%
unaware of FinTech and the benefits offered

Source: CPA Australia Survey, August 2020 (n = 620)

FIGURE 1: ADOPTON OF FINTECH BY TYPE

Source: CPA Australia Survey, August 2020 (n = 620)



Major banks are funding new technologies to accelerate adoption

Traditional financial services providers are responding to this FinTech opportunity through a combination of internal investments and external funding. In Australia, this movement is led by the Commonwealth Bank of Australia (CBA) through X15 Ventures, and the ANZ Banking Group with ANZi Ventures. This allows them to create strategic financial partnerships with FinTech start-ups and integrate those FinTech services into their own digital financial infrastructure. For example, ANZi Ventures recently announced its backing of Airwallex in their USD$160 million funding round[6].

> **"We look forward to working further with the [Airwallex] team to support their vision of building a next-generation digital payments platform for SMBs and enterprises globally."**
>
> Ron Spector, Managing Director of ANZi Ventures

03.
FinTech solutions for businesses

Foreign currency transfers and accounts

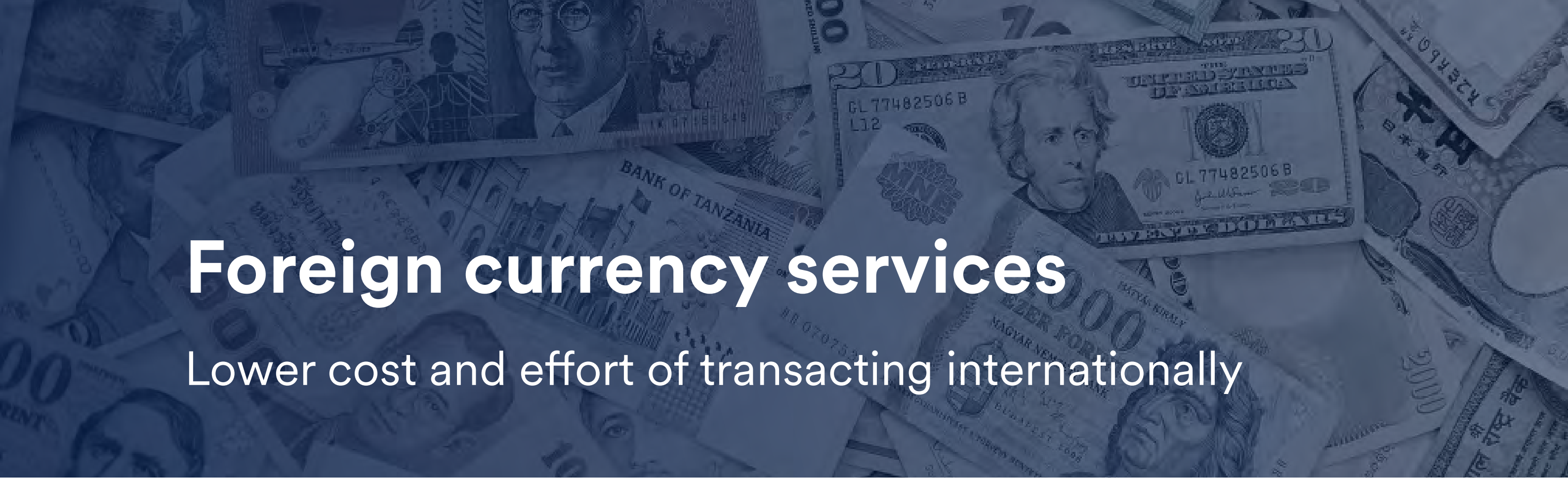
- International payment and foreign currency conversion with cost-effective technology
- Multi-currency accounts enable businesses to hold foreign currency and manage risks
- Global business accounts reduces effort for businesses in expanding to new markets

Digital business banking and virtual employee cards

- Digital-first experience and features empower businesses to self-service
- Integrations to other cloud business software give businesses visibility of data
- Focus on team and expense management features to help businesses manage spend

FinTech lending

- Use of artificial intelligence and alternative data sources to assess applications
- Digitised end-to-end processes reduces time to process loan applications
- Lower barriers to access capital as loans may not require physical collateral



Foreign currency services

Lower cost and effort of transacting internationally

THE NEED FOR BETTER FOREIGN CURRENCY SERVICES

What are your top unmet needs or frustrations with business banking?

48%
High business banking fees

35%
Inability to set up a global bank account

Source: CPA Australia Survey, August 2020 (n = 126)

Cross-border transactions continues to grow, increasing pressure to lower costs

Global payments revenue grew by 6 per cent in 2018, as reported by McKinsey[4]. Consumer to business (C2B) eCommerce revenue is the fastest-growing segment of this market, expanding at a cumulative annual growth rate of 23 per cent. Furthermore, business to business (B2B) cross-border payment growth is led by small and medium enterprises (SMEs), which is growing at two to three times the rate of large corporates.

