



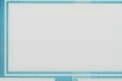
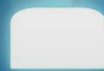
Analytics

Statistics

# EY FinTech Australia Census 2019

Profiling and defining the  
fintech sector

FINTECH



Building a better  
working world

FinTech Australia

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# Introduction





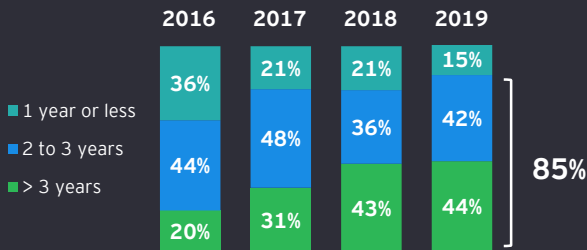
# The Australian fintech industry has matured with increasing profitability and is globally connected

## Key business challenges 2019

Top 3 internal challenges

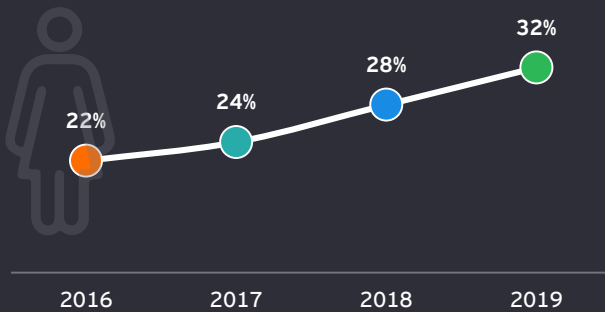


## Age of company (excl. didn't answer)



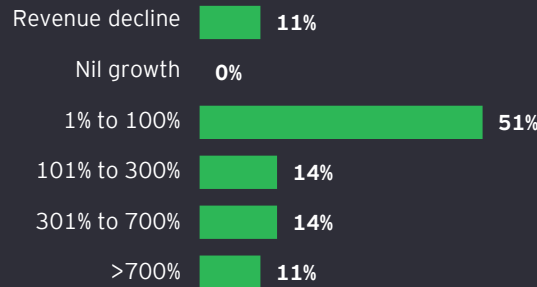
## Female participation in the fintech workforce

% of female employees



## Median revenue growth (post-revenue companies)

Year on year post-revenue growth continues to improve



Post revenue fintechs

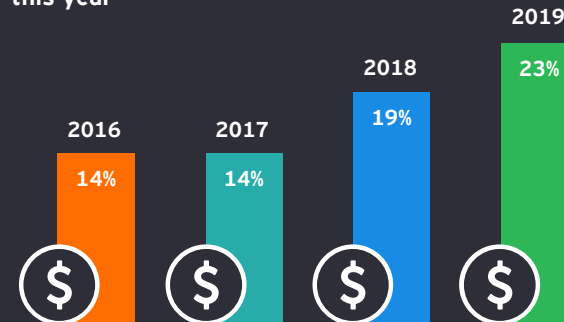
**77%** 68% in 2018

Median post-revenue growth

**80%** In the past 12 months

## Profitable fintechs (post-revenue)

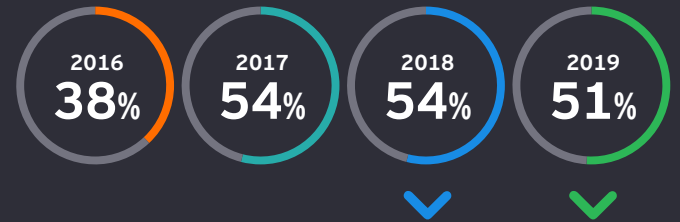
A greater proportion of fintechs are profitable this year



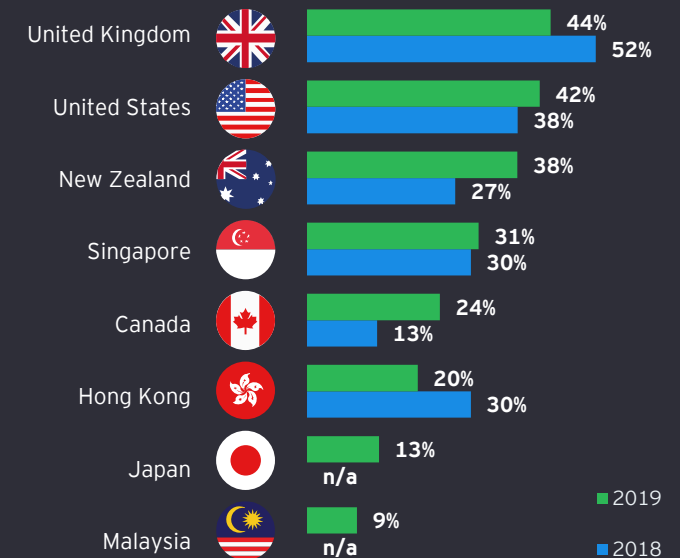
## Future outlook

Australian fintechs continue to focus on overseas expansion in the next 12 months

Either expand or expand further overseas



## Top 8 markets for potential expansion (excl. don't know)

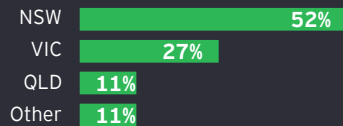




# Fast facts: The fintech landscape in Australia 2019

## Sector profile

### Business base



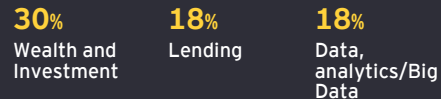
### Company age (excl. didn't answer)



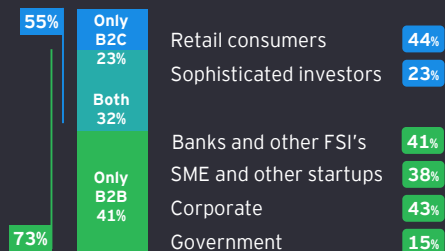
### No. of employees (median)



## Type of fintech (top 3)

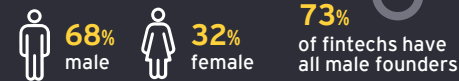


## End customer profile



## Industry gender profile

### Gender (workforce participation)



## Fintech leader profile (founders/CEOs)



## Talent

### Top 3 talent shortages:



41%

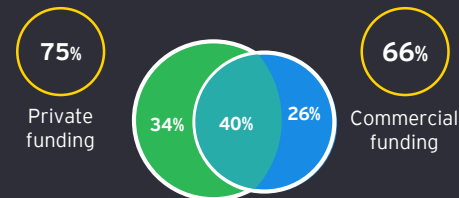
Agree that attracting qualified or suitable talent is an internal challenge

## Relationship with incumbents

42%

nominate 'building partnerships with banks and other financial institutions' as a key external challenge

## Capital (multiple response - excl. don't know)

Average scale of last capital fundraising **\$2.23m**Average capital raised to date **\$4.12m**

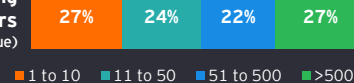
## Monthly burn rate

Average monthly burn rate (excl. profitable fintechs)



## Paying customers

No. paying customers (post-revenue)



## Median fintech post-revenue growth



## Government support and the regulatory environment

85%

agree implementation of Open Banking would be effective

66%

agree accelerators/incubators are important contributors to the success of the fintech industry

25%

mention government incentives and tax regulations as a challenge facing the industry

## Outlook: Next 12 months expectations

81%  
Grow revenue64%  
Grow employee number51%  
Expand or further expand overseas

## Company stage:

77%  
Post-revenue23%  
Pre-revenue

## Globally competitive



**63%**  
agree Australian fintech companies will be able to compete internationally



**48%**  
agree Australian fintechs will be able to win against international fintechs



## FinTech Australia



Welcome to the EY FinTech Australia Census 2019. FinTech Australia has continued its successful collaboration with Ernst & Young Australia to deliver this important piece of research for the fourth year running. The Census remains the only detailed, industry-backed analysis of the Australian fintech 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 amongst the important fintech ecosystems globally. This year we have seen an increase in the level of partnerships between incumbents and fintechs as the approach to collaboration matures and as consumer and business demand grows.

