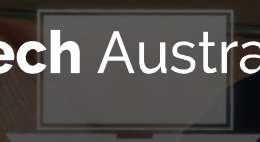


EY FinTech Australia Census 2020

PROFILING AND DEFINING
THE FINTECH SECTOR

FINTECH

FinTech Australia



EY

Building a better
working world

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Foreword

In a very difficult year for scaling businesses across the economy, Australia's fintech ecosystem has continued to grow - a testament to its agility in adapting and persevering through the COVID pandemic.

Having had the privilege of spending a year and a half as the fintech sector's minister and advocate on the international stage, I have been struck by the exceptionally high regard in which Australian fintech is held globally for its ingenuity and diversity. I am proud that it is an ecosystem backed by arguably the strongest infrastructure in the world: APRA and ASIC's regulatory frameworks, the New Payments Platform, the new Fintech Regulatory Sandbox, a strong tax incentive system to encourage innovation - and now, the world-first, economy-wide Consumer Data Right.

The Morrison Government is championing fintech as an industry that will lead Australia out of the COVID crisis - generating the jobs and investment we need for a swift economic recovery. As part of the 2020-21 Budget, we have delivered an \$800 million Digital JobMaker Plan that includes new investment in the Consumer Data Right (CDR), Fintech Bridge program, business registries, Digital ID and regtech capability. The Budget also includes an additional \$2 billion investment through the R&D Tax Incentive - helping fintechs and the wider innovation ecosystem to continue to flourish.

The launch of the CDR on 1 July 2020 was a watershed moment for the sector, and the culmination of years of collaborative work between industry and government - with the steadfast backing of Prime Minister Scott Morrison and Treasurer Josh Frydenberg. Despite the COVID pandemic, the Government pressed ahead with launching the CDR in July because it has never been more important to empower consumers, drive competition in the financial system, and give fintechs the tools they need to boost their success.

I am excited about what the coming year in fintech will bring: the further expansion of the CDR and Australia's role as a data standards leader; reforms to bring Australia's payments regulation into the digital age, including a new regulatory class for Stored Value Facilities and a system-wide review; and building on our collaboration with key partner nations, including the UK and Singapore. The sky is the limit, and I can't wait to see the results of our work take shape in the 2021 Fintech Census.

For now, I give my sincere thanks to Meredith Angwin and her team at EY, Rebecca Schot-Guppy and her team at FinTech Australia, and everyone who contributed to the 2020 Census to help build this vital dataset for our rapidly maturing ecosystem.



Senator the Hon Jane Hume

Assistant Minister
for Superannuation,
Financial Services and
Financial Technology



Welcome

Welcome to the EY FinTech Australia Census 2020. FinTech Australia has continued its successful collaboration with EY Australia to deliver this important piece of research now in its fifth year. The Census remains the only detailed, industry-backed analysis of the Australian fintech industry. This year, we decided to focus on key themes shaping the future of fintech in Australia – Open Banking (Consumer Data Right), Access to Capital, Policy Settings and the implications of COVID19 on the industry.

This research initiative forms a critical part of FinTech Australia's efforts to foster a thriving fintech ecosystem. Australia's fintech industry has emerged as being among the important fintech ecosystems globally.

The Census gives us hard data and credible insights to back our advocacy work to drive the industry's ongoing expansion.

This report is also, arguably, the best source document to define the overall shape of Australia's fintech industry and how we differ from overseas markets. It gives us fine-grain detail about the established and emerging sub-sectors within fintech and helps track the industry's increasing maturity in terms of company size and revenue.

We hope you enjoy reading the Census report and learning about the dynamic fintech industry we have here in Australia.



Rebecca Schot-Guppy
CEO, FinTech Australia

The fintech sector continues to grow rapidly in Australia and around the world. EY is committed to working with fintechs, investors, regulators, governments, education institutions and accelerators/hubs to help the industry realise its potential. An important part of our commitment has been to deliver comprehensive, focussed and prescient thought leadership to help define the industry, identify the challenges and cast light on the best way forward.

For the fifth year, the EY FinTech Australia Census provides an exciting contribution to this commitment and recognises the strong global connection within EY supporting the fintech industry. The Census is essential research conducted with the Australian fintech community by EY Financial Services supported by EY Sweeney, our market research practice. It delivers a powerful fact base, combined with broader insight to inform and inspire those involved with the sector.

We are proud to be collaborating with FinTech Australia on this significant initiative and pleased to be able to share the Census' findings.



Meredith Angwin
Partner, Financial Services,
EY Australia

About this research

The data and analysis expressed in this report were produced by EY Financial Services team with the research program designed and run by EY's dedicated market research practice, EY Sweeney. The quantitative research consisted of 111 online surveys of 12 minutes conducted with people currently working in the fintech industry during July – August 2020. The responses are comprised of a mix of members (84%) and non-members (16%) of FinTech Australia. FinTech Australia provided the contact lists for the research.

Qualitative research was conducted with 10 interviews with fintech leaders and leaders of innovation functions within major Australian financial services organisations.

What is Fintech ?

Organisations combining innovative business models and technology to enable, enhance and disrupt financial services.

EY's definition of fintech

Australian Fintech Landscape

Despite the once-in-100-year challenges of dealing with a global pandemic, the Australian fintech industry is sustaining its revenue base, with more paying customers and plans for future global expansion. Because fintechs are built as agile organisations from the ground up, founders say their ability to respond quickly to the crisis is “just the way we roll”. This attitude and capability have helped the industry make rapid adjustments to vastly different ways of working.

“Two years into building this fintech, adapting was easier to do. It must be hard for startups and legacy organisations.”

Fintechs believe this moment of crisis will drive a step-change in consumer digital adoption and have adapted quickly to grasp new opportunities. This has resulted in a significant increase in consumer digital payments and transactions and the rise of the “buy now pay later” sector, which has expanded at pace, both here and overseas.

“It’s been a phenomenal time for digital payments – our moment in the sun! Our business growth has exceeded expectations every month since the start of COVID.”

However, the industry continues to face its usual headwinds of regulatory concerns and competitive pressure. And, now in a post-pandemic world, fintechs must also contend with the added difficulties emerging from the crisis – issues such as tightening capital and the concern that consumers may return to the “safety” of major institutions for their financial services (FS) needs.

As one fintech founder stated, “Our mantra for the next 12 months is survive the capital crunch and focus on revenue and customer experience.” For now, nothing else matters.

“Work from home is not great for creative, value generation work. Cross team opportunism is virtually non-existent.”

Australian fintechs are facing into these challenges with the resilience and positivity we have come to expect. In the fifth year of the EY FinTech Australia Census, the industry is mature enough to navigate through the opportunities and challenges of these uncertain times. A comfortable 78% of the industry (77% last year) is now post revenue. More than 90% of responses were from companies founded at least two years ago, and industry employment is continuing its gradual increase since 2016. Median employment is 10 fulltime and 2 part-time employees.

Earlier in 2020, the Australian market welcomed strong investment interest for large scale ups, including Athena Home Loans¹, Judo Bank² and Airwallex³. We have also seen a number of ASX listings since the last census was conducted. These include Tyro Payments (ASX:TYR), MoneyMe (ASX:MME), and Plenti Group (ASX:PLT).

The 2020 Census found many fintechs reporting they were seeing a positive uptick in demand as there are “no more excuses relating to change” and organisational mindsets have shifted very quickly. The number of paying customers has increased strongly, with post-revenue fintechs reporting >500 customers increasing by 12 percentage points (from 27% in 2019 to 39% in 2020), with a significant uplift from the “buy now pay later” segment. This points to growing consumer awareness of alternative financial solutions and shows fintechs have developed business models that work.

Our Census revealed that fintechs focussed on payments are more prevalent, with lending and data/analytics the other top fintech sectors. This year has also seen a growth in challenger banks.

These are healthy signs in an environment of extreme disruption and uncertainty, suggesting fintechs will survive this crisis and, with appropriate support, emerge invigorated.

