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# Fintech

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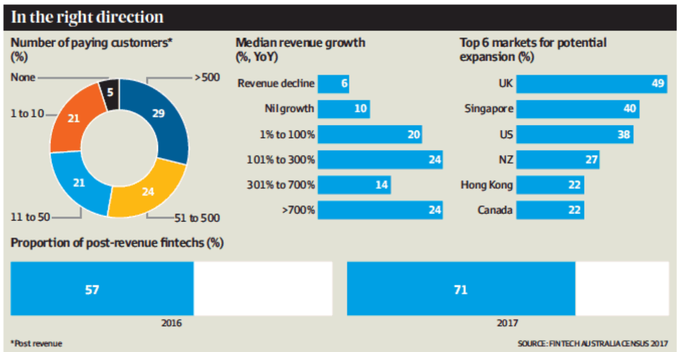
# Early-stage sector moves into full stride




**Strategy** More nascent businesses are now making money.

**Alexandra Cain**

Fintechs – start-ups that use technology to build early-stage financial services sector businesses – are becoming some of the most exciting new ventures in the country. The sector is starting to mature, with more of these nascent businesses now making money.

Research firm Frost & Sullivan's data indicates revenue produced by local fintechs will grow at a compound annual growth rate of 76.3 per cent and exceed $4 billion by 2020.

This growth will be driven by lower taxes on start-up investments, growth in mobile payments and the rise of tech-savvy consumers.

According to professional services firm EY's FinTech Australia Census 2017, most fintechs are now making money and growing. Its figures show 71 per cent are post-revenue.

Annie Luu, general manager and head of early-stage investment group Investible Asia, says the range of fintech start-ups is expanding, with an increasing number of blockchain-based and social payment platforms opening their doors.

"We've noticed an increase in the number of fintechs considering expansion into China and south-east Asia, rather than the US or UK," she says.

Lucy Liu, co-founder of global payments network Airwallex, says "user experience", which is how easy people find it to use technology, is becoming more important.

"Switching costs and loyalty that once kept customers tied to traditional payments providers are weakening. Cultivating the best experience has become a necessity for gaining or maintaining market share," says Liu. "We're also seeing more fintechs collaborate with banks."

Simon Banks, Asia Pacific managing director of Hyperwallet, says the fintech sector is expanding as the financial landscape in Australia and globally is rewired to be more convenient and faster. Banks say there has been a lot of activity among fintechs in the payments, shopping, credit, savings and investment areas.

"The emergence of pure-play digital [businesses] in Australia is a testament to the changing needs of users such as Millennials and the importance of simplicity and convenience when choosing a financial product. Uber, Taxify and Airtasker are changing the way people earn money and this disruption needs fintechs to receive and make payments. Many are developing chat bots, artificial intelligence and wearables for this."

Fintechs are also changing the way people invest, says Scott Price, founder and CEO of PropertyShares.

He expects to see consolidation and partnerships between fintechs and financial institutions and between fintechs and technology firms such as Amazon, Alipay and WeChat.

Price expects regulators to start to work more closely with fintechs over time. "Across global markets, regulators will increasingly face the challenge of balancing innovation with industry controls and risk management. In line with this, cyber security is a major concern and a big opportunity for fintechs."

Fintechs rely on outside investors to support them and more money appears to be available for early stage ventures.

"While angel investors have largely funded Australian start-ups to date, we are starting to see more curiosity from the mass market," says Luu. She notes foreign venture capital firms including those from China and south-east Asia are injecting funds into local start-ups.

Airwallex's experience bears this out, with its investors mostly coming from Asia Pacific venture capital firms.

"We're seeing rapidly increasing levels of financial literacy in Asia, especially in India and Indonesia, driven by mobile adoption rates. With payment volumes in and out of these regions set to increase dramatically over the next decade, investors are interested in building relationships early with organisations that are working towards developing strong local banking connections," says Liu.

Annie Luu says more fintechs are considering expansion into China.

Terry McMullen, chief executive at OpenSparkz, agrees investment opportunities for fintechs are expanding.

"They can rely on a very healthy community of high net worth individuals in Australia. There are also plenty of venture capital and family funds with money to invest. My experience has been that VCs and family funds focus on Series A opportunities where the start-up has a product in the market that is generating revenue.

"This makes it difficult for pre-revenue start-ups to get funding. For this reason, we went offshore to obtain our first seed round of $1 million, which came from a corporate investor listed on the Hong Kong stock exchange."