The Census gives us hard data and credible insights to back our advocacy work to drive the industry's ongoing expansion. This year's Census delivers new insights into key industry issues, notably the impact of last year's Royal Commission and the implementation of Open Banking under the Consumer Data Right (CDR) legislation. It also addresses the progress in creating a diverse and inclusive industry, international expansion intentions and key barriers to growth.

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**  
General Manager, 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 fourth 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 Sweeney. It delivers a powerful fact base, combined with broader insight to inform and inspire those involved with the sector. For this first time we have added views from major Australian financial services organisations on collaboration with fintechs and how this has developed in Australia.

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,  
Ernst & Young Australia





## Executive summary

The Australian fintech industry has matured, reflected in the profile of the firms, the breadth of coverage, the level of global connection and increased levels of profitability. Confidence in the industry is high, underpinned by some flagship success stories over the past 12 months. It has been a year in which the financial services industry has been in the spotlight with the Hayne Royal Commission, the debate around the Consumer Data Right legislation, the tempering of the R&D tax, challenges around skilled migration visas and a softening of access to capital.

A key theme in the industry as we head into 2020 is the degree of collaboration between fintechs and the incumbent major players. It is fair to say that, while still highly competitive, there is a much more mature, streamlined and respectful relationship emerging.

As in previous years, we have explored in detail the dynamics around the five pillars that underpin the success of the industry. While some aspects have remained consistent, equally there have been some significant shifts over the past 12 months.

- ▶ **Talent...** The attraction and retention of talent is a consistent and longstanding issue for Australian fintech organisations. It remains a top tier challenge, but there has been a shift this year – fewer fintech leaders believe there is a lack of experienced startup and fintech talent in Australia (43% v. 50% last year). Another positive shift this year is a greater degree of gender diversity. Talent will always be in the spotlight as a barrier to growth, so it continues as an area in which fintechs believe more support is required.
- ▶ **Capital...** The story in 2019 is markedly different to 2018. This year the big theme is of a tightening of access to capital, reflected in slightly less success in capital raising and lower levels of funds raised. There is also a skew to the more established and larger players in the fintech space. Two of the big shifts this year are in the percentage of fintechs that are post-revenue (77%, up 9 points from 2018) with close to one in four fintechs being profitable; and tighter management of cash reserves reflected in a reduced burn rate.
- ▶ **Demand...** The sector continues to grow and evolve at pace, with the major fintechs in Australia no longer on the fringe, but offering sophisticated and credible options for consumers. Usage of fintechs by Australians continues to rise, with the Global Fintech Adoption Index showing an Australian adoption rate of 58% (up 21 percentage points since 2017).
- ▶ **Policy...** It has been a milestone year in the area of policy, regulation and government support. The two most prominent areas of focus have been Consumer Data Right legislation (CDR or Open Banking) and the R&D tax incentive. The CDR is seen as an effective growth initiative by 85% of fintechs interviewed. Further, 40% anticipate becoming an accredited CDR provider, of which 60% would connect to CDR alongside other means of accessing consumers' financial information. The R&D tax incentive evokes mixed reactions. Well over half (58%) of the fintechs interviewed had successfully applied for the incentive, with 76% saying that access to the scheme encourages them to keep aspects of their business on-shore. The prevailing concern is around the lack of clarity and certainty, along with reduction in the scheme.
- ▶ **Environment...** The environment supporting fintech startups and scale-ups continues to evolve with fintech hubs well established in all east coast capital cities and recent announcements of expansion west cross the continent this year. Founders continue to draw on support networks provided through hubs, peer networks and also government initiatives and cite that this is vital for success for the fintech industry as well as the individuals.

The Australian fintech industry has matured and continued to grow. There remains a high degree of optimism, however the industry is facing some different challenges than we have noted in prior years. Two fundamental foundations for continued success will include the level of effective collaboration with major players and the level of government support.



## About the research

### Background

FinTech Australia was founded in March 2016 and is the peak body for fintech organisations in Australia. FinTech Australia is a member-driven organisation that is building an ecosystem of Australian fintechs to advance the global economy and culture.

FinTech Australia's mission is: "We are here to build a strong community, foster connections while supporting innovation and regulation that our members require. Above all else, we are here to be the voice of the Australian fintech community."

To support this charter, FinTech Australia and EY launched the inaugural FinTech Australia Census in 2016. It is a study designed to profile and define the industry.

In 2019, we present the fourth edition of the study. The research covers a wide range of areas, with the coverage jointly developed by EY and FinTech Australia.

This report covers all of the key findings from the research program, providing comprehensive insight into the sector.

There is also a dedicated website providing further access to the research that can be accessed [here](#).

### Methodology



#### 1 Quantitative research

- ▶ 120 online surveys of 18 minutes
- ▶ Conducted with people currently working in the fintech industry
- ▶ 43% of participants were founders of fintech companies, 58% were CEOs and 21% were heads of functional areas
- ▶ A mix of members and non-members of FinTech Australia
- ▶ Contact lists provided by FinTech Australia



#### 2 Qualitative Research

- ▶ 8 Interviews with fintech leaders and stakeholders at Melbourne and Sydney hubs
- ▶ 6 interviews on collaboration case studies with leaders of innovation/digital functions within major Australian financial service organisations



#### 3 Desk research

Alongside the qualitative and quantitative research, the EY Global Fintech Adoption Index has been referenced. A copy of the full report can be found [here](#).



The research program was designed and run by EY's dedicated market research practice, EY Sweeney





# The Australian fintech landscape

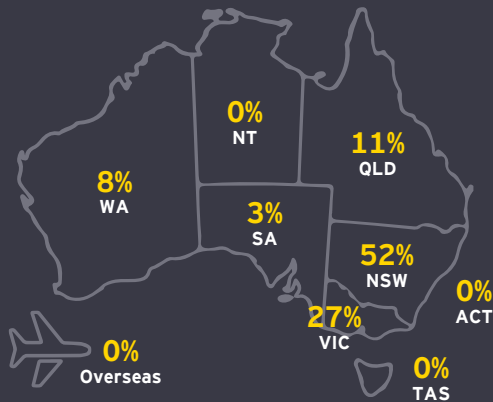
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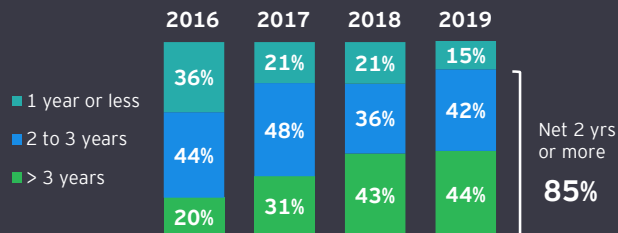