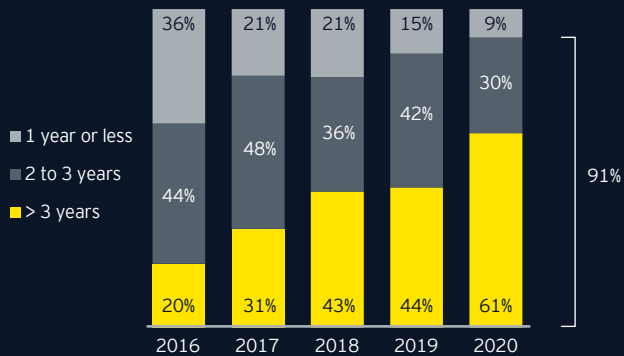
1 <https://www.smartcompany.com.au/startupsmart/news/athena-home-loans-70-million/> October 2019

2 <https://www.smh.com.au/business/banking-and-finance/judo-bank-revels-in-unicorn-status-as-investors-tip-in-another-230m-20200506-p54qcx.html> May 2020

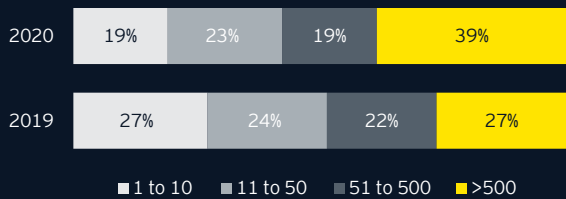
3 <https://www.afr.com/technology/airwallex-gets-250m-raise-away-despite-covid-19-crunch-20200414-p54jsh> April 2020

The Australian Fintech industry is sustaining its revenue base, with more paying customers and plans for future expansion

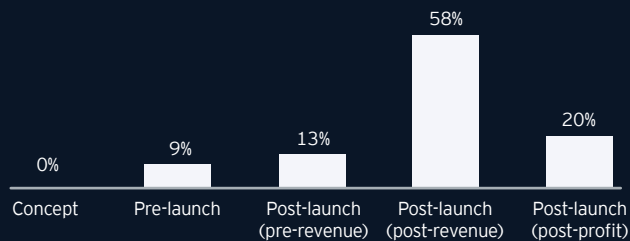
Age of company (excluding didn't answer)



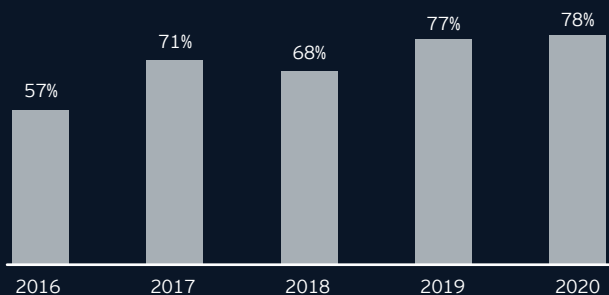
Paying customers



Company stage (excluding don't know)

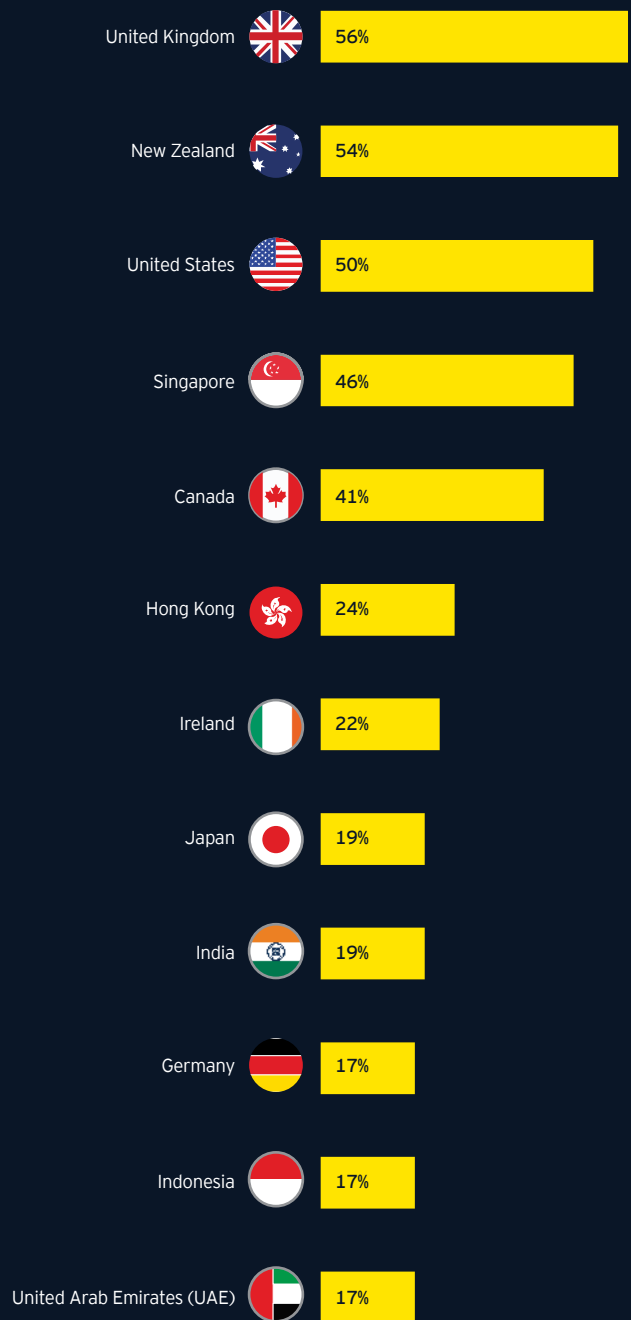


Post-revenue fintechs



Future outlook

Top 12 markets for potential expansion in future (excluding don't know)



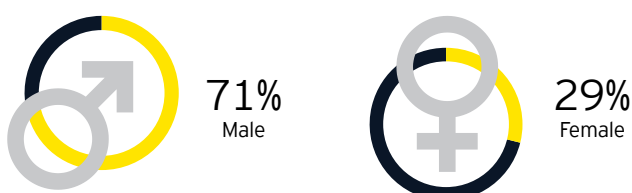
As in prior years, our research has focussed on a number of issues that are fundamental to the success of the industry:

- **Open Banking goes live...** on 1 July, the long anticipated change to allow consumers greater access to their own data went live with little fanfare - after significant implementation effort from incumbents and a couple of fintechs who made it through the trial. Initial consumer uptake is predicted to be slow as there is still significant work to be done, particularly to allow access via intermediaries to support access by small and medium fintechs.
- **Government moves to take the industry forward...** In July 2019, Senator Jane Hume was appointed as Fintech's first federal minister. Her office began work on a fintech roadmap to chart a course through the next few years. In parallel, the Senate Committee into Financial Technology and Regulatory Technology received submissions from more than 170 industry participants and service providers, academics and industry watchers on the "how" and what is needed to support fintech and regtech innovation. The bipartisan Committee released its interim recommendations in September 2020. The fintech industry welcomes most of these and is keen to see these move into action over the coming months.
- **Buy Now Pay Later...** On the back of the success of home grown fintechs, this is now one of the higher performing ASX categories, with players focussed on global expansion in the major markets of US, UK and Europe.
- **Consumer Lenders continue to grow...** Positive signs are emerging, with new consumer-oriented offerings that have reduced fees, are easier to use and put financial wellness at the centre of the user experience.
- **B2B fintechs dominate...** With 80% of respondents identifying as "B2B" and "B2B-2C", we continue to see growth in innovative solutions or platforms to fill "gaps" in financial services and also adjacent areas - think small business productivity or retail.
- **More diversity reflects growing maturity...** Female participation remained at 29% in line with last year. However, we continue to see prominent female founders be successful, including Lucy Liu from Airwallex, Catherine McConnell from Brite, Emma Weston from AgriDigital and Debra Taylor from OpenSparkz. They and many emerging fintech female leaders are the strong role models needed to support improved gender diversity as the industry continues to grow. The CALD proportion of workforce was also marginally higher this year at 22%, compared with 18% in 2019.

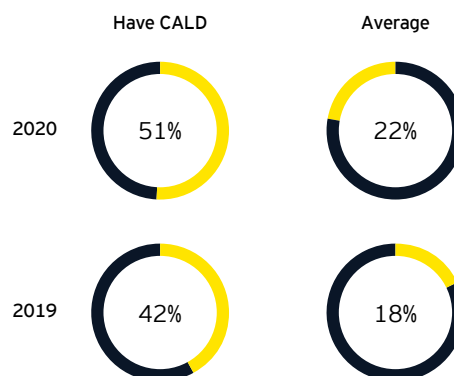
- **Neo-banks striving to build their customer profile...** The last 12 months saw growth in the neobank sector with offering of loans and new services. While there is early enthusiasm for the sector⁴, wider consumer knowledge of the benefits of engaging with their offerings will take some time.
- **Collaboration vs. Competition...** The positive sentiment of 2019 on improved collaboration between incumbents and fintechs has shifted as bank and other institutions have moved their focus to their core business during the pandemic. Fintechs accept why this is needed for the short term however will be concerned if this extends too far into 2021.
- **Capital funding has been hit hard...** The tightening of capital for startups reported in the 2019 Census, continued over the past 12 months with 39% of post revenue/profit respondents not meeting expectations. However, they fared better than the early stage (pre-revenue/launch) respondents with 54% reporting their expectations were not met. Nearly three quarters of respondents report that COVID-19 has worsened their capital raising situation.
- **Royal Commission recommendations delay...** There is growing concern that a number of key recommendations will not be implemented as quickly as originally envisaged and will not achieve as much as was initially proposed. However, in the long term, 84% of respondents expect a positive outcome.