Some businesses may find the fees they pay on international transaction high

The World Bank reports that Australian businesses face 13 per cent higher costs for sending money overseas than businesses in the UK, and up to 40 per cent higher than from the US[7].

For businesses with international suppliers, employees or customers, FinTech may represent an opportunity to reduce the cost and effort of international payments.

OVERVIEW OF FOREIGN CURRENCY FINTECH SOLUTIONS AVAILABLE

International payments FinTech companies help businesses collect, hold, convert and pay in multiple currencies. There are two main types of foreign currency services available.

Foreign Currency Transfers

Businesses can make payments to a supplier or client in a different country. The funds are exchanged en-route, typically receiving a mark-up that considers current exchange rates, bank fees, and similar associated costs.

Multi-currency accounts

Businesses can collect, hold and pay in multiple foreign currencies. This allows businesses to manage short-term currency fluctuations and eliminates unnecessary conversions into their local currency when not needed.

HOW DOES FINTECH COMPARE TO TRADITIONAL SOLUTIONS?

Businesses with low international transaction volume tend to make payments through their domestic bank account, potentially resulting in higher fees.

"Consumers and small businesses tend to default to their usual bank to send money overseas, but this may not be the cheapest option. This is another example where consumers may end up paying more for their loyalty," says ACCC Chair Rod Sims[8].

	Traditional	FinTech
Foreign currency exchange fee on major currencies	3 - 5 per cent	0.15 - 0.6 per cent
International transfer fee per transaction	$10 - $20 using SWIFT network	$0 - $20 with own payment rails or matching on own pool of funds[9]
Speed of international transfers	2 - 3 days	Same day
Multi-currency capability	Foreign currency accounts, only based in Australia	Global accounts, based overseas (e.g. USD account based in the US)

CHECKLIST: COULD YOUR BUSINESS BENEFIT FROM THIS?

Businesses undertaking the following activities could benefit from foreign currency services of a FinTech provider.

- [ ] Selling to international customers
- [ ] Have staff based outside of their home market
- [ ] Purchase from overseas suppliers
- [ ] Have significant software subscription costs priced in a foreign currency

Coconut Bowls improves profit margins by three per cent by eliminating unnecessary currency conversions

Coconut Bowls is an eco-friendly brand providing a sustainable alternative to bowls, inspired by the opportunity to reduce single use plastics. Founded in January 2016, the business's revenue grew by 500 per cent within their first year. In March 2018, founder Jake McKeon featured on Shark Tank Australia, a reality television series where entrepreneurs pitch to a panel of investors.

"Fortunately, I had some experience with eCommerce prior to Coconut Bowls, so when I started the business, I made sure that we could ship our products efficiently to North America and Europe where I thought there would be some demand. We primarily used social media as a tool to talk to our target market. We instantly attracted an audience worldwide and began making sales globally." said founder, Jake McKeon.

Prior to using Airwallex, Coconut Bowls was using a combination of a few providers to manage their international collections and payments to suppliers and employees. This resulted in multiple, unnecessary FX conversions. For example, Coconut Bowls were collecting USD from their US customers, but were forced to convert these back to their home currency AUD before converting it again to USD to pay for software subscriptions such as Shopify.

Their accountant saw the opportunity to use Airwallex to save on foreign currency exchange fees and streamline processes. With Airwallex's global business accounts, Coconut Bowls are now able to collect and hold foreign currency revenues and pay international suppliers directly from their USD revenues. This avoided unnecessary conversions. Additionally, the competitive FX rates offered by their FinTech provider allows the business to save on the conversion of their foreign currency revenues back to AUD.

LOCATION

Byron Bay, Australia

INDUSTRY

Manufacturing, Retail

COMPANY SIZE

20 - 50 employees

FINTECH SOLUTION

Foreign currency transfers and accounts

"Before Airwallex, we were making unnecessary and expensive conversions. Our margins have now increased by 3 per cent with Airwallex's competitive FX rates."

Jake McKeon, Founder

Digital business banking

THE NEED FOR GREATER VISIBILITY AND CONTROL

As businesses digitise, their financial needs are evolving. However, CPA Australia's survey highlights the second key theme of the unmet business need for speed, visibility, and control over their operations.

What are your top unmet needs or frustrations with business banking?

35%	28%	21%	13%
Slow and manual service delivery	Limited integrations into existing systems	Lack of insights into business expenses	Inability to control their business expenses

Source: CPA Australia Survey, August 2020 (n = 126)

Businesses have higher expectations of service delivery times

The COVID-19 pandemic caused many organisations to realise the value of improving speed of delivery. According to McKinsey[10], the need for quick reaction to market changes and responsive technology to facilitate these changes, has been a key reason for adoption of new technology.

This need for faster delivery times is also relevant to financial services providers. A Deloitte report found that businesses increasingly expect transactions to be completed within the same day, or overnight, while also having access to advice and support in real-time[11].