# Fast facts: Sector profile 2019

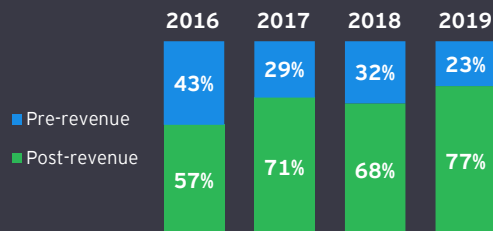
## Business base



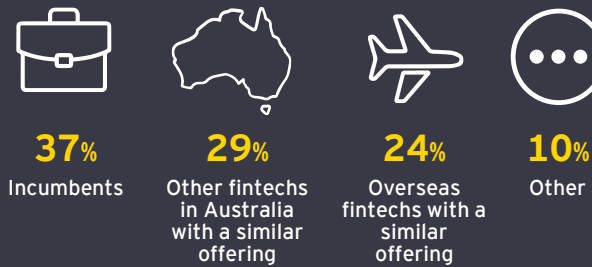
## Age of company (excl. didn't answer)



## Company stage



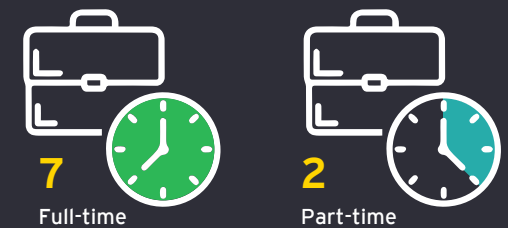
## Biggest competitors (excl. none)



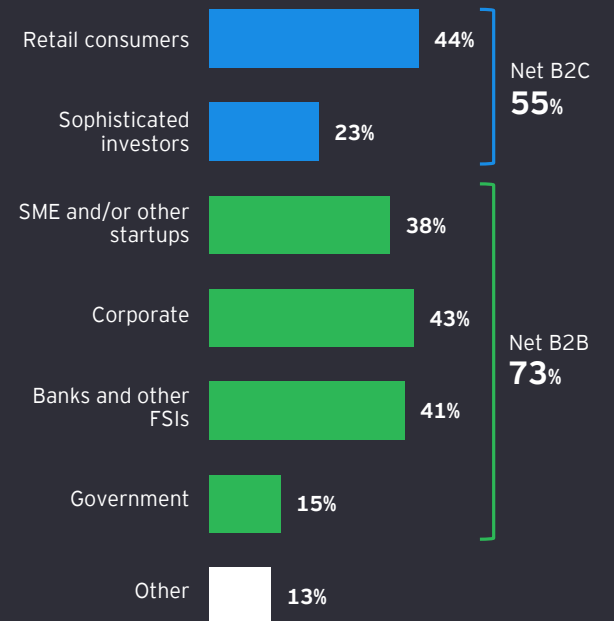
## Type of fintech (multiple response)

Type of fintech	2019	2018
Wealth and investment	30%	23%
Lending	18%	19%
Data analytics/Big Data	18%	21%
Payments, wallets and supply chain	17%	22%
Business tools	13%	13%
Marketplace-style or p2p solution	12%	10%
Asset management and trading	11%	8%
Regtech	10%	9%
Insurance/Insurtech	9%	11%
Identity, security and privacy	6%	5%
Accelerator/venture capital	5%	3%
Blockchain/distributed ledger	4%	7%
Challenger/neo bank	4%	5%
Crowdfunding investing	4%	3%

## Number of employees (median)



## End customers (multiple response - excl. don't know)





## The Australian fintech landscape

The Australian Fintech Industry is increasingly profitable and the year on year revenue growth trend continues. In addition, we saw Australia's first unicorn (US\$1billion valuation) status achieved by Airwallex in March 2019<sup>1</sup> and fintechs are dominating the 'buy now pay later' sector, rather than the incumbents. In this fourth edition of the EY Fintech Australia Census, we see an industry that has definition, is increasingly embraced by consumers and with stronger collaboration between fintechs and incumbents.

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

**Industry evolution...** The Fintech Industry continues to grow and broaden. When the Census was first conducted in 2016, the industry was predominantly characterised by bootstrapped startups that were big on vision but had yet to connect with consumers or impact the financial services sector. Four years later, the profile of the industry is markedly different with a spectrum of fintech maturity.

- ▶ **Mature and mainstream...** Greater consumer adoption of frontline B2C areas (e.g., peer to peer lending, personal finance) and the rise of the 'buy now pay later' fintechs.
- ▶ **Rising...** Increased collaboration with incumbents has seen the rise of fintechs in the financial wellbeing and financial advice areas.

- ▶ **Formative and developing...** The emerging area of regtech which has significant alignment with financial services is being driven by Regulator interest.
- ▶ **Challenger Banks arrive...** with strong backing and distinct market approaches, Australia's challenger banks will provide consumers and business with competitive banking services which will expand over time.

**Consumer uptake...** From the 2019 EY Global Fintech Adoption Index, released earlier this year, Australia's rate of fintech adoption is 58% in 2019 (continuously growing from 13% in 2015 to 37% in 2017) with acceptance of fintech in Australia and demand for services continuing to rise.

**The promise of the Consumer Data Right (CDR)...** With the first phase of Open Banking coming online in February 2020, this is high on the agenda for fintechs, the major banks and Government. This is a long-anticipated change which is being greeted by fintechs with a mix of positive outlook for the possibilities and a more cautious view on the transition impacts and the rate of consumer adoption. In time, Open Banking will contribute to the re-shaping of the Australian financial services landscape and fintechs will be an important contributor to this change.

## What is Fintech?

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

### EY definition of fintech

“

The time is right for enhanced collaboration due to market conditions and increased competition – fintech collaboration could provide the 'edge'.

Simon Costello, CEO and Co-founder, Frankie Financial

<sup>1</sup> Source: <https://www.airwallex.com/media/press/airwallex-unicorn-series-C-DST-100m/>



## The Royal Commission

The report from the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* is regarded as having had a net positive impact on the Fintech industry by 76% of those who took part in the research. More considered the Royal Commission to have had a positive impact (35%) rather than a negative one (11%).

The most prominent positive impact cited is a stronger uptake of Fintech solutions in the market (49%). This is followed by improvements in various aspects of the relationship with the incumbents such as:

- ▶ Willingness to partner (26%)
- ▶ A positive attitude towards fintechs (19%)
- ▶ Becoming easier to deal with (11%)

### The language used by fintechs around the impact of the Royal Commission is captured in the following comments...

“More business opportunities.”

“Increased demand for regtech.”

“Consumers are looking for alternatives to the incumbents.”

“Consumers are more aware of how bad bank offerings are.”

“There is less trust in the large banks and corporates and consumers will look for other alternatives.”

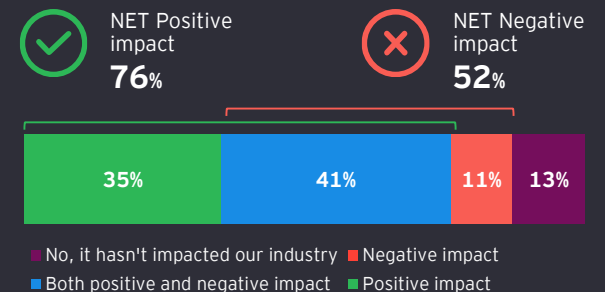
“Transparency particularly in the advice business.”