Female participation in the fintech workforce

Gender participation



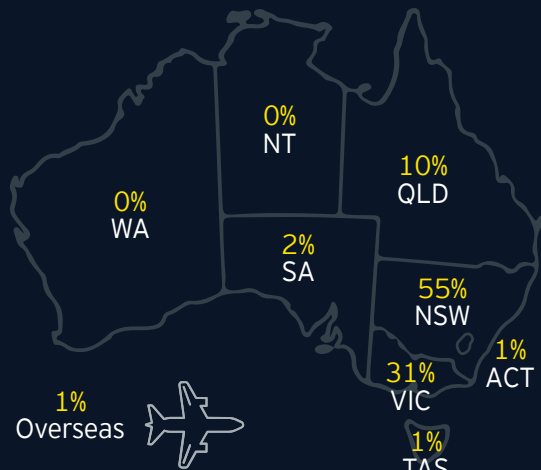
CALD (Culturally and linguistically diverse)



⁴ <https://www.smh.com.au/business/banking-and-finance/savings-flow-to-neobanks-as-xinja-s-deposits-hit-100m-20200204-p53xmr.html> February 2020

Fast facts: Sector profile 2020

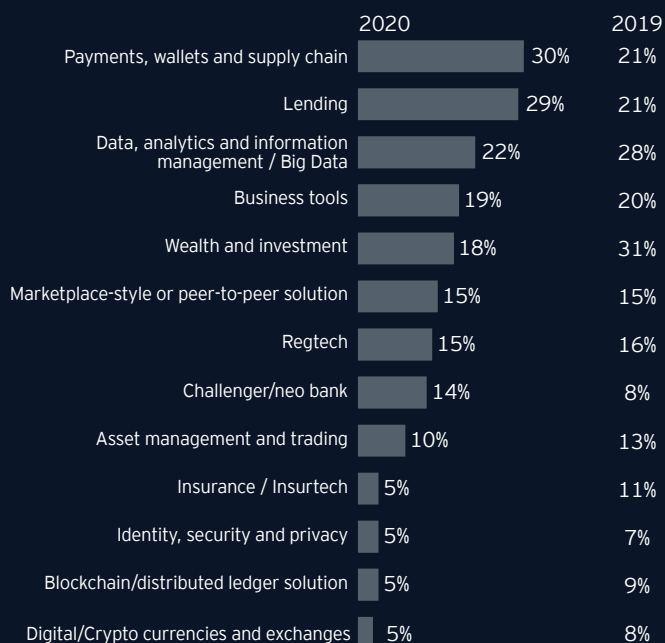
Business base



Number of employees (median)

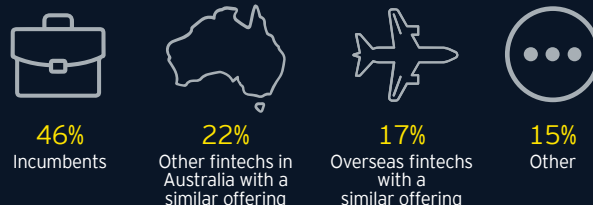


Type of intech (multiple response)*

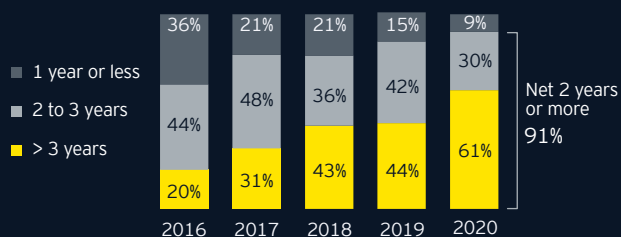


*Other and mentions <5% not shown

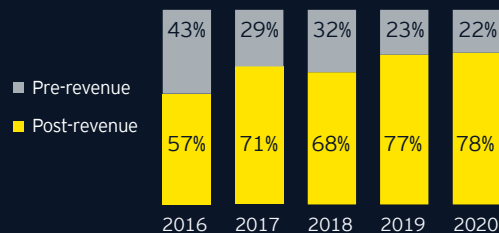
Biggest competitors (excluding none)



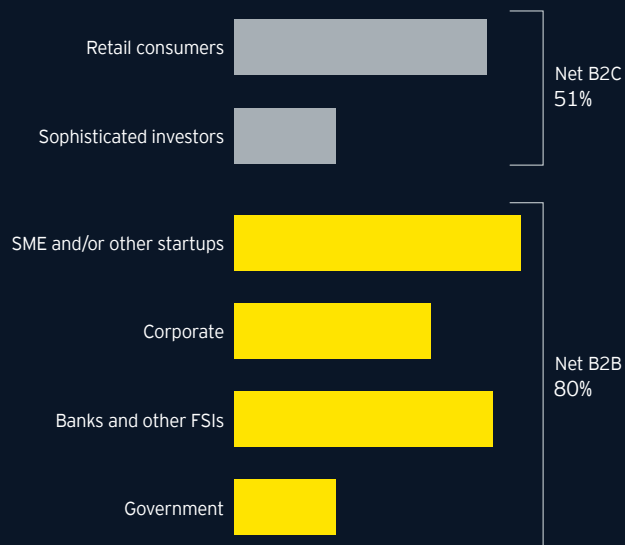
Age of company (excluding didn't answer)



Company stage



End customers (multiple response excluding don't know)



COVID 19 - emerging stronger from adversity

“We have seen 20 years of transformation in 2 months.”

The Australian Economy has plunged into its first recession for nearly 30 years, and the country is still dealing with rolling economic and societal uncertainty. Enterprises have bunkered down as they deal with the disruption shock and partnering innovation has largely gone away. These are challenging times for fintechs, with less CAPEX and less OPEX available to fund growth.

However, the crisis also creates a great opportunity to reshape and advance focus on fintech innovation and expansion as part of the post-COVID rebuild. We expect accelerated FS innovation and transformation, with the acceptance of digitisation supporting fintech solutions for debt recovery and payments. Already, Stripe and Square have launched new offerings and, following in the path of home grown BNPL successes - Afterpay and Zip, Klarna, a Swedish payment provider for online shoppers, launched in Australia earlier this year⁵.

“Fintechs’ challenge is to stay alive long enough to be right.”

Fintechs, especially those in regtech and infrastructure have suffered as financial institutions pivoted to focus on their customers, redeploying staff away from innovation. Our respondents believe banks in particular have done a “very good job” of restoring a level of positive sentiment, changing some of the narrative prevalent after the Royal Commission. Opinions are divided as to whether that sentiment will revert once the crisis abates.

Emerging opportunities:

- ▶ Increased digital adoption may accelerate partnerships between Fintechs and incumbents to deliver enhanced digital solutions
- ▶ Consumer habits will continue to change as digital adoption becomes ubiquitous
- ▶ SMEs, already an important fintech customer segment, will need continued and greater support to rebuild their businesses
- ▶ Neo lenders will play an important role in providing loans
- ▶ Increased demand for digital payments providers and business-to-business (B2B) players
- ▶ Potential long-term changes to working habits could give fintechs access to regional and international talent pools

“

In spite of the turbulent macroeconomic conditions, many Australian fintechs have been able to raise large funding rounds. Yet, when you dig into the data, it becomes clear that a ‘two-speed’ ecosystem is emerging. Those startups later in their life cycle are finding it easier to attract investor funding, while those earlier in their journey are still finding it challenging to access capital. For the local ecosystem to thrive, it’s important that a healthy level of capital is available at all stages of a company’s journey.

Alan Tsen, Board Member, FinTech Australia

⁵ FinTech Australia publications. Various, 2020

Access to Capital

Last year's Census found a slowing in investment compared with previous years. This trend was not just isolated to Australia, with a recent global downturn in investment due to geo-political tensions impacting confidence. At the time, payments/wallet and neobanks seemed to be bucking the trend.

This year, given the crisis, the Census focussed on fintechs' ability to raise capital which, having trended upwards for five years, now accounts for 75% of commercial funding.

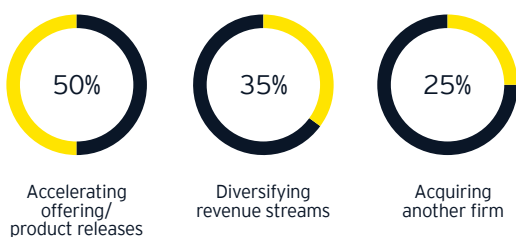
For 72% of respondents, capital raising efforts were negatively impacted by COVID, with 15% reporting no impact and 13% reporting a positive outcome. Interestingly, this impact was felt almost uniformly across pre-launch, post revenue and post profit fintechs. However, while equity funding was tough, investment from the Super area proved more resilient.