Eric Wilson, CEO and co-founder at Xinja, also knows how funding for fintechs works at the coalface. The business is a mobile- and digital-only operation. Xinja has successfully attracted $16 million so far and its Series C round of funding is now open.

Xinja also used the new equity crowdfunding rules to raise funds from around 1200 retail investors.

"Public interest in fintech investment is real," says Wilson.

Large corporates are also investing, with many having their own start-up funds – for instance, NAB Ventures and Qantas Ventures. McMullen says these funds also look for Series A opportunities.

The global payment schemes such as Visa and Mastercard also invest in the fintech community. For instance, OpenSparkz was recently accepted into the Mastercard Start Path program, a global fintech incubator.

If raising money is one main fintech challenge, so is red tape. Navigating local and foreign regulations can be especially tricky for fintechs with few resources but big plans.

"New rules and regulations are made all the time, as legislation tries to keep pace with technology. Fintech founders find this frustrating, as it can significantly inhibit their ability to scale rapidly, with some waiting up to 12 months to gain approval from regulators and agencies to achieve a licence or approval status," Luu says.

**The sector is expanding as the financial landscape is rewired.**

New regulations that tighten the way businesses can use data are also impacting fintechs, but in a more positive way. Open banking and mandatory data breach reporting and the EU's General Data Privacy Regulation, with which some Australian companies doing business in the EU will need to comply, are examples.

Fintechs without legacy systems can design their products around these new rules, rather than having to retrofit their operations like the big banks do.

# Regulatory reforms to open doors for digital innovation

**Customers**

**Alexandra Cain**

Regulatory reforms are taking place here and overseas that will assist in levelling the playing field for fintechs looking to compete with established financial services businesses.

For instance, the open banking initiative, as well as new data protection rules, give customers more control over how banks handle their information. A licensing regime for new financial services businesses is also helping fintechs to stay within their lanes and at the same time build new digital banking services.

The New Payments Platform, infrastructure to facilitate faster payments, is another mechanism about which fintechs are excited.

Ruth Fletcher, CFO and COO for CurrencyFair, says new regulations will prompt the financial services sector to be more transparent on pricing and fees.

"They encourage competition and drive the industry to provide fair financial services. The global payments market is highly fragmented and there is a growing need for fintechs to provide efficient, safe and affordable solutions around the world," says Fletcher.

"There is also a growing requirement for payments and transfers to be carried out in real time. With the introduction of the New Payments Platform, customers in Australia could transfer money from Australia to the UK on the same day."

The NPP will allow fintechs to develop new payments services, either in competition to or in collaboration with banks. "It is expected to significantly reduce the day-to-day use of cash in the financial system," says Connor James, a lawyer with Compliance Quarter, which helps businesses meet regulatory obligations.

From October, the NPP will allow money and data to move between bank accounts instantaneously.

At this stage only banks can access the NPP. But there are plans to extend access to fintechs with the Productivity Commission recently proposing opening up access to the NPP for non-banks and recommending a review of the fees required to join the NPP.

"Lowering the barriers to entry to the NPP will encourage more Aussie fintechs to plug in, which will in turn lead to better payment services for everyday Australians," says Lukas May, head of banking at TransferWise.

A significant regulatory change was ASIC's licensing exemption for fintechs that meet certain hurdles. These include having fewer than 100 retail clients.

Businesses that are eligible to test in what is known as the "sandbox" include providing advice and dealing in or distributing financial services products.

"The federal government recognises how prohibitive compliance costs can be for innovators. The sandbox allows fintechs to test their services under supervision without the requirement to be licensed," says James.

As part of the open banking regime that gives bank customers more control over their data, the federal government is finalising consultation on the Treasury Laws Amendment (Consumer Data Right) Bill 2018.

"This gives consumers the right to their own machine-readable financial data which will be invaluable for fintechs developing cutting edge payment and credit applications," James says.

Under the new open banking regime, from July 1 next year bank customers will be able to use their transaction histories to negotiate a better deal on savings accounts and credit cards.

Indeed, while fintechs will benefit from all the action taking place on the regulatory front, their customers are the ultimate beneficiaries, says Eric Wilson, CEO and co-founder of Xinja, a digital- and mobile-only business.

"Customers will be able to compare products much more easily, control their data and transfer data between financial organisations. This makes it much easier for them to switch providers, and make better decisions about which to switch to," says Wilson.

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