Of the few fintechs that stated a **negative impact** on the Fintech industry as a result of the Royal Commission, the top reasons provided are:

- ▶ It has caused an overall negative consumer sentiment towards all organisations with a financial offering
- ▶ It has made the incumbents busier/more difficult to secure time with
- ▶ It has shifted focus away from innovation amongst the incumbents

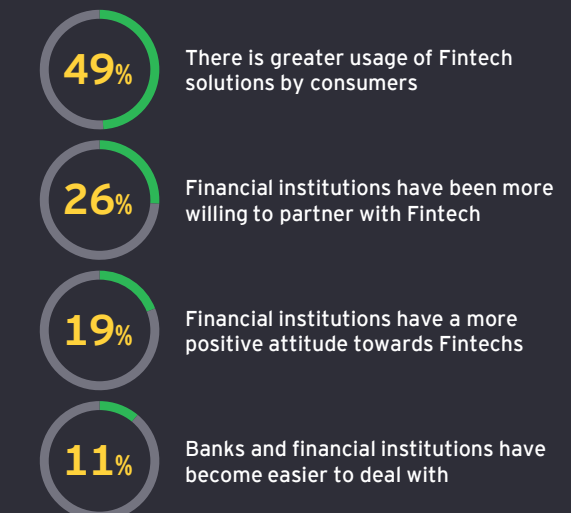
Overall, three in five (58%) fintechs expect a long-term positive impact from the Royal Commission. Four in five (79%) fintechs who see the immediate positive impact of the Royal Commission on the fintech industry also tend to expect a positive impact in the longer term on the industry.

## Perceived impact of the Royal Commission on the Fintech industry



Base: All surveyed fintechs (120)

## Positive sentiment indicated by fintechs



Base: Felt a positive impact (62)

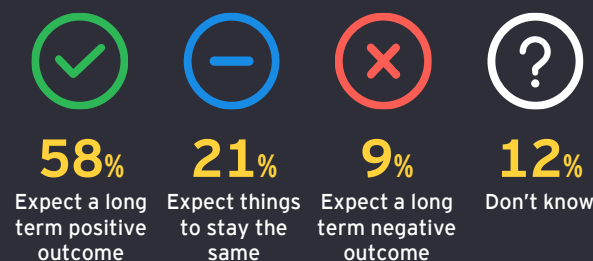


## The Royal Commission implications

While the sentiment around the Royal Commission is more positive than negative, those who are leading some of the more prominent fintechs made the following observations:

- ▶ **Strategic topic...** The major financial services incumbents have had innovation focused functions for a number of years and senior executives have been on numerous 'pilgrimages to the Valley' to experience the 'cool tech stuff'. This has supported the advance in innovation, however, it can be argued that pace is slower than needed. One positive outcome of the past 12 months is financial services innovation is now a 'standing board room agenda item'. This has the potential to accelerate collaboration.
- ▶ **Tangible change...** Some question whether the Royal Commission missed the opportunity to focus on the real issue of the lack of competition. Within this, there is a desire to see the major pieces of legislation enacted sooner rather than later as there is some frustration that the Financial System Inquiry 2016 recommendations largely remain unimplemented. The important changes to areas such as full adoption of Comprehensive Credit Reporting (CCR) and Open Banking stalled for 12 months while the Commission was conducted, however it is good to see that this is regaining momentum. Also, focus was taken away from other important areas - an example given was the Buy Now Pay Later inquiry which progressed in parallel.
- ▶ **More conservative/distracted...** Some fintechs do feel that dealing with incumbents for payment and banking services has become more difficult post Royal Commission. This is put down to increased risk aversion of financial services incumbents.
- ▶ **Fintech compliance...** Increased funding of ASIC and other regulators has translated into greater scrutiny for all in the industry. It is making it more difficult for some fintechs to operate. While there is understanding of the importance of tighter regulation to enhance confidence post Royal Commission, the 'one size fits all' approach to compliance may stifle much needed innovation. All acknowledge that this is a fine balance and ongoing dialogue between Regulators and fintechs must continue.
- ▶ **Open Banking/CDR...** The Australian Consumer Data Right legislation (CDR) was the other major area in the spotlight in 2019. Overall, there is enthusiasm for CDR, with 40% of fintechs surveyed anticipating to become an accredited provider and 60% suggesting they will connect to CDR alongside other means of accessing consumer data.
- ▶ **Role of Government...** A realisation post Royal Commission is that the government with its legislative tools has an important role to play in promoting consumer awareness of financial services innovation as a means of supporting the fintech industry development.

## Perceptions of long-term impact



Base: All surveyed fintechs (120)

“

The Royal Commission has exposed systemic issues within the Australian financial services industry. Fintechs are well placed to partner with incumbents to improve customer outcomes and address some the issues highlight in the Hayne Report. Further, there is a big opportunity for B2C fintech companies to provide a better experience for customer. It's an extremely exciting time for the fintech industry.

Alan Tsen, Chair, FinTech Australia



## Collaboration

The dynamics in the fintech industry have changed over the past four years. There has been recognition of the need to collaborate and to work more effectively for the benefit of consumers and the financial services industry as a whole. Over the coming pages, we look at the topic of 'collaboration' from the perspective of both fintechs and the incumbent major organisations in the industry. What we established that at an overall level, relationships have improved and collaboration has gained positive momentum.

### Collaboration: The fintech perspective

Of those who have dealt with incumbents in the past year, the vast majority of fintechs view the relationship as either unchanged (50%) or improved (42%). Fintechs are far less likely to perceive that their relationship with incumbents has worsened over the past 12 months (8%).

Amongst those who considered **an improvement in the relationship with the incumbents**, a variety of reasons are provided, most notably around:

- ▶ More access and engagement (33%)
- ▶ Stronger relationships/collaboration (29%)
- ▶ Growth of our business (16%)
- ▶ Open to new ideas/innovation (13%)

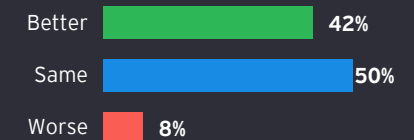
Amongst the few (9) who see that their **relationship with banks has worsened in the past 12 months**, the biggest driver of this negative perception appears to be the Royal Commission, which has heightened conservativeness and lengthened the time required for decision making and other collaboration tasks.

“

Successful partnerships between fintechs and incumbents take time. When Ferocia started building Up, we knew we could trust our partner Bendigo Bank to support our technology-led approach, because we'd spent many years building that trust working together on other projects. This allows us to move much more quickly now.

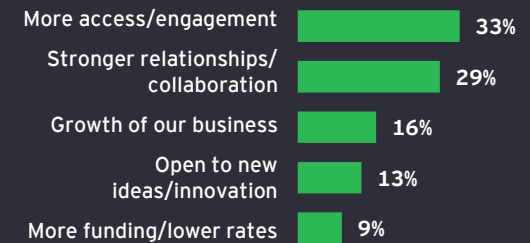
Dominic Pym, Co-founder of Up, and Ferocia

### Change in relationship with incumbents in the past 12 months



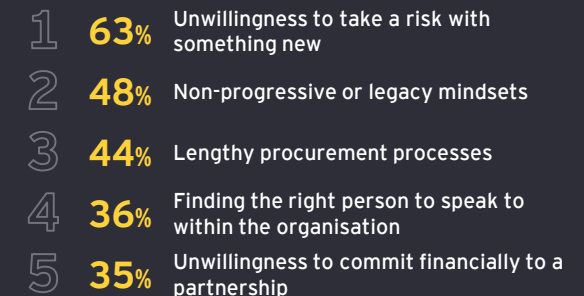
Base: All surveyed fintechs (120)

### In what way has this improved? (top 5)



Base: Organisations perceiving improvement with incumbents (45)

### Top 5 issues with incumbents



Base: All surveyed fintechs (120)



## Fintech Industry Voice: Relationship with incumbents



### What's improved

- ▶ More meetings, face-time, more willingness and openness to discussion and application of pilot solutions.
- ▶ A greater amount of trust from banks, as the industry continues to mature and grow, hence a more favourable view on the capability of emerging and matured fintechs.
- ▶ General awareness, approval and adoption of our solution has increased dramatically over the past 12 months.
- ▶ Greater acceptance of less conventional finance methods. Success elsewhere has decreased suspicion of new approaches and technologies.
- ▶ The banks and other financial institutions are more concerned about disruption and becoming more willing to collaborate.