Venture capital-backed Fintech investment also declined by c.66% quarter-on-quarter between Q4 2019 and Q1 2020 – and the number of deals was down by 25% during the same period⁶. This risk-averse investor sentiment to funding early-stage start-ups was also a trend noticed prior to COVID-19. The impact will be more keenly felt on early stage start-ups due to lack of access to seed capital.

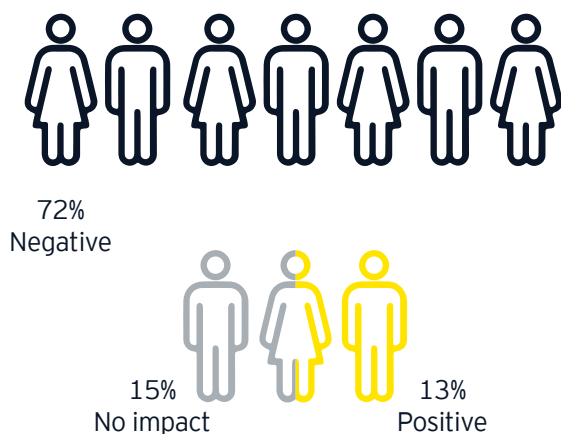
As one post-revenue founder put it, "I'm glad this (COVID) did not happen two years ago as I doubt we would have been able to proceed with our business."

Fast facts: COVID impact on capital

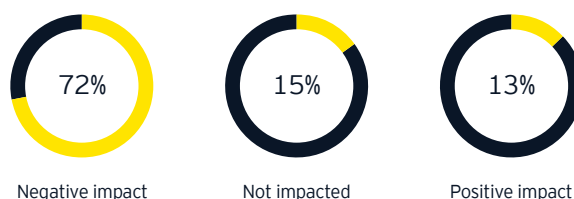
Top 3 considerations since lockdown



COVID impact on capital raising

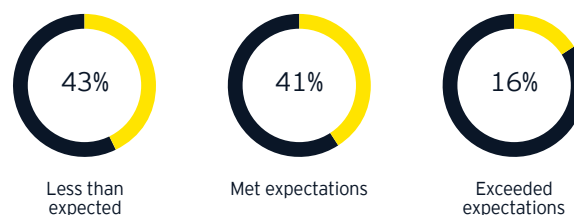


COVID-19 capital raising impact



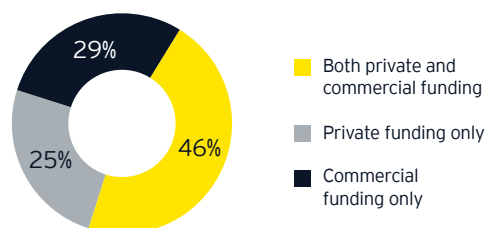
Base: All surveyed fintechs (85) excl. don't know/not relevant

Capital requirements in the last 12 months



Base: All surveyed fintechs (85) excl. don't know/not relevant

Funding sources

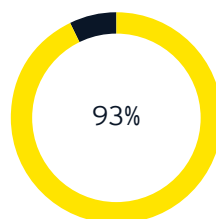


⁶ UK FinTech: moving mountains and moving mainstream - https://www.ey.com/en_gl/financial-services-emeia/how-fintechs-are-moving-mountains-and-moving-mainstream

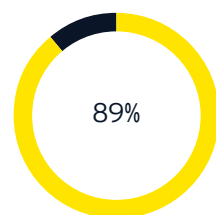
What would help the fintech industry?

- **Introducing matched funding schemes** – Already proven in the UK and Europe, government matched funding schemes for VC-backed fintechs would support early-stage startups as well as those looking to scale up by providing increased funding security and allow greater runway to scale. Another benefit would be increased capital flow into the sector, encouraging others to follow. Australia's fintech industry strongly supports introducing a similar approach to help level the playing field with international competitors.
- **Updating the ESVCLP program** – Since fiscal 2011, \$1.17 billion has flowed through the Early Stage Venture Capital Limited Partnerships across the whole technology innovation sector, connecting investors with early stage businesses⁷. Investment in fintech companies is available via this scheme, but areas such as investment in lending businesses are currently excluded. This requires greater clarity as the current form the program is not internationally competitive. Encouragingly, the Senate Committee has made interim recommendations to implement a new Limited Partnership Collective Investment Vehicle to encourage more investment and align the ESVCLP framework with those of other jurisdictions. Unfortunately, the concerns relating to the validity of lending remain unresolved.
- **Considering targeted investor education** – Educating investors about the practical realities of early-stage innovation and how investors can better support success would benefit all technology startups, not just fintechs.

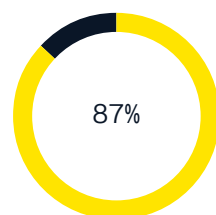
Government support and the regulatory environment
(%very effective for growing and promoting Australian Fintech industry)



Make the research and development tax incentive more accessible to start-ups



Capital gains tax relief for tech start-ups incorporated in Australia



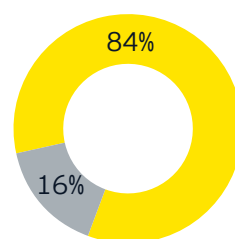
Reduce taxes when hiring employees

The Royal Commission impact – a year on

Last year's Census found the fintech community's mood on the impact of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was overwhelmingly positive both in terms of its immediate and longer term impacts.

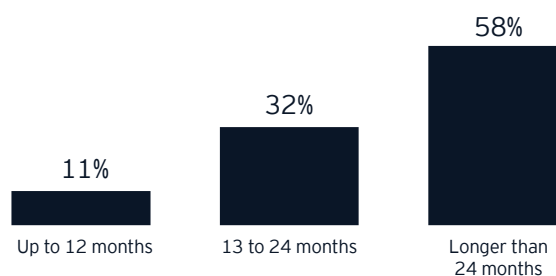
In 2019, 49% of fintechs thought the findings had led to stronger uptake of fintech solutions in the market and incumbents being more willing to partner with fintechs. Fast forward 12 months and the implementation of many of the main recommendations have been delayed due to COVID-19. Although fintechs understand the delay, they are concerned it will slow down the impact of these important system changes. Some fear the full extent of the potential positive impact will never be realised.

Royal Commission – Expectation for positive outcome
(excluding don't know)



Expect a positive outcome
Don't expect a positive outcome

Royal Commission – Time to positive outcome for fintech industry



Fintechs who expect a positive outcome (73)

⁷ Senate Committee on Fintech and Regtech Interim Report, September 2020, p 175

Future expectations

When fintechs think about the future, positive sentiment has slipped by 10 percentage points. This year, 48% fintechs expect a positive outcome for the fintech industry, down from 58%. One in four believes the delay will negatively impact the long-term fortunes of the fintech industry. Nine in ten expect it to take longer than 12 months before the industry outlook becomes positive.

Fintechs hold broad ranging views across the community, as evidenced by these quotes:

Expect a long-term positive outcome

"Increased consumer awareness of alternatives is leading to elevated competition."

"Reform of financial services opens the possibility for innovation."

"Incumbents being increasingly caught up in regulation provides greater space for fintechs to fill gaps in the market."

Expect a long-term negative outcome (or stay the same)

"There's no framework to move to a regulatory environment that allows for innovation."

"It paints the banks as a 'little bad' but retail customers perceive that the unknown fintechs could be worse in governance and transparency, which is not correct."

"The whole process put our partnerships into a holding pattern."

Collaboration

Before the global pandemic hit, there was a genuine feeling that, at last, collaboration around financial services innovation had reached a 'tipping point'. In 2019, 42% of fintechs reported improved relationships with banks and financial institutions; this year, only 17% of fintechs feel the same way.

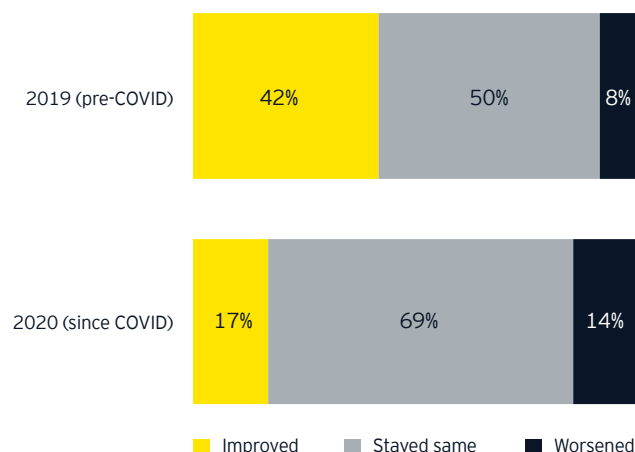
"Enterprises have gone inward - as they deal with the disruption shock; most of the innovation teams have been refocussed on more pressing concerns."