Businesses are willing to pay a premium for connected banking services

According to research by Boston Consulting Group[12], over 70 per cent of businesses surveyed said they are willing to switch their primary banking provider, or even pay a premium, if they could access their banking services from a one-stop-shop, with a single sign-on across all platforms.

The digital nature of FinTech solutions enables businesses with self-service functionality to streamline common banking tasks, such as automating recurring payments and issuing a credit card to a new employee.

While FinTechs cannot typically provide all business banking services, FinTech solutions may provide greater control and visibility with seamless integrations to other cloud software and smarter insights or dashboard functionality.

OVERVIEW OF DIGITAL BUSINESS BANKING PRODUCTS

Two FinTech solutions that may provide business with the control, speed and visibility are digital business banking and virtual corporate cards.

Digital business banking

Digital banks, also known as neobanks or virtual banks, conduct the same type of business as traditional banks, offering a range of banking products and services to their customers. They deliver their services primarily, if not exclusively, over the internet and therefore largely interact with their customers through digital platforms.

Digital business accounts allow businesses to conduct their banking online, without the need to attend a branch. Businesses complete their 'Know Your Customer' (KYC) identity checks through a digitised process.

Moreover, these digital business banking platforms can be accessed either through a browser, an app, or an API integration with accounting software. This allows for integration with other business platforms such as cloud accounting software to further streamline processes.

Multiple accounts can be set up online through an online portal, and transactions can be made almost instantly and at any time.

Virtual corporate cards

Virtual corporate cards are a debit or credit card product that is created entirely online and comes with a standard 16-digit number, Card Verification Value (CVV) and expiry date. Issued by Mastercard, Visa or American Express, virtual corporate cards are usually accepted where credit cards are accepted.

Not having a physical card may improve security as it cannot be lost or stolen. They can also be set to expire after a single use, or a certain time period. Thus, the chance of fraudulent payments occurring are lower.

Virtual corporate cards are becoming a standard FinTech alternative to the traditional credit card model thanks to their speed of set up, flexible spending controls and team expense management functionality.

HOW DOES FINTECH COMPARE TO TRADITIONAL SOLUTIONS?

Digital business accounts offer benefits in speed, cost, self-service functionality and integrations with other software. However, this places a greater need on FinTech providers to ensure a high standard of cybersecurity and data privacy (see Section 5.5 for further detail the FinTech cybersecurity landscape).

	Traditional	FinTech
Speed of set up	1 - 2 weeks to set up a business account 1 - 2 weeks to issue a physical card	1 - 2 days to set up an account Instant issuance for virtual cards
Cost and fees	Varies, with monthly account fees and annual cardholder fees	Varies, with no account or additional card fees; with SaaS-like model of fee per user per month
Services provided	Limited online self-service, some tasks may require paperwork or branch visits (e.g. issuing a new cardholder)	24/7 digital self-service with a breadth of features available for customers to control (e.g. adding user access)
Access to data and integrations	Varies from PDF statements to direct integrations with accounting software	Direct integration to accounting software with API for custom integration
Expense management	Limited expense management features such as receipt capture, team budgets and merchant rules	In-built team expense management features such as multi-user access, receipt capture and team budgets
Regulation	Subject to extensive regulatory oversight	Typically subject to the same oversight as traditional banks, however they are generally much smaller and do not have the history of traditional banks

CHECKLIST: COULD YOUR BUSINESS BENEFIT FROM THIS?

Businesses undertaking the following activities could benefit from digital business banking and virtual corporate cards.

- [ ] Use of cloud accounting software with integration capability
- [ ] Shared corporate card between employees
- [ ] High growth in new employees who need to make card payments
- [ ] Manual expense management and receipt reconciliation process

Clipchamp empowers fast-growing global teams with virtual cards and multi-user access

Clipchamp is an Australian start-up providing comprehensive video editing, recording, compression and conversion platform. They have over 11 million users globally. As their team grew, they experienced bottlenecks in their global procurement and payments processes. Clipchamp only had a single bank login to make payments with. This pain point, coupled with expensive currency conversion fees on Clipchamp's growing US dollar revenues and expenses, motivated the team to search for a better alternative.

Airwallex provided them with a global business account, with flexible multi-user access features and multi-currency virtual cards. Clipchamp now has dedicated logins for each finance team member. Each access was customised to the right permissions to segregate duties of booking or approving payments. Furthermore, each time an employee logs in, they require 2-factor authentication to verify their identity.

Instead of a shared corporate card with limited visibility on who the transaction belonged to, each employee now has a dedicated virtual card with the right spend limits. This enabled Clipchamp to gain greater visibility and control of employee expenses and streamline international payments.

"Airwallex has allowed my team to self-serve and create what we need to suit our growing business and teams. Whether its logins or a virtual card for a new employee, it's easy to create and gives us the visibility and control we need", said Tristan Cheal, Clipchamp's financial controller.