### What still needs to be addressed

- ▶ Incumbent financial institutions have become more conservative post Royal Commission, and taking longer to make decisions.
- ▶ Many banks are wanting to 'exit' the Payment Facilitation market due to their legacy systems being unable to manage risk and the increased scrutiny after the Royal Commission.
- ▶ Many banks are increasing their internal IT headcount, which compels them to give those people tasks to do despite the costs and demonstrably poor outcomes.
- ▶ They cut funding with limited notice and minimal feedback despite our constant communication with them.
- ▶ Loss of a business innovation champion who supported POC's has led to disengagement by broader business.



# Fintech Industry Voice: On collaboration



## Fintechs say

### Legacy mindset and technology/system

- ▶ Some have mid management that 'get' the opportunity but no executive sponsorship to move forward.
- ▶ We're getting more meetings, although the meetings are yet to lead to anything.
- ▶ The long time it takes to negotiate a facility with the bank and constant changing requirements to access funds.

### Awareness and adoption

- ▶ Access to innovation program to circumnavigate the 'old-school' slow approaches has worked.
- ▶ We have gained increased credibility due to the major contracts we have signed in the past 12 months. This was difficult previously as banks were worried about being first movers and unable to see the right use case.

### Data protection/Consumer privacy

- ▶ The international regulation scene for Privacy and Data Protection is swinging in the favour of consumer controlled data models. We can demonstrate pilots on Data Portability with major global brands participating internationally, which makes our new enabling platforms undeniable with it's advanced technological approach.



## Major financial services incumbents say

### Legacy mindset and technology/system

- ▶ Fintechs perceive that these are hurdles being placed in front of them to deliberately slow down adoption however in most cases this is not so. Our (legacy) base presents real challenges and is not being used as an excuse for inaction.

### Awareness and adoption

- ▶ Even if you have a good idea – the timing may not be right for us as our internal priorities may differ.
- ▶ Make sure you have a succinct elevator pitch and don't deviate from your original purpose.

### Data protection/Consumer privacy

- ▶ When you have millions of customers entrusting you with the security of their data, innovation must be tempered with a degree of caution.
- ▶ [The current financial services risk and regulatory landscape] is there for a good reason; don't underestimate the complexity and please try to walk in our shoes.





## Collaboration: The incumbent perspective

Over the past 12-18 months, the distance between fintechs and the established incumbents (banks, Insurers and superannuation industry) has reduced. There are two examples of effective collaboration that have resulted in market success and were showcased at the recent Finnies Awards<sup>2</sup>:

- ▶ Up, Australia's first next-gen digital bank, is a collaboration between Bendigo and Adelaide Bank (the fifth largest Australian retail bank) and Ferocia (an independent Australian software company).
- ▶ AgriDigital partnered with Agricultural industry services providers and a Big 4 Australian Bank to deliver a Digital Asset supply chain solution for cotton farmers.

While there has been a lessening of the divide, the incumbents are still acutely aware that fintechs can see them as 'challenging to work with and difficult to navigate'. All acknowledge that they can improve however all believe that fintechs need to 'walk in our shoes' more often and to appreciate the regulatory, data security and privacy environment they operate within.

When we asked the leaders of major organisations to reflect on the past few years and the state of the relationship, their views can be distilled down into three main themes:

- ▶ **Calmer seas/better foundation...** In the early days of fintech in Australia, the environment was unsettled and more combative. There were boisterous claims about 'disruption' and 'taking on the banks', but that has been tempered as the industry has matured.
- ▶ **A new mindset...** Those with tenure in the incumbents spoke about the attitudinal and behavioural shift that has occurred. 'The eyes were opened' of those who dismissed fintech as a fad. The flow-on effect is an evolution of the way banks think and act around innovation and customer needs. In practice, they are more open, there is increased urgency to tackle problems, better discipline, scaled thinking and a preparedness to accelerate (within the boundaries in which they operate).
- ▶ **Deeper partnering/ecosystem build...** There has been a shift in the relationship dynamics and the way potential is assessed, from *'this looks interesting, where can we use it in the bank?'* to *'we need to pick one or two strategic ones for the ecosystem'* that can be integrated into the existing technology environment and will build/enhance customer experience. It has tilted from the number of experiments with 'cool stuff' to a tighter lens on innovation that can be deployed in production. It's driven by a tighter cost environment, skewing of operational/maintenance budgets and regulatory/compliance remediation.

## Summary viewpoints taken from financial services incumbent interviews

▶ Successful Australian Fintechs have addressed both sides of the market to grow. Now they have scale their discussions with incumbents are on different terms (than an emerging startup).

▶ Partnership requires the combination of a great idea, technology deployment and commercial viability. All three are needed to build a long term, sustainable partnership which we feel delivers value to our customers.

▶ Fintech founders and his/her team are extremely important. We have met some founders who are great leaders and very willing to work with us in a collaborative way.

<sup>2</sup> 2019 FinTech Australia Finnie Awards 2019 - Excellence in Industry Collaboration & Partnerships



While the dynamic has changed, there is still a level of frustration amongst incumbents who feel many fintechs show little empathy and do not truly appreciate the environment in which they operate. Based on our interviews, here are the eight things incumbents want fintechs to take into account when working together:

#### 1. **Understanding the risk and regulatory**

**constraints...** Incumbents are trusted to hold and protect customer relationships and to hold their data in safe custody. It is something that is integral at all levels of the financial services organisation.

**2. Appreciate the remediation...** Fintechs need to do more homework on the context within which the incumbent operates - particularly the scale of the prudential driven remediation that is taking place.

**3. Align with legacy technology...** Changing the enterprise software and operational software is a major expenditure. The advice is to ensure that fintech solutions factor in the complexity of change when coming with innovative technology solutions.

**4. Recognise the commercial constraints...** Banks face prioritisation challenges for their Opex spend. Fintech innovation pilots/PoCs/Adoption are evaluated and prioritised against other revenue generating business cases.

**5. Have a robust commercial model...** Fintechs can approach with an 'idealistic' view of what they bring and overestimate the value to customers. Overestimating the viability of a proposed


commercial model can lead to tension in collaboration. Being less dismissive of the inherent legacy challenges - 'a bit of respect would not go astray at times'. Fintechs need a clear compelling business case that will address not only the customer experience but risk and compliance.


**6. Appreciate the complexity/help with the navigation...** Fintechs that want to embed in the centre of core applications need to navigate security, privacy and risk and compliance standards. Most fintechs find it a helpful exercise and it ultimately supports their scale up ambitions though it can have significant cost on the startup/scaleup.


**7. Prioritise the customer...** Financial services incumbents have a large customer base that has been earned over a long period time; protecting the customers' interests is their primary driver. Fintechs need to demonstrate how they can 'wow' the customer.