While the fintechs understand the "why", the concern for future partnering is high. "Partnerships are vital to the Fintech industry" as fintech founders noted consistently; the concern is the positive environment that had formed will not be regained quickly, if ever.

"We understand that this takes time and engagement is complex. However, we are prepared to work with the 'majors' to achieve mutual outcomes to be successful".

From the financial services incumbents interviewed we confirmed there is less funding available for innovative partnering as well as less risk appetite to invest at present. However, the outlook is more positive, as there is focus on working with fintechs who are keen to partner for the long term. "The internal flexibility due to COVID 19 has been staggering" was a key theme. This shows promise for removing the longstanding barriers of slow enterprise innovation.

Relationship with banks/financial institutions since COVID-19 restrictions



“

Our incumbents' digital solutions are, in many cases, world-leading and, they ("the big 4") were becoming increasingly collaborative until we all faced into the challenges of the pandemic. Understandably since then, there has been some pull back from collaboration with Fintechs, however we are encouraged to see some signs of collaboration bounce-back as we look to the future. Incumbents and fintechs working together will be sorely needed as we look towards recovery.

Simone Joyce, Board Member, FinTech Australia

Future industry trends

Lasting COVID implications

The pandemic has proved to Australia that, as a community, we have the appetite to tackle big challenges. The industry is hopeful this attitude could find its way into the FS industry, with accelerated disruption helping to build better financial services for Australian consumers. The feeling is that government should treat data infrastructure “the same way it funds roads and dams”.

Defining the “how” of this change needs to be the next step for policy makers, industry associations and fintechs themselves. The government needs to find ways to support fintech funding that is pragmatic and outcome focussed, in a post-COVID environment characterised by:

- **A permanent change in consumer behaviour** - Everyday life has digitised so quickly, with Australians now accustomed to online shopping and inputting their contact tracing details before they sit down to eat. Our respondents expect this will accelerate the adoption of innovative online solutions, so the act of paying becomes part of the overall experience.

“Rather than waiting to pay at the end of the meal, you’ll authorise payment at the start when you log your presence at the café, with the bill being automatically sent via email or text.”

- **The death of cash** - COVID-19 has hastened the death of cash. While it’s still “alive”, use is definitely on the decline, leading to a significant increase in card payments and driving the uptake of digital wallets.
- **A permanent change in doing business** - Opinions are divided as to whether incumbents will continue to power ahead with digital change and fight their way out of legacy or slip back to their pre-COVID ways. While the pace of change may not continue, respondents agree the size of the change is too large to slip back.

“

Founders' vision for the Australian Fintech Industry

We asked Fintech founders: “In 12 months’ time, what do you want to be able to say about the Australian Fintech industry?” They said:

“Fintech becomes the innovation infrastructure for the nation.”

“Australians understand that rapid technology changes are important for the future prosperity of the nation.”

“Australia has a sophisticated and well-regulated financial services system that is of equal benefit to fintechs and incumbents.”

“Capital has returned to the industry - as investors are encouraged to invest in innovation - and there are fintech investments worthy of the capital.”

“Australia is leading the world in striking the right balance between privacy and security and innovation in financial services.”

What does the fintech community say about Purpose?

As Australia works to climb out of recession, fintechs and the broader FS community need a clear and cohesive view on how FS innovation can better support consumers and SMEs. A strong fintech purpose will mobilise advocacy for its adoption, creating an opportunity to build a strong FS ecosystem, where incumbents and fintechs alike work together for purposeful change.

What this means for fintechs targeting retail consumers and SME business is that they must build their businesses around the core tenets of overall financial wellness and responsible innovation of financial services. Arguably, this is built into the premise of the fintech industry. Many in the market are already solving issues for under-served communities by responsibly changing consumer behaviours and improving consumer financial wellness. However, to move into the mainstream of financial services and drive consumer adoption post COVID, clarity of purpose is likely to be a key determining factor for success.



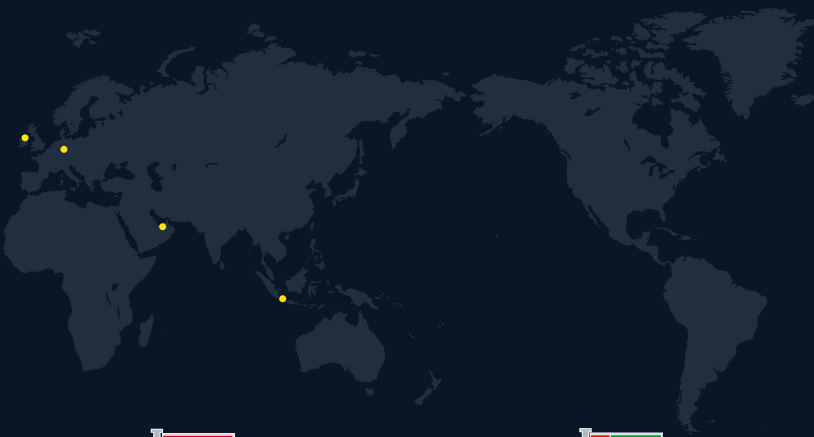
Clarity of purpose is important to the Australian fintech industry – focus on innovation with consumers and business benefits at the centre. FinTech Australia’s values support this – innovation focus, members first, and community driven. We will continue to work with all members of the financial services ecosystem to promote the value of fintech innovation to wider community

Rebecca Schot-Guppy, CEO, FinTech Australia

Global expansion

Despite the current global challenges, fintechs remain largely optimistic about offshore opportunities. Australia’s fintech presence in overseas markets is already strong. The 2020 Census found the intention to go offshore remains high, with 88% considering expansion to overseas locations in the future (beyond the next 12 months).

Traditionally, fintechs seek to enter well-regulated markets with mature financial services sectors. However, this year, fintechs have broadened their outlook to other international markets, including:



Ireland... already has a well-established fintech industry and startup community, with BREXIT only increasing the importance of this market as a gateway to Europe.



Germany... has a large startup community, including a growing B2C fintech market, which is also being viewed as an important entry point to Europe.



Indonesia... offers the advantages of proximity to the home market with an enormous underbanked/non-banked population creating plentiful opportunities for insurtechs and payments providers.



UAE... is making a huge fintech play, with government support and attracting venture capital.

Policy enhancements to support the sector

If Australia is to be globally competitive, the fintech sector needs appropriate policy, regulation and broader government support to put our ecosystem on the global investment and talent radar.

"[Australia's] approach across major initiatives, a proactive 'watch-learn-act' regulatory approach to key infrastructure is viewed to have been effective at incorporating global learnings at pace – this approach to policy has been cited as a key strength."

UK Fintech report profiling a number of major fintech eco-systems

The last few years of policy and infrastructure initiatives to foster FS innovation have gained momentum and supported sector growth. Ministerial representation has increased the sector's visibility and opened a direct channel between fintechs and key federal policymakers. The industry welcomed Job keeper; although, due to the nature of support, not all fintechs were eligible. Strong support from state governments has also continued, with events, trade missions and investment.

The Federal Budget announcements in early October have significantly bolstered government support for digital transformation. The Digital Business Plan⁸ includes investment in a Digital ID system for government services, Consumer Data Right enhancements, support for fintechs to export financial services and all Commonwealth government agencies adopting e-invoicing.

The fintech community is pleased with this significant boost to innovation, encouraging jobs growth within financial services and also across many industries. With the recession underscoring the importance of innovation to the Australian economy, this progress should continue.

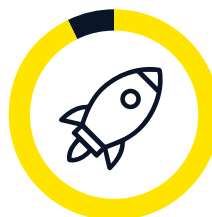
To this point, the potential growth initiatives fintechs consider most effective are:

- ▶ Making the R&D tax incentive more accessible
- ▶ Offering capital gains tax relief for tech start-ups first incorporated in Australia
- ▶ Reducing taxes, such as payroll taxes, that apply when hiring employees
- ▶ Allowing access to Open Banking via an intermediary.