Using a digital business account and virtual cards has improved the efficiency of the finance team, by providing the right access to empower teams. Virtual cards has also provided better visibility on the team's spending while saving hours of work collecting manual receipts.

LOCATION

Brisbane, Australia

INDUSTRY

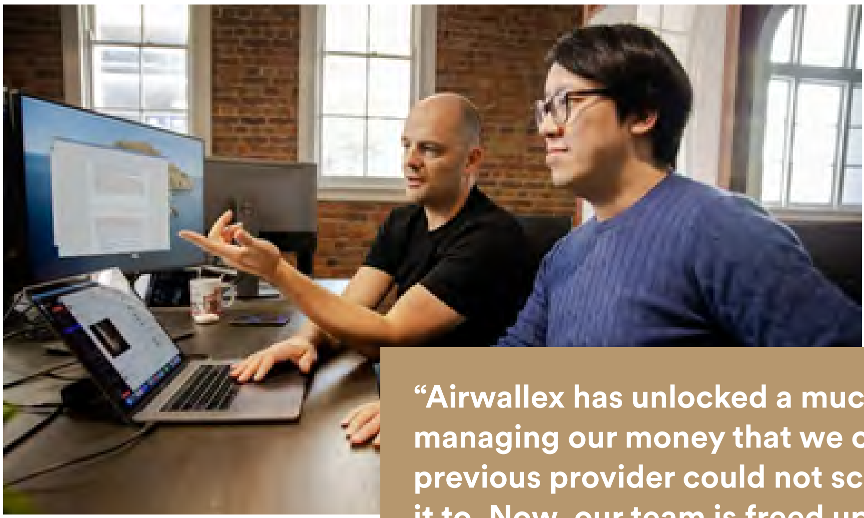
Technology

COMPANY SIZE

50 - 100 employees

FINTECH SOLUTION

Digital business account, Virtual corporate cards



"Airwallex has unlocked a much more efficient way of managing our money that we couldn't do before. Our previous provider could not scale the way we needed it to. Now, our team is freed up to tackle the more important work on how Clipchamp expands globally"

Tobias Raub, Co-Founder, Clipchamp

FinTech lending

THE NEED FOR FINTECH LENDING

Significant funding gap across SMEs

27 per cent of businesses surveyed by CPA Australia cited having limited access to lending. The funding gap for Australian SME businesses is valued at AU$91.5 billion by Judo Bank[13], a digital bank, representing a 9 per cent increase from 2018. Judo Bank also states that three out of four mid-sized businesses (annual turnover of AU$1 to 10 million) are unsure how much a lender would approve them for.

What are your top unmet needs or frustrations with business banking?

27%

Limited access to lending

Source: CPA Australia Survey, August 2020

This potential unmet need is also found in other markets. Less than 60 per cent of SMEs in the Association of Southeast Asian Nations (ASEAN) have access to bank loans, and approximately 50 per cent of these SMEs are unserved or underserved by traditional financial institutions, according to Deloitte[14].

SME loans are expensive to service, with lower returns for traditional players

The lower margins traditional players receive on SME lending is driven by the high-effort model of assessing loans. SME loans often carry higher risk and require higher maintenance impacting the margins received on such lending[15].

Smaller businesses can be more sensitive to changes in the market, and together with a lack of physical collateral or insufficient equity[16] means they are an increased risk. SMEs are also more likely to seek loans of less than AU$100,000 which are less profitable for traditional lending providers to service. According to the Australian Small Business and Family Enterprise Office (ASBFEO), this reduces traditional lenders willingness to service SME customers[17].

By leveraging technology to streamline traditional business loan processes, FinTech lenders have the potential to meet the growing demand of the small business lending market. Major banks are also investing to address this gap through partnerships (e.g. Westpac with Prospa, and the Commonwealth Bank of Australia with OnDeck[18]) or their own SME loan products, such as National Australian Bank's QuickBiz loans[19].

OVERVIEW OF FINTECH LENDING

FinTech lending is an alternative business finance option that uses technology to assist with providing loans. By using alternative data sources and advanced analytics, FinTech lenders can streamline the loan assessment process and potentially give SMEs access to finance faster.

There are also a number of niche FinTech lenders emerging with innovative products. For example, Fundsquire provides research & development (R&D) funding by providing Australian businesses upfront funding that is the equivalent of their R&D tax credit. Platforms like Kickpay, Payability, and Rangewell deliver eCommerce-specific inventory financing. Such financing may become more prevalent, with estimates that eCommerce may account for 16 to 18 per cent of all retail spending in Australia by 2025[20].

HOW DOES FINTECH COMPARE TO TRADITIONAL SOLUTIONS?

The Australian Small Business and Family Enterprise Ombudsman's (ASBFEO) 2018 survey[17] of 17 FinTech lenders shows the top three differentiators of a FinTech lending product to a bank-issue loan product are: easy application, fast decision and no asset security required.