**8. Have patience...** If the fintech is under cash pressure from their burn rate or lacks scale to develop the context, it is suggested to better sequence their business growth by not approaching the 'major' first. It is fact that the banks and major financial services organisations are of such a scale and complexity with environments that will take time to navigate - therefore, if revenue is an immediate need, it will be wise to develop credentials with smaller, more nimble organisations. Only approach the larger organisations when they have more capacity to be patient.

### Summary viewpoints taken from financial services incumbent interviews

 Fintechs can show a bit more respect for our risk and regulation landscape. It is in place for a good reason and it is complex. Fintechs would do well to walk a little in our shoes when you approach us.

 It has been a positive step to work with fintech startups; it has opened our thinking to new ways to solve long standing business issues. They have courage to tackle problems in ways that we can't.

 Partnering with Fintech's has worked best through setting up joint ventures, allowing both parties to have 'skin in the game'.

# Drivers of success





## Drivers of success

“

Around the world, fintechs have grown up and out – improving and expanding their offerings, driving increased consumer awareness and uptake, and spurring change across the entire financial services ecosystem. Underpinning this are the dynamic fintech eco-systems which support the startups and scaleups based on drivers of success in talent, capital, government initiatives and policy and environment.

James Lloyd  
EY Asia-Pacific FinTech and Payments Leader

As the sector continues to grow and expand at pace, the drivers of success for Fintechs hold true. Consistent with previous years, the Census underlined five key drivers of success. Importantly, these are consistent with the extensive analysis conducted by EY teams on the international fintech scene. Collectively, these drivers of success will create an ecosystem where the Australian Fintech industry can flourish.

For each driver of success, a number of variables can have an impact on fintechs - either at an industry-wide level, or from an individual firm perspective. We have isolated these factors and the discussion around the drivers unfolds over the coming pages.



### 5 drivers of fintech success

- 1 Talent
- 2 Capital
- 3 Demand
- 4 Policy
- 5 Environment



# 1 Talent

Talent is consistently cited as one of the main challenges facing the founders and owners of fintech organisations. The main areas of concern revolve around accessing and sponsoring skilled migrants combined with a local shortage of specialist skills in engineering and software development. These are challenges for all organisations in tech generally, but the pressure becomes more pronounced in the fast growth world of fintech.

While the recruitment and retention of talent will remain an issue, we have seen a significant shift in perceptions over the four years in which the Census has been run. There has been a 15-point drop since 2016 in the percentage of fintech leaders who believe there is a lack of experienced startup and fintech talent in Australia (58% in 2016 vs. 43% in 2019). This reflects a more mature fintech sector and the continued development of the tech sector more generally.

Three observations can be made about recruitment and retention from the 2019 Census:

- ▶ **Less offshore demand...** There has been a slight decline in the proportion of fintechs indicating that easier access to the skilled migration visas would be effective in tackling recruitment issues (66%, down from 75% last year).

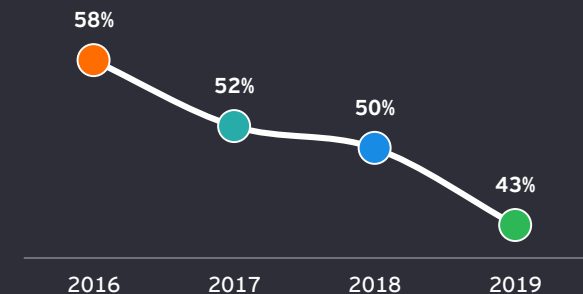
- ▶ **Talent not the dominant issue...** When the list of internal challenges is analysed, attracting suitable or qualified talent drops to third place (down from 45% in 2018 to 41% in 2019). The bigger challenges for fintech leaders were product development and product and market fit.
- ▶ **Evolving needs...** As an industry becomes more mature and profitable, there is typically a stronger emphasis on customer acquisition, product development and the enhancement of go-to-market strategies. This is reflected in the type of talent that is proving difficult to attract - with sales and marketing talent becoming more pressing areas for recruitment than they have been in the past. Of those fintechs that struggle to attract qualified or suitable talent, recruiting suitable engineering or software talents remains the top challenge for seven in ten (69%), although this is less pronounced than last year (76%).

When we look at the profile of people working in the fintech industry, we see:

- ▶ **A strengthening representation of females in the industry...** The proportion of females employed at fintechs has gradually increased over the last four years, growing significantly from 22% in 2016 to 32% in 2019.

## Perception of local talent

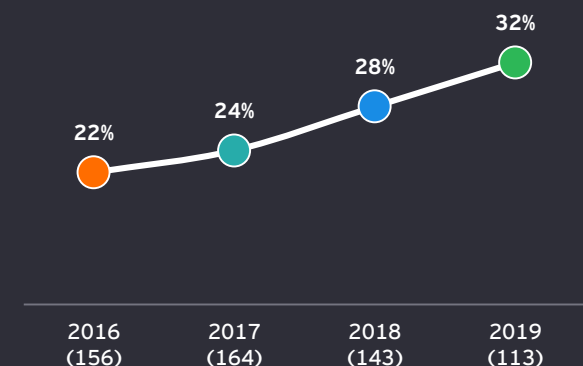
% believing 'There is a lack of experienced startup and Fintech talent in Australia'



Base: All surveyed fintechs (120)

## Female representation in the fintech workforce

% of female employees



Base: All surveyed fintechs excl. don't know (as shown in chart)



- ▶ **A diverse talent pool...** It is estimated that an average of one in five fintech employees are from either a Culturally and Linguistically Diverse (CALD) or Aboriginal or Torres Strait Islander (ATSI) background (18%).

An area that is explored in detail each year is the **profile of the leaders of fintechs**. The main points to emerge this year are:

- ▶ **Stronger representation of female founders...** This wave, 27% of fintech leaders report having female founders - representing a slight increase since last year (19%). Whilst the increase in female fintech leaders is encouraging, more needs to be done to improve the gender balance within this male dominated industry (e.g., gender focussed initiatives such as reverse mentoring and male champions for change). Several factors have been hypothesised as key barriers to gender equity within the industry...
  - Fintech founders tend to transition from a financial service background, where there is markedly stronger participation from males.
  - Gender pay gaps widen as females progress in their career, which can result in smaller savings and capital for creating the necessary runway for startups.
  - There are typically greater expectations for females to take care of family responsibilities,

which can reduce their availability for work in general.

- Females are believed to be more risk-averse than males which makes it less likely for them to invest in startups or other capital ventures.

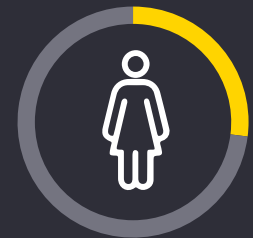
- ▶ **Founders and CEOs tend to have established multiple startups...** Fintech leaders have founded on average 1.9 startups, consistent with recent years. One in three (32%) CEOs or founders report founding only one startup, but the largest proportion (37%) have founded three or more startups to date.
- ▶ **Slightly younger fintechs venturing into startups...** The reported founders' age at the time of founding has become younger, at an average of 39 years old compared to 41 last year. Further, the current age of founders has remained consistent over the past three years at an average of 42/43, despite the industry ageing in this time.
- ▶ **Leaders hail from a more varied educational background...** Consistent with the previous years, fintech leaders are highly educated, with close to one in two holding a postgraduate degree (47%). This represents a slight decline since last wave, where 55% of respondents held a postgraduate degree.

## Female representation



**32%**  
Proportion of females employed in fintechs

Base: All surveyed fintechs excl. don't know (113)



**27%**  
of fintechs have a female founder

Base: All surveyed fintechs (120)

“

The stronger representation of women in fintechs is encouraging. However, more industry-wide action is needed so more women feel secure to join fintechs.