“

“Engagement with key policy makers has been really positive this past 12 months... it is working well in practice with direct access to the decision makers who are willing to listen to the emerging fintech players...having ministerial oversight is definitely a positive for the industry to grow, innovate and become an integral source for economic growth in Australia

Paul Kang, Board Member, FinTech Australia



93%

Make the R&D tax incentive more accessible to startups

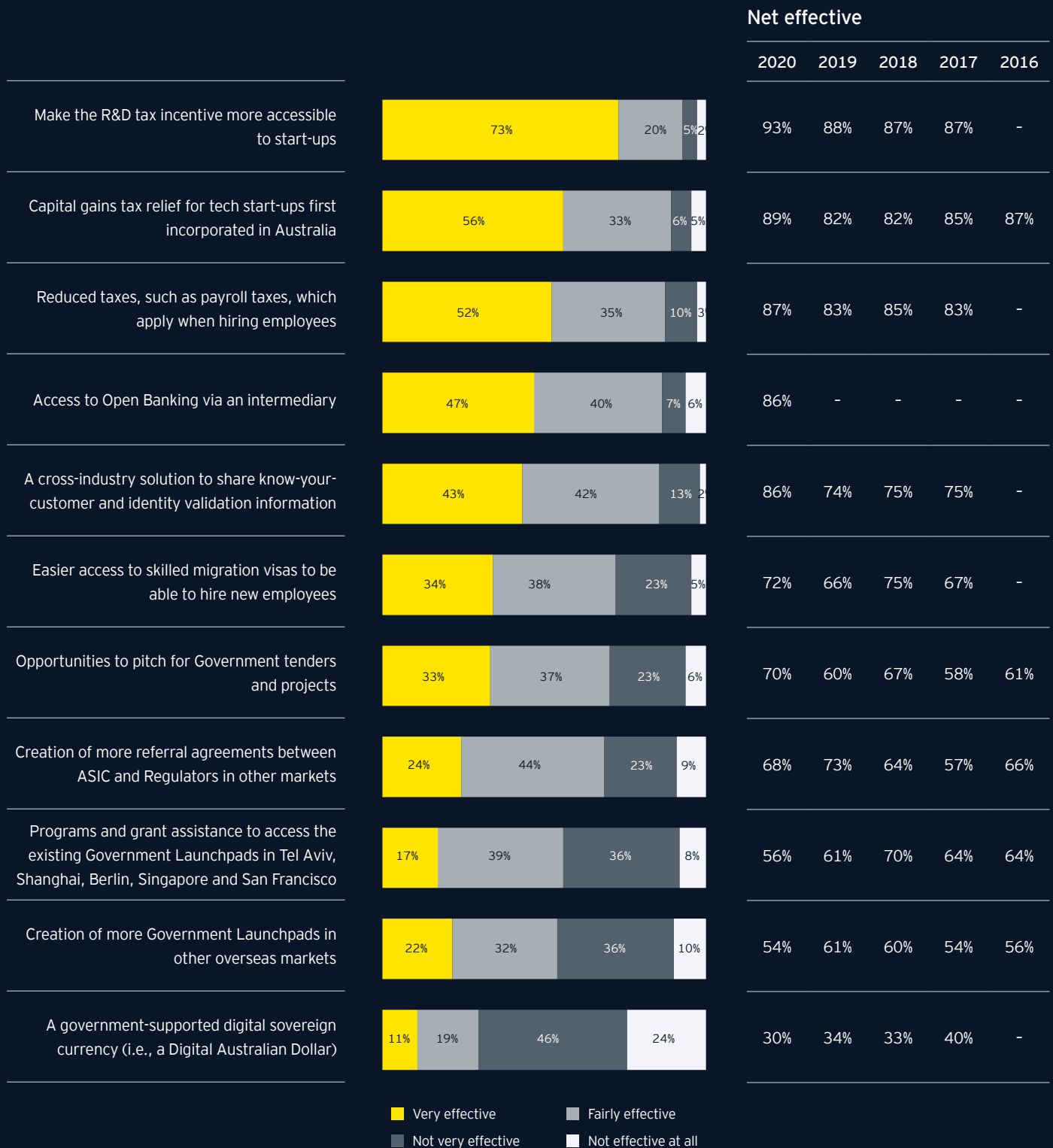


89%

Capital gains tax relief for tech start-ups first incorporated in Australia

⁸ <https://www.pm.gov.au/media/digital-business-plan-drive-australias-economic-recovery> October 2020

Potential growth initiatives



Base: All surveyed fintechs (111). Labels 3% or below are not shown.

Q26a. How effective do you believe each of the following initiatives might be for growing and promoting the Australian fintech industry?



Responsible Lending Legislation - Proposed Changes

The September 2020 announcement by the Federal Treasurer of changes to the Credit Act to simplify the lending process and streamline regulatory oversight is cautiously welcomed by the fintech community. If they pass, these changes will positively impact consumer spending, supporting growth in consumer lending and allowing B2C fintechs to offer more choice. Fintechs are concerned about the potential negative impact on vulnerable consumers. In this, the fintech industry fully supports all proposed safeguards.

Export Market Development Grants Scheme

As we profiled in last year's Census, the Export Market Development Grants (EMDG) Scheme is an important program for startups support to break into international markets.

During the past 12 months, the EDMG was reviewed for its effectiveness and efficiency, with the results delivered in September 2020. Some of the key changes include: reducing administrative burdens for applicants; and increasing upfront certainty to allow commitment to multiyear contracts for promotional and marketing purposes. Industry bodies such as FinTech Australia will have an expanded role in assisting members to become export-ready and enter the EDMG program. These changes have been welcomed by the fintech industry.

Digital ID framework

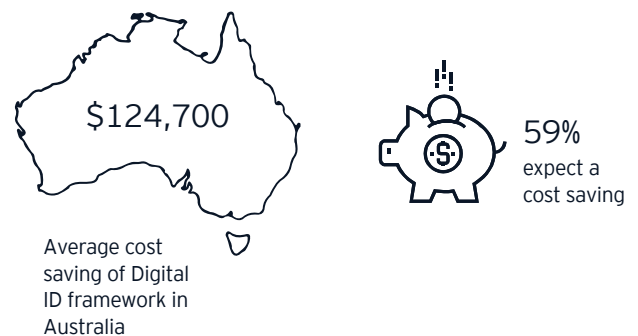
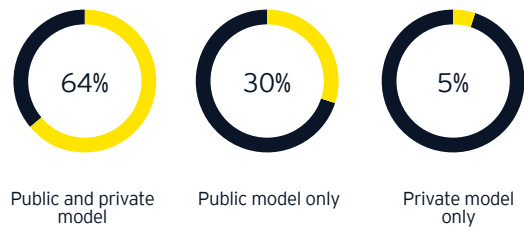
Fintechs are highly supportive of Australia adopting a Digital ID framework, similar to those already being implemented in Asia and Europe. For example, Singapore's advanced digital identity system will allow individuals and businesses to transact digitally with the Government and private sector in a secure manner before the end of 2020.

Almost three in five (59%) of Census respondents believe a Digital ID would deliver cost savings, mostly in customer onboarding, to their organisation - an average of \$124,700 per annum, including those with no savings expected. Asked about their ideas for the framework model, 64% see it working as a public and private model.

"Today, every time, Mary has to go through the effort of presenting her driver's licence or passport to prove who she is to different providers. A Digital ID will allow Mary to establish her unique identity once. Then, she would be able to identify herself quickly and securely with different online products and platforms."

Our respondents believe a Digital ID is an important step to enable fintech and consumer data right adoption, drive payments innovation and support the rapid digitisation of businesses occurring due to COVID-19. Current stumbling blocks are the need to agree on a Digital ID framework and build consumer confidence about identity privacy and control.

Best description of Australian model



Continued regulatory engagement

The fintech community appreciates Australia's mature and well-regulated financial system but wishes the pace of change could be quicker. Engaging with regulators has become increasingly productive, with ASIC's innovation hub being most effective at communicating with fintechs and providing informal guidance.

"In a detailed review on key areas of credit, we were able to strike the right balance between innovation and regulation."

The initial 2016 Regulatory sandbox implementation had limited success in attracting fintechs due to perceived concerns with its flexibility and limited product and time coverage. However, working extensively with the fintech community, ASIC began operating the enhanced regulatory sandbox (ERS) on 1 September 2020. The ERS, which allows a broader range of financial services and credit activities to be tested for a longer period, has been very positively received, with one founder saying: "This has potential to be among the leading sandboxes available globally."

"The enhanced sandbox will allow financial service innovators - fintech and incumbents - to test more products, more services for a longer time."

Access to talent

The Australian Government has recently announced a Global Talent program offering high-skilled workers in future-focused areas, including Fintech, visas to work and live permanently in Australia. The effectiveness of the policy is unknown given its nascency, but interview feedback showed fintechs are positive about the program's intent⁹.

This is now impacted due to closed borders and travel restrictions, which prohibit skilled tech workers from arriving in the country. More fintechs are struggling to find talent though hiring has slowed for now. With a view to the future, the number of respondents stating that easier access to skilled migration would be an effective mechanism for growth jumped to 72% from 66% in 2019.

⁹ https://www.ey.com/en_gl/financial-services-emeia/how-fintechs-are-moving-mountains-and-moving-mainstream

Consumer Data Right (CDR) - Open Banking

Early in 2020, the fintech community was eagerly anticipating the impending start of Open Banking - the first phase of Consumer Data Right (CDR) legislation implementation. On 1 July, the first phase went live after extensive design and testing involving a small group of fintechs, the Big 4 banks and the ACCC, which is charged with overseeing implementation.