	Traditional	FinTech
Funding speed	1 - 3 months depending on the size of loan and industry	1 – 3 days for loans less than $100,000
Information requirements	Financial statements (e.g. balance sheet, cash flow statements)	API-based connections to 3rd party data such as accounting software or eCommerce stores
Security required	Typically requires business assets / property as collateral, and personal guarantees from business owners	May not require property as collateral, but may require personal guarantees from business owners
Loan terms and the amount offered	Loan terms up to 30 years available; Loan amounts range from AUD$20,000 and above	Loan terms from 3 months to 5 years; Loan amounts range from AUD$5,000 to AUD$1,000,000
Fees and rates*	Variable rates can start from 4 per cent	Variable rates can start from 6 per cent
Dispute resolution process	In Australia, external dispute resolution services required and provided by the Australian Financial Complaints Authority (AFCA). They must also have internal dispute resolution	In Australia, FinTechs that hold an Australian Financial Services licence or an Australian credit licence must have an internal dispute resolution service and be a member of an external dispute resolution service provided by AFCA

CHECKLIST: COULD YOUR BUSINESS BENEFIT FROM THIS?

Below are a few indicators that your business could consider FinTech lending.

- [ ] You require immediate access to a small amount of funding to meet short-term needs
- [ ] There are alternative data sources on your business's performance (e.g. cloud accounting software, eCommerce transaction data)
- [ ] Your business does not have strong asset backing that can be used as security
- [ ] Your business is in its early stages with limited credit history

*Indicative rates as at January 2021

Nicholas Design uses Moula to help with cash flow and bridge gaps between payables and receivables

Nicholas Design is a furniture manufacturer based in the Mornington Peninsula in Victoria. Nick and Julie Bible are the creative duo behind the business they founded in 1984. Their commitment to creating quality, handcrafted, bespoke furniture has earned them a loyal following.

Julie's knowledge of their customers' tastes and preferences has helped her provide a collaborative design approach to creating custom pieces. "I think what makes us special is that we're Australian made from start to finish, and we're a family business. Most of our business is from word-of-mouth – we have a really good reputation, so it makes it easy. Once we get a customer, we always keep them."

With over 35 years' experience in the industry and a reputation for quality crafted furniture, they've decided to keep it a family-run business and continue to service their niche market, while they slowly hand the reins over to their children, Sarsha and Charlie.

Cash flow has been one of the biggest challenges for the business. It can take six to eight weeks to create a custom order. "We have 30-day accounts with the fabric supplier, so we've paid for all the labour and all the costs, around 90 per cent, before we get paid by the customer."

On one occasion, they had a large order to fill and didn't have the funds to purchase material after having a challenging year. Julie called their bank and was turned down for a loan to cover the cost of supplies. Frustrated, she turned to her accountant who suggested she get in touch with Moula.

LOCATION

Mornington Peninsula, Victoria

INDUSTRY

Furniture Design & Manufacturing

COMPANY SIZE

5 employees

FINTECH SOLUTION

FinTech lending

Julie appreciated the transparency of the process, and the ability to repay early without being charged any fees or scheduled interest, "You know what to expect, and there are no surprises. I saved on interest anyway because I paid it off early."

By integrating a business' accounting data with its proprietary platform, Moula claims it is able to assess a loan application within minutes and deliver funds within 24 hours, saving SME owners from a possible six to eight week waiting times they may experience with traditional lenders.

"We did it all online. Moula linked to our Xero data and we got the loan approved the same day. It worked really well. I was able to do all the purchasing to fill this big order with no stress."

Nick and Julie Bible,
Founders

04.
Path forward for adoption

Cybersecurity, data privacy and skills remain key barriers to FinTech adoption

In response to this important business need, both traditional financial solutions and FinTechs are investing in their cybersecurity capabilities. This demand is reflected in the growth of investment in cybersecurity FinTechs, which grew by 103 per cent in 2019, according to KPMG[21].

To address these critical barriers to FinTech adoption, businesses should consider the features, costs, security and support offered to inform if the FinTech solution will fit their needs.

FinTechs are subject to regulations around cybersecurity, data privacy, anti-money laundering, consumer protection and security on the funds they hold. While they are not subject to all the same regulatory oversight as traditional financial institutions, many FinTechs voluntarily abide by industry standards on cybersecurity. For example, standards set for payment data security by the PCI Global Security Standards Council[22].

FIGURE 2: BARRIERS TO FINTECH ADOPTION

Source: CPA Australia Survey, August 2020 (n = 620)

> **"As our digital landscape expands along with our dependence on it, our expectations of cybersecurity need to be continuously considered and refined. Cybersecurity must never be an afterthought."**
>
> Adam Sommer, Vice President, Industry Standards, Mastercard[3]

FinTech Assessment Guide

After assessing whether your business could benefit from FinTech, the next step is to assess the right provider for your business. Below are key questions to guide your assessment.