Rebecca Schot-Guppy, General Manager, FinTech Australia



# Fintech leader profile 2019

## Gender

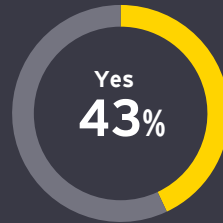


**73%** of fintechs have all male founders

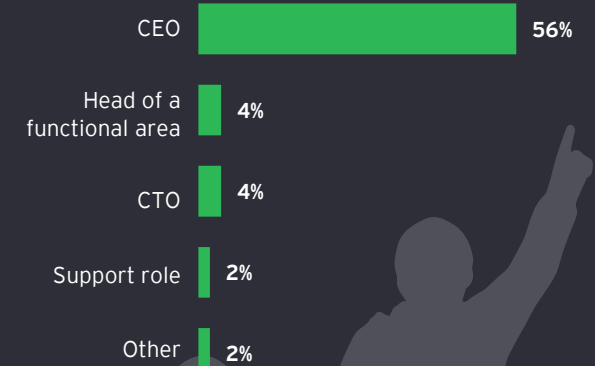
**43 yrs**

Average founder age

## Founder



## Current role



## Highest level of education (founders/CEOs)



**47%** Post graduate



**38%** Undergraduate



**6%** High school



**9%** Vocational certificate

## Work status



**97%** Work full-time



**3%** Work part-time



**1%** Work on a casual basis

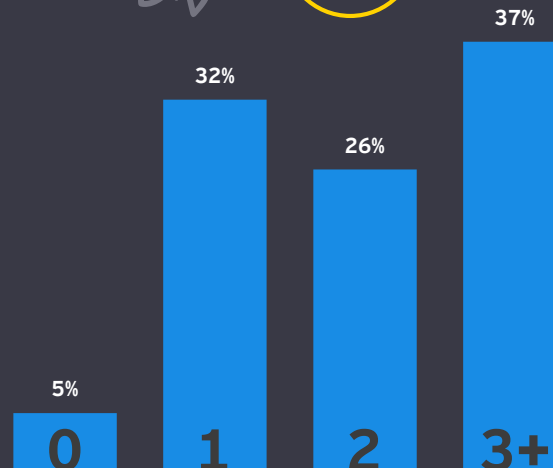


**0%** Studying part-time

## Number of startups founded/started by fintech founders/CEOs



average **1.9**





## 2 Capital

Capital is critical for growth and success. Regardless of the strength of an offering or the projected demand in the market, startup and second stage fintechs need to be able to raise capital and manage the burn rate each month.

While capital raising remains reasonably active, we have seen a slowing in investment compared to previous years. This trend is not just isolated to Australia, with a recent global downturn in investment due to the US-China trade war. The two areas, at a global level, that have been insulated are payments/wallet and neobanks<sup>3</sup>.

In Australia, five main observations can be made about the dynamics around **raising and managing capital** in the fintech sector...

- ▶ **Diminishing access to funds...** Capital raising amongst Australian fintechs has been more challenging in recent times - in terms of both accessibility and quantity. This year, Fintech Census respondents report:
  - Weakened success in capital raising (38%, down from 43% last year).
  - Further, amongst those who have attempted to raise capital, the last round of capital funding was less successful than in previous years (45% raised over \$1M, compared to 63% in 2018).

- Fintechs that have managed to access commercial funding are more likely to have raised the amount of capital required (aligns with previous waves).

- ▶ **More limited levels of investment...** Over time, we have observed that more established fintechs tend to attract greater capital investment when compared to newer entrants to the market, perhaps considered a lower risk to potential investors. Whilst this remains true in the current wave of the Census, the more established fintechs have been hit harder by a recent tightening of purse strings. When compared to last year, a significantly lower proportion of mature fintechs successfully raised over \$1M in their most recent attempt of capital raising (80% in 2018, 57% in 2019). Fintechs established within the last 3 years have also experienced a decline in funds since last wave, although less pronounced than their more mature counterparts.

### Capital raising



Base: All surveyed fintechs (120)

<sup>3</sup> Accenture report, cited in 'Payments Industry Intelligence August 15 2019' by Alex Rolfe





- ▶ **Skewing to more experienced players...** Funding is becoming more conservative and in favour of the more established and experienced fintechs. Most particularly, challenger/neo banks continue to succeed in drawing debt funding (as opposed to capital) to support mobilisation and customer acquisition. With the absence of such mega deals in the second quarter of 2019, funding from the venture capital sources for Australian fintechs pulled back significantly to \$10.6m<sup>4</sup>.

- ▶ **Private funding a bedrock...** Whilst commercial funding tends to be a more lucrative avenue for capital raising, private funding continues to play an important role amongst fintech startups. For most, having access to a private source is critical for success when starting out. This year, three in four fintechs report have received private funding.

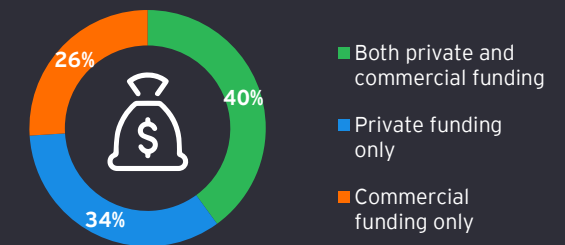
One in three fintechs have exclusively accessed private funding since inception (34%), with the majority indicating they have never tried to raise capital externally.

- ▶ **Founders 'self-funding'...** We observe that founders are more predominantly funding the industry. The proportion of founder-funded fintechs has increased significantly from 60% in 2018 to 75% this year, reversing a gradual decline observed in founder funding previously observed.

When we look at how effectively fintechs are managing their capital, three observations can be made:

- ▶ **Increase in post-revenue...** While a relatively high proportion of new participants contributed to the Census this year, the proportion which are 'post-revenue' has reached a new high, having increased significantly since the Census' inception in 2016 (57% in 2016 vs 77% in 2019).
- ▶ **More fintechs are profitable...** Encouragingly, although not surprising for a maturing industry, the proportion of fintechs who are realising profit has grown over the past four years. One in four (23%) fintechs are currently profitable, with marginal but steady increases reported in the past two years.
- ▶ **Better cash burn rate management...** Of those that have not started to realise profit, their current burn rate is on average \$113k per month, contracting slightly compared to the peak monthly burn rate of \$121k seen last year. A strong majority of fintechs (73%) have up to 12 months of runway left at their current burn rate. Consistent with last year, 30% of fintechs have a monthly burn rate in excess of \$100k. The average burn rate increases amongst more established, larger and more funded fintechs. Businesses raising over \$1m in capital since inception have an average monthly burn rate of \$178k.