While broadly taking its lead from the UK's policy approach to Open Banking, Australia has expanded its early-stage scope. The CDR will create a broader data right, initially applicable to banking transaction account data, with subsequent phases to cover other types of FS, such as superannuation, as well as energy and telecommunications services.

As anticipated, the initial phase has started slowly as fintechs and the major banks worked to build out the available consumer use cases. As of writing, the CDR system comprises two ADRs (accredited data recipients) along with the four major banks. Further ADRs are expected to be participating by late 2020¹⁰.

Indeed, 48% of Census respondents anticipate becoming a CDR accredited data recipient. Three in ten intend to become an ADR within the next six months and 71% within the next 12 months.

Similar to last year, fintechs report the greatest motivator to connect to Open Banking is greater transparency in the process of obtaining consumer data. However, increased consumer engagement is now viewed as the next most important motivator, followed by the expected increase in the volume and speed of data exchange.

The main reasons for not expecting to obtain accreditation are a lack of relevance or need for their business, and an expectation that the process will be laborious and costly. A high number of fintechs said they do not know enough about CDR or the requirements of becoming an accredited provider.

For those fintechs not considering accreditation, the key reasons are satisfaction with existing processes (e.g., screen scraping) and not viewing this as being beneficial for their customers or current business. Clarity is also needed on the ways CDR will apply to B2B fintechs, rather than just those with a consumer end user.

By far the most important area is the use of intermediaries, with fintechs questioning if Open Banking can be successful without this being allowed. More than quarter (28%) of respondents said they will connect through an intermediary when the rules allow. After extensive consultation, the revised intermediary rules were released at end of September. According to the ACCC announcement, this will "mean accredited businesses can now ask other accredited businesses to obtain consumer data on their behalf, with consumer consent, and are intended to facilitate greater participation in Consumer Data Right by fintech firms"¹¹.

A number of fintechs said they are in "wait and watch" mode and "will likely revisit in 2021".

"[Screen Scraping] is a key part of our business model. Until we can see an approach that allows us to transition over time to CDR, we will not adopt."

“

Australia's approach to consumer data rights has the potential to be world leading practice. This will depend on pace of innovative solutions available in the system and allowing small and medium fintechs affordable and efficient access to the regime.

Cathy Lyall, Non-executive Board Member,
FinTech Australia

¹⁰ Senate Committee on Fintech and Regtech Interim Report, September 2020, p 135.

¹¹ The Competition and Consumer (Consumer Data Right) Amendment Rules (No. 2) 2020 (Accredited Intermediary Rules), 2 October 2020

How fintech founders view Open Banking

Fintechs remain positive about CDR, while recognising it will be a long road with a number of barriers. Founders believe Australian consumers will only benefit from Open Banking if Australia has a thriving eco-system of participants: data holders and data recipients. This will make enough of the right kind of consumer data available to bring meaningful use cases into the market and drive adoption.

"We need more than 100 participants to make Open Banking attractive to consumers, all creating new use case experiences, learning from and sharing with each other."

CDR 1.0 has lacked pace due to "limited industry engagement" and "scarce digital capabilities across Australia". Founders think that, to be successful, fintechs must get onboard along with a significant cohort of Australia's small- to medium-sized Authorised Deposit-taking Institutions (ADIs) - not just the four majors. The current implementation approach is seen as favouring incumbents. Founders fear we are creating a system that will allow major players to dominate. One was concerned the responsible regulator, the ACCC, is a "competition body not an innovation driver".

"Why can't there be an implementation trustee like the way the UK operates?"

The current pace of implementation is too slow to support fintech innovation. To accelerate without compromising on technology deployment, founders believe Australia needs to:

- ▶ Clarify implementation accountability and provide expert support to resolve complex issues, rather than relying solely on participants to resolve them
- ▶ Streamline the complex and costly accreditation process, with a tiered system so those with scale can support smaller players
- ▶ Quickly increase consumer awareness to create a virtuous loop to drive adoption
- ▶ Remove the impost on fintechs alone to drive innovation, encouraging government agencies to adopt and promote use cases
- ▶ Make broader API sets available
- ▶ Clearly mandate the rules to avoid individual interpretation.

"Banks need to be more open on the way they are interpreting the data rules. This did not become obvious until the APIs came through."

The recommendations of the Inquiry into Future Directions for the Consumer Data Right are expected to be released before the end of this year, after extensive consultation with data holders, data recipients and industry participants. The outcomes will set the course for the next phase of Australia's CDR regime.



The EY Open Banking Team

Consumer Data Right for Banking, and beyond

A significant opportunity

The major banks together with fintechs have worked to realise the first step in the Consumer Data Right (CDR) implementation. The major banks have delivered their solutions together with the initial data sets and the remaining ADIs have started through providing product reference data.

The initial release in July 2020 went smoothly, and accredited data recipients have been expanding their transaction volumes in the first three months. This paves the way for future releases, the addition of the remaining banks, and the growth of the number of Accredited Data Recipients.

We anticipate that the timeframe for CDR adoption may be shorter than that in other jurisdictions, such as the UK, due to the ease of rollout so far, adoption of learnings from other geographies, the recent introduction of intermediary rules and global solutions deploying in Australia.

If recent Senate interim report recommendations are accepted, CDR will extend from Banking, Energy and Telecoms into Superannuation, General Insurance, Private Health Insurance and potentially other areas. This will provide further opportunities to build differentiated propositions using CDR data.

It will become simpler

Our experience is that all early participants have found the delivery of the technology solutions more complex than anticipated. The obligations cover a broad range of topics, including technology, data sourcing and quality, compliance, risk, consumer processes, dispute management and legal groups. Additionally, testing and compliance with the many CDR-related obligations and regulatory bodies, coupled with the frequent updates, has been challenging. For many Banks this has led to large programs of work.

Platform providers (including the EY Open Banking solution for Australia) are seen as the pathway to compliance for many organisations. In future, intermediary rules will reduce barrier to entry for many fintechs, and the introduction of tiered accreditation levels will reduce the cost and time burden. Further, market conformance test tools will reduce the effort in assuring technology compliance to the CDR standards.

The year of adoption

The coming year will be significant for CDR, as most banks will be obliged to enter the ecosystem, and reduced accreditation barriers will attract more data recipients. This in turn is likely to lead to new propositions that will attract consumers. To be a successful, the CDR ecosystem needs:

- ▶ Data from the banks and ADIs – which they are required to do through CDR regulations
- ▶ Data recipients to be accredited, build or use compliant solutions, and develop compelling propositions for consumers – which is likely to accelerate as CDR-compliant platforms go mainstream and CDR accreditation is streamlined
- ▶ Consumers to be sufficiently aware of the benefits of providing consent to share their data – which is planned by the Government
- ▶ A regulatory regime that promotes and incubates adoption for participants and consumers, and maintains safe, consent-driven data exchange.

The next 12 months will establish the firm foundation for the expansion of CDR into other industries and data.

Contact the EY Open Banking team

EY teams offer various services for Open Banking, enabling our clients to comply, compete and innovate at pace with the ability to scale globally. Our Open Banking platform is designed to reduce the cost and time to comply with the CDR regulations, Data Platform to reduce implementation timeframes, and our Accreditation services support the acceleration of onboarding.

Written by: Andrew Parton, Partner, EY Financial Services Consulting and Mike Booth, Associate Partner, EY Financial Services Consulting

R&D tax incentive

Australia has seen significant debate about the effectiveness and application of the R&D tax incentive (R&DTI) scheme for a number of years. However, as one industry R&DTI expert stated: "The time for debating the merits of whether the R&DTI encourages business to accelerate Research & Development is over. Australia's industry and consumer led economic recovery simply needs globally leading R&D incentives to encourage business investment in new products, ideas and services to help make Australia competitive and create more jobs".

Fintech founders agree. For the fifth consecutive year, tax related initiatives top the list as the most effective initiative to grow and promote the fintech industry in Australia.

Of Census respondents, 59% have applied or are applying for the R&D tax incentive, with 54% already being successful. Four out of five fintechs say that having access to the R&D incentive increases the likelihood of keeping at least part of their business on-shore.

The Senate Committee¹² has called for changes to the R&DTI, after hearing concerns about the complex application process, uncertainty about making software development claims and the prospects of retrospective audits resulting in costly defence and claims being clawed back - sometimes years after they were paid - creating unnecessary risks and costs.

While the Senate Committee heard conflicting views on the effectiveness of the operation of the incentive, the one thing on which all who appeared agreed was "the importance of the incentive for startups, including FinTechs."¹³ The inquiry also heard a significant proportion of startups use the money to hire more staff for product or service related R&D.