Features and benefits

What are your business needs and requirements?

What features are required vs. optional?

What integrations are required?

What additional features are offered?

Costs

What are the upfront setup costs?

What are the ongoing fees involved? Will this change based on usage?

What are the exit or penalty fees?
Understand the full costs on the setup and usage of the platform.

Security

Is the FinTech licenced and regulated? How will my funds be kept safe?
Each country has their own regulators and operating licences.

How does the FinTech store your data and what security measures does it have in place?
PCI Global Security Standards Council sets the standard for payment data security, with PCI Level 1 as the highest accreditation.

How does the FinTech manage user access? Is there multi-factor authentication?
Multi-factor authentication provides additional security to verify your login (i.e. requiring a code sent to your mobile or email).

Support

What are the steps to get this solution implemented?

What training support does the FinTech provide to staff?

What ongoing technical support is available from the FinTech?
Having quality training resources and support for busy teams can determine how effectively the technology gets implemented.

05. FinTech Regulation Landscape

Global financial regulators and policymakers are responding to the FinTech development.

They are adjusting policy frameworks and implementing regulatory approaches to FinTech based on their assessments of the implications of emerging technologies for the financial sector.

The challenge is to maximise the benefits of FinTech while minimising risks for the financial system.

FinTech developments present issues that are beyond the scope of traditional financial regulation. Additionally, the speed of innovation makes it difficult for regulators and policymakers to respond in a timely manner (BIS, 2020)[22].

Around the globe, regulators and policymakers are grappling with complex questions of regulation and policy presented by FinTech applications. These questions are beginning to occupy a more prominent place on regulators' and policymakers' agendas.

Regulating FinTech has been described as a complex and gradual process, which takes various forms in different jurisdictions[23]. This white paper provides an understanding of the regulatory FinTech landscape and impacts on both FinTechs and businesses who use FinTech solutions.

Policy approaches to FinTech regulation

1. Regulatory Sandboxes

A sandbox is a regulatory mechanism that allows the development and testing of FinTech services and products in a controlled environment, for a trial period, without the licensing and legal requirements usually required. In general, regulatory sandboxes allow FinTech businesses to develop their product and services in a live environment and to interact with regulators to gain a better understanding of the regulatory requirements.

2. Digital Banks

Most jurisdictions apply existing banking laws and regulations to digital banks. This means that when applying for a banking licence, entities with a technology-enabled business model, in principle face the same licensing procedures and requirements as applicants with a more traditional business model. They may benefit however from initiatives that are intended to ensure that new banks are able to enter the market. This could be in the form of a transitional scheme that allows digital banks to operate for a period of time before they have to meet the full requirements of a bank; or a "mobilisation" approach, which allows new banks, once authorised, to complete their build-out under restrictions before starting to trade fully.

In all digital banking frameworks, licence holders are subject to the same ongoing regulatory requirements on capital, leverage, liquidity, AML/CTF, market conduct, data protection and cybersecurity as traditional banks. It should be noted that digital banks typically lack the size and history of established banks.

3. Open Banking

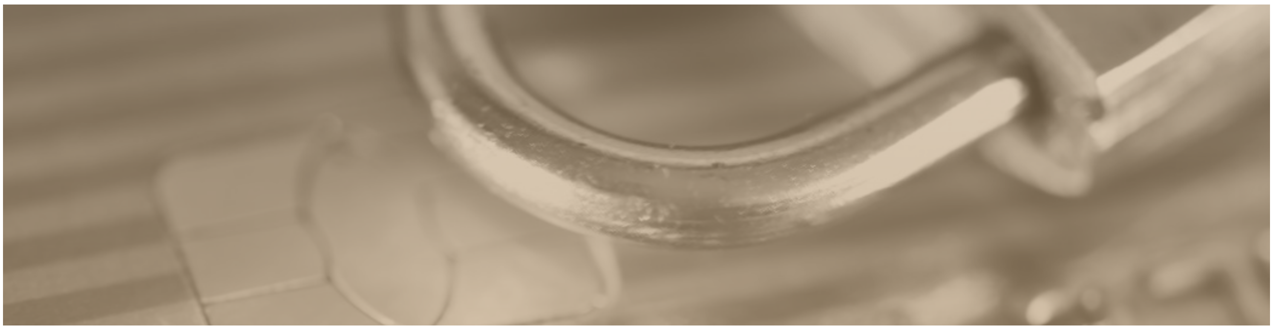
Several jurisdictions have adopted, or are in the process of adopting, open banking initiatives. These initiatives apply to the accessing and sharing customer information from banks with third-party firms, with the intent of increasing competition and fostering innovation in the provision of financial services. The UK have had an open banking initiative since 2019 while in Australia, the role out of its initiative began in July 2020.

4. P2P Lending

Peer-to-peer (P2P) lending, also known as marketplace lending, is a type of financing activity commonly involving the use of an online platform to match retail or wholesale investors, seeking to earn a return, with borrowers who are looking for a loan. Investors have the choice of either selecting the loans in which they wish to invest, or they are matched with loans that meet specific criteria.

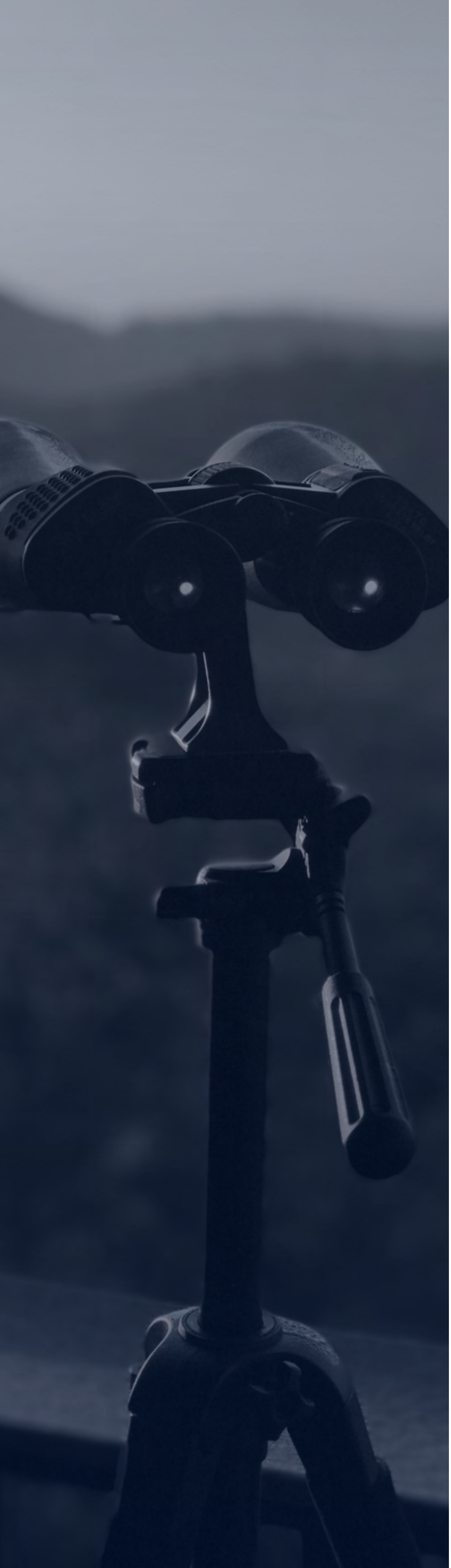
In **Australia**, the regulation of marketplace lending generally depends on the business structure and the types of investors and borrowers to which the services are offered. Under Australia's financial services and credit laws, providers of marketplace lending products and related services will generally need to hold an Australian Financial Services (AFS) licence and an Australian Credit licence, if the loans made through the platform are consumer loans (e.g. loans to individuals for domestic, personal or household purposes). In some circumstances the business may also need to hold a financial market licence.

In **Singapore**, P2P lending is regulated by Monetary Authority of Singapore (MAS) under the Securities and Futures Act (SFA) and the Financial Advisers Act (FAA)[24]. If the P2P lending platform involves 'dealing in securities' or 'advising on corporate finance', the platform would be required to apply for a Capital Markets Services licence.



5. Cybersecurity

The increasing interconnectedness and complexity of the financial ecosystem means that the regulation of cybersecurity is becoming significant. Government initiated cyb ersecurity frameworks and regulations are an important driver of FinTech innovation and growth. In other words, if FinTech services are to be adopted, businesses must be able to trust that the technologies are secure and that their assets are protected. Thus, cybersecurity is critical to ensuring consumers and businesses can leverage the benefits of FinTech[3].



What does the future regulatory landscape look like for FinTechs?

Regulators and policymakers will face further and new challenges as technology evolves and is applied to new services.

Continuous efforts from regulators and policymakers will be required to understand novel business models and their underlying risks, to adequately assess potential implications for consumers and financial markets and to adjust their regulatory responses in an agile manner. Cooperation between the sector and regulators at a national and international level remains essential.

There may be circumstances where FinTech development outpaces regulation, leaving users less protected when problems emerge.

With FinTech firms competing with traditional financial institutions in the financial system, regulators and policymakers will face new challenges at both a national and global level.

The business model of FinTechs is to leverage innovative technologies and use customer-permissioned non-financial data. Thereby, FinTechs have the potential to change the competitive dynamics in the financial services sector. The challenge for regulators and policymakers will be to design policy frameworks supporting fair competition, while maintaining consumer protections and financial stability.

Cyber threats and attacks continue to be a major risk.

Increasing cyber resilience in the financial sector will remain a priority for the sector, regulators and policymakers. This may require implementing or strengthening existing cybersecurity frameworks.