Regulators keeping up with software R&D activity is problematic because of software development commercial realities and that the speed of technology evolution is inevitably faster than the speed of regulator adaptation and technical understanding in emerging technology. The inquiry's recommendations, which are encouraged by the fintech industry, will go some way to resolve these issues.



54%

Successfully applied for R&D Tax

Base: All surveyed fintechs (111)



95%

Agree having access to R&D incentives increase likelihood of keeping aspects of business on shore

Base: Fintechs who have successfully applied for R&D tax or are in the process of applying (65)

The Australian Federal Budget 2020 included positive R&DTI changes that seemingly abandon the previous proposed amendments that would have acted to significantly water down the R&DTI regime. The now legislated changes will be effective from income years commencing after 1 July 2021 and include a new intensity test, improved benefit rates for R&D entities, uncapped or higher caps on R&D expenditure, simplicity and greater certainty around the future of the program in this country.

While it is unfortunate that it took a global pandemic and recession for proposed R&DTI cuts to be abandoned, these changes to encourage and support R&D investment have been heartily welcomed by the fintech industry.

¹² Senate Select Committee for Financial Technology and Regulatory Technology; Australian Government

¹³ Select Committee for Financial Technology and Regulatory Technology Interim Report (3.17 & 3.18, p63)

The EY Government Incentives Team

A critical time for R&D investment

Business R&D is at a critical crossroads as industry seeks to protect against and recover from the global impacts of the pandemic. In the face of recession and uncertain geopolitical realities, it is time to double down on support to stimulate R&D investment for future growth opportunities, jobs and new business.

Australia's economic recovery and competitiveness in financial and digital technology will be underpinned by pulling all policy levers to provide cashflow support and globally leading incentives for business investment in R&D. The R&DTI Incentive (RDTI) is even more of an imperative for business R&D, new business and job generation than ever before. The 2020 federal budget included important and welcomed positive changes to accelerate the value of the R&DTI program to support Australian companies that invest in R&D, including reinstating \$2 billion in R&D support over the forward estimates, compared to the \$1.8 billion removed in the previous two budgets. Claimants of the R&DTI now have certainty they will keep the same or higher levels of benefit compared to the current law, for income years commencing on or after 1 July 2021.

Universal industry concern with RDTI administration

The government's positive renewed refinements to the R&DTI follows sustained industry concern over erosion of funding and changing expectations by regulators over a number of years.

Examples in industry have been cited where administrators expectations for R&DTI claimants have resulted in protracted, costly, time intensive and non-commercial retrospective review or audit activity. Industry craves practical, commercial guidance as to how as R&DTI claimants they can meet their expectations with greater certainty to ensure genuine software R&D is reliably supported. In addition to the positive R&DTI enhancements, administration certainty will be key to protecting R&DTI program integrity and living its policy purpose of encouraging R&D. The R&DTI is intended to be a self-assessed entitlement program but is seen by many in industry as increasingly subject to administrator interpretation that does not adequately encompass software R&D, leading to unproductive uncertainty and placing an overly administrative or risky burden on claimants.

Submissions to Senate committees on the 2018 and 2019 proposed R&D amendments and submissions to the Senate Select Committee on Financial Technology and Regulatory Technology, together with the review of the R&D tax incentive (December 2019) by the Small Business Ombudsman, have reflected the findings of the 2020 Fintech Census in highlighting the importance of the R&DTI to business growth, and concerns with administrators' approach to retrospective audits amidst changing expectations.

In recent landmark Federal Court judgments, aspects of regulators' interpretations of the eligibility requirements and approaches to R&DTI claim substantiation through documentation have been rejected. Sustained meaningful changes to the administrators' approaches, in addition to the positive policy certainty now provided allowing eligible Australian companies to keep the same or higher levels of benefit compared to the current law, are critical to encouraging and increasing R&D and innovation investment.

Software R&D innovation investment for economic recovery

Regressive actions in recent years have coincided with a decline in Australian R&D spending to its lowest level in 14 years, with steady falls since 2013 and a sharp decline of 7.6% in the June 2020 quarter. Australian R&D spend as a percentage of GDP has already fallen substantially behind the OECD average. Now is the opportune time to encourage R&D in all its forms, including overt R&DTI support for software R&D. This lever would stimulate business investment confidence and encourage critical digital innovation to create future growth opportunities, jobs and new business.

The enhanced support for the R&DTI announced in the 2020 federal budget and post pandemic economic recovery imperatives provides R&DTI administrators with a platform to improve clarity, guidance and explicit R&DTI support for software R&D. Both the R&DTI and its predictable, supportive and pragmatic regulator administration is now more important than ever to fast track economic recovery, remove uncertainty and revive home-grown innovation and technology, job generation and growth to ensure Australia remains a globally competitive digital economy.

The outlook

Software R&D is critical to our economic recovery and growth. With a Covid recovery lens, policymakers' renewed support for the R&DTI must be met with the same stability and certainty in the program's administration to boost Australia's business sustainability, confidence investment for growth and innovation, and retention of STEM talent.

The R&DTI continues to be an important source of support in Fintechs' investments in knowledge-generation through experimentation in software R&D, jobs and new business. Our recovery from the biggest social and economic disruption of our lifetime - the Covid 19 pandemic - is going to be shaped and determined by capacity to develop and harness technology in all its guises. Fintech software innovation is critical for Australia to be a leading digital economy in the post pandemic world.

Contact the EY Investment and Government Incentives team

EY recognises that Government funding and the R&D tax incentive can be difficult to navigate. EY's GI team utilises our network of professionals across the globe to consistently provide market leading insight on best practice R&DTI claim processes, government funding opportunities and a collective network to get to critical stakeholders to provide detailed and competitive applications for a range of non-dilutive funding and R&D incentive sources, including R&D tax incentives, grant programs, co-financing packages, loans, and discretionary funding solutions.

The annual [EY Worldwide R&D Incentives Reference Guide](#) offers an overview of the various credits available. To receive cash via tax refund or conserve cash via reduced future payments, companies may want to consider accelerating filing R&D claims and R&D investment. The free [EY Tax Covid-19 Global Stimulus Tracker](#) is also available to help assess what measures are available across jurisdictions.

Written by: Malia Forner, Partner, Government Incentives and Oceania EY Private Start-up and Entrepreneurship Leader, EY Private and Dr Dene Murphy, Manager, EY Government Incentives

“

The capacity to develop and harness technology in all its guises through R&D incentives to encourage home-grown innovation, R&D investment and jobs, including overtly supporting software R&D and private businesses for economic recovery, growth, customer and revenue base diversity, has to be a priority in a post pandemic world.

The time for world leading incentives and funding solutions is now, for business confidence in the retention of talent, investment in innovation, more jobs, new businesses and global competitiveness.

Malia Forner, Partner, Government Incentives and Oceania Start-up and Entrepreneurship Leader, EY Private

Census participants*

25fifteen	Hutly, Seed Space, Seed Money, Fintech Australia	Raiz Invest Limited
Accurassi	ID Exchange	Seed Space Venture Capital
Adatree	Identitii	Selfmade
Adviser Ratings	ignition advice	SideFund
AgriDigital	InfraRisk	Six Park
Allied Business Partners Pty Ltd	ingenico pacific international	Payment Assist
Archa	Insight Data Solutions	Paypa Plane
Asia Pacific Development Partners Limited	Joust	Payreq
Assembly Payments	Judo Bank	Propell
Athena Home Loans	Jump Payments Pty Ltd	QuietGrowth
Billpower	Link4	Raiz Invest Limited
Biza.io	Longevity App	Seed Space Venture Capital
Blue Zebra Insurance	Look Who's Charging	Selfmade
Bowen Technology Pty Ltd	Meeco	SideFund
Business Fuel Pty Ltd	MilestonePay	Six Park
bzPay Holdings Pty Limited	MoneyPlace	Sniip Ltd
Cake Equity	Moneysoft Pty Ltd	Square
Campaign Agent Pty. Ltd.	Monoova	Startupbootcamp Australia
Certified By	mSmart	Tanggram
Civic Ledger	MSTS	TAO Solutions
ClearScore	Nelnet International	TransferWise
Cognitive View	Omni-Financial	TrueLayer
CoinJar	OnDeck Capital Australia Pty Ltd	Valiant Finance
Credi	OnMarket	Verrency
Crowd Property Capital	Open Sparkz	Virgil Assist
Cynch Security	Parpera	Volt Bank
Data Republic	Paycepaid	WealthO2
Entersoft	Payment Assist	YieldHub
enteruptors	Paypa Plane	Zip
Ezypay	Payreq	Zscore
frollo	Propell	
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*Note - Fintech participants listed above specifically provided their permission to be cited in this report

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