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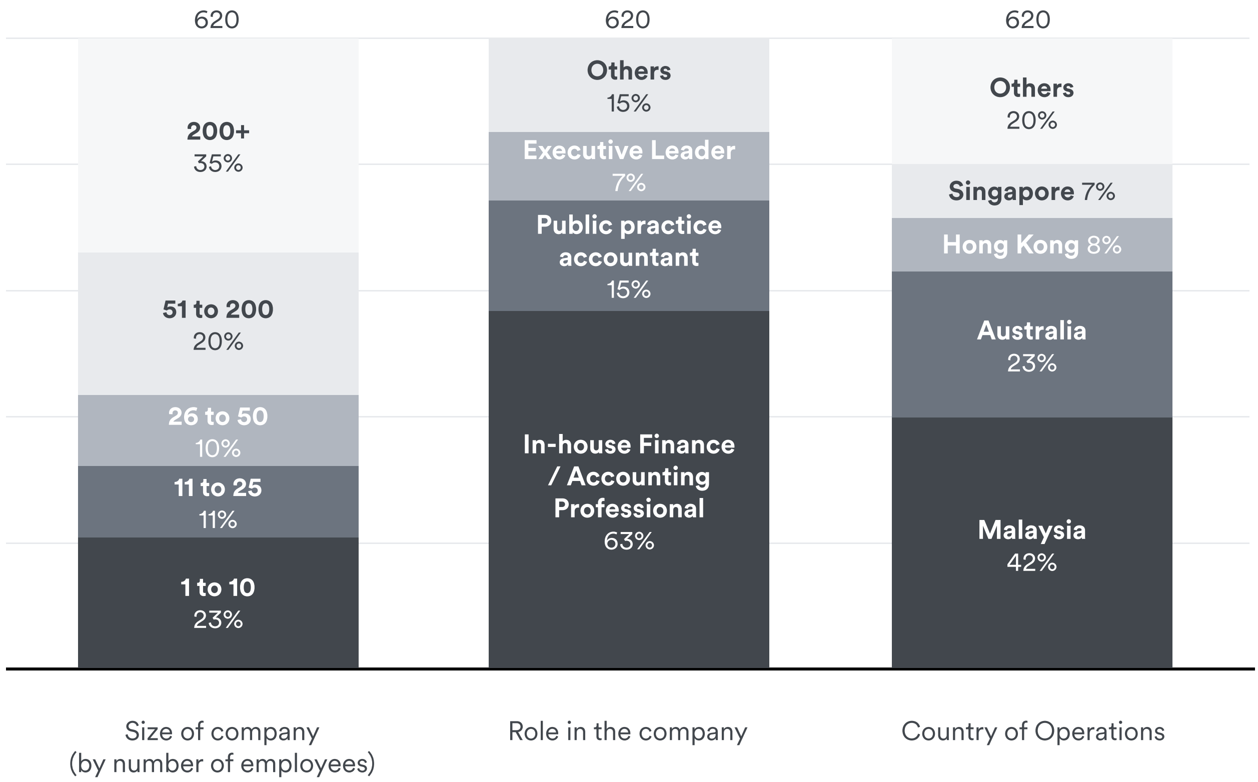
07. Survey methodology

The survey was conducted by CPA Australia as part of ‘The Role of FinTech in Modernising Australia Businesses’ webinar held on the 5th August 2020.

A total of 620 complete responses were received across the following types of businesses:



Within the webinar, 126 unique responses were collected for the following questions:

1. What is your current perception of major business banks in Australia?

2. What are your current frustrations / key unmet business banking needs [select all that apply]?

3. What do you believe are key barriers for businesses to adopt fintech? [select all that apply]

08. About the authors

Airwallex

Airwallex is a high-growth unicorn and a new generation global fintech that is transforming the way businesses move and manage their money internationally. Established in Melbourne in 2015, Airwallex is a global payments fintech that enables businesses to operate anywhere, anytime.

With technology at our core, we built a proprietary global financial infrastructure platform to help businesses transact, collect and pay in any foreign currency across 130+ countries and 50+ currencies, without the constraints of the traditional global financial system.

Our leadership, innovation and scale have been recognised and awarded by leading independent authorities, such as listing in Forbes' Cloud 100 2020, and placing in the Top 50 of KPMG's Global Fintech100 two years in a row.

www.airwallex.com.au

CPA AUSTRALIA

CPA Australia is one of the world's largest accounting bodies with more than 166,000 members working in 100 countries and regions around the world, and with more than 25,000 members working in senior leadership positions.

CPA Australia represents the views and concerns of members, the profession and the broader community to governments, regulators, industries, academia and the general public.

https://www.cpaaustralia.com.au/

Acknowledgements

The authors would also like to extend acknowledge for the contributions of businesses featured including Coconut Bowls, Clipchamp, Moula and Nicholas Design.

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