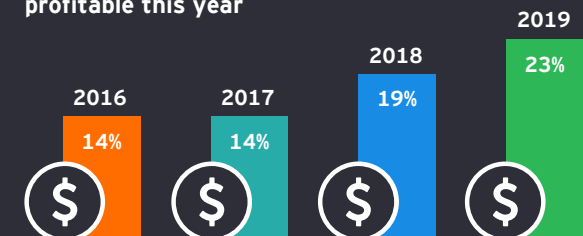
## Funding sources



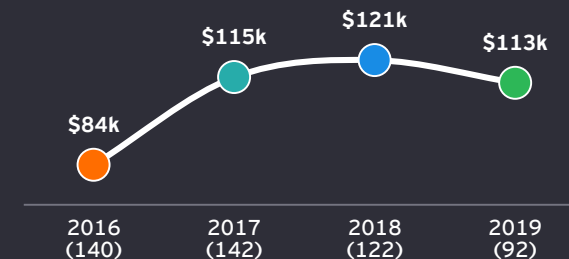
Base: All surveyed fintechs (120)

## Profitable fintechs (post-revenue)

A greater proportion of fintechs are profitable this year



## Monthly burn rate



Base: All surveyed fintechs, excl. not answered (shown in chart)

<sup>4</sup> CB Insights - Global Fintech Report Q2 2019



## 3 Demand

The fintech sector has seen remarkable growth over the past few years. Around the world, fintechs have grown up and out - improving and expanding their offerings, driving increased consumer awareness and uptake, and spurring change across the entire financial services ecosystem.

And consumers are liking what they see. In fact, the *EY Global FinTech Adoption Index 2019* shows almost two-thirds (64%) of digitally active consumers globally now use FinTech products and services - up from just 33% in 2017.

In our recent Global Index, we made four observations about the sector as it stands in 2019:

- ▶ **True competitors...** Fintechs are no longer just disruptors, but have grown into sophisticated competitors with a global reach.
- ▶ **Blurred lines...** With many financial incumbents, such as banks and insurers, offering credible fintech propositions of their own, this begs the question *'what is a fintech?'*
- ▶ **Ecosystem development...** The interaction between challengers, incumbents and players from outside the financial industry are forming fintech ecosystems that are replacing traditional bilateral partnerships.

- ▶ **Different propositions...** We are seeing two main types of fintech propositions: 'disrupted' and 'invented'. A disrupted service is one that has historically been offered by incumbents (e.g., Auto insurance or FX). Fintech providers use technology to disrupt these services and to provide a more compelling offer. An invented service is one that didn't exist before but is now possible by technology's or alternative business models (by peer to peer lending and mobile phone payments).

Although starting from a higher base than many other Asian markets, Australia's adoption rate has dipped slightly below the global average coming in at 58%. This compares to 13% in 2015, 37% in 2017. While fintech use in the Australian market continues to rise, the pace of local adoption has slowed in comparison to emerging markets, although this may change with the introduction of Open Banking and as more challenger fintechs continue to come into the market.

The two main reasons for the comparatively slower growth in Australia compared to other countries are:

- ▶ The global average is boosted by countries with less developed banking and insurance infrastructure (e.g., China, India, Russia).
- ▶ Many of the countries with the highest adoption also have markedly different population profiles - in size and in socio-economic composition.

## Global fintech adoption

Country	Adoption
China	87%
India	87%
Russia	82%
South Africa	82%
Colombia	76%
Peru	75%
Netherlands	73%
Mexico	72%
Ireland	71%
UK	71%
Argentina	67%
Hong Kong	67%
Singapore	67%
South Korea	67%
Chile	66%
Brazil	64%
Germany	64%
Sweden	64%
Switzerland	64%
Australia	58%
Spain	56%
Italy	51%
Canada	50%
USA	46%
Belgium and Luxembourg	42%
France	35%
Japan	34%

Average global adoption

64%

Source: EY Global Fintech Adoption Index 2019



## Fintech adoption in Australia

- ▶ Money transfer and payments services are more popular among young tech savvy generations, while insurance services are more popular among the 65+ age group.
- ▶ Adoption of fintech propositions do not differ significantly across income levels except insurance where adoption is greater at higher income levels.
- ▶ Consumers are drawn to benefit-led innovation and better value, but one of the inhibitors to consideration/uptake is awareness. Generating presence is a significant challenge for newer startups.
- ▶ For non-adopters, awareness and understanding of fintech continue to be the main reason for using an incumbent FI over a fintech challenger. A significant percentage continue to trust FI and do not see any advantages of using fintech challengers.
- ▶ Consumers are increasingly becoming comfortable in sharing data with fintechs and non financial services providers. They are more comfortable using non-financial services firms if they partner with incumbents.
- ▶ The majority of Australian consumers still turn to existing financial services providers to buy new financial products, but are also exploring options suggested by price comparison websites.

- ▶ As we have seen in previous years, the data from our Census shows most fintechs believe the very reason that consumers or businesses access their products revolves around them offering 'more effective solutions' and 'having a seamless user experience'.

Detailed data from the Global Fintech Adoption Index has been provided overleaf.

## Where to from here?

No longer just disrupters, fintech challengers have grown into sophisticated competitors, with an increasingly global reach. Fintech firms are setting the benchmarks for the financial services industry. Their offerings are attractive to consumers, and usage will only rise as awareness grows, consumer concerns fall and technology advances to reduce switching costs. At the same time, many incumbent financial institutions are also starting to offer credible fintech propositions of their own, challenging the whole notion of what a 'Fintech' is and adding to the choices available in the market.

Looking forward, the pace of innovation is likely to continue to accelerate, becoming the 'new normal' within the sector. Greater interaction between challengers, incumbents and players from outside the financial industry will continue, leading to the formation of new fintech ecosystems, and replacing traditional bilateral partnerships, as the sector continues to evolve, both locally and globally.

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There is much greater awareness of the different options and a much greater propensity to consider new digital-led solutions, particularly in the post-Hayne environment. One of the biggest challenges for B2C fintechs is to build brand awareness and brand equity. The most successful consumer-facing fintechs in recent years have built a connection with consumers and positively differentiated themselves from the established players and their fintech peers. The strength of the brand will always be a major variable in success.

Marc L'Huillier,  
Managing Partner, EY Sweeney

**Australian consumer fintech adoption in 2019**

**58%**

This is driven by greater use of :

**78%**

money transfer and payments

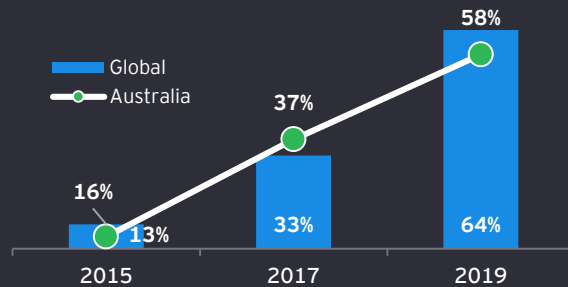
**48%**

insurance

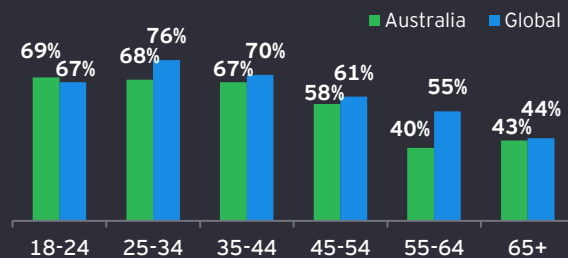


## Fintech adoption in Australia

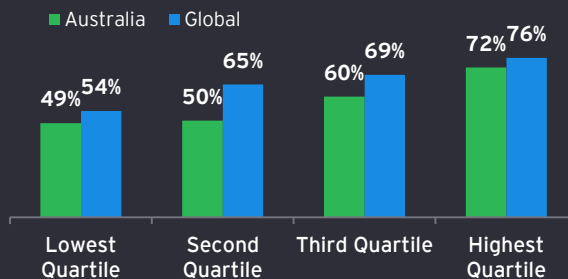
### Australia and global adoption



### Fintech adoption across age brackets (%)



### Fintech adoption across income brackets (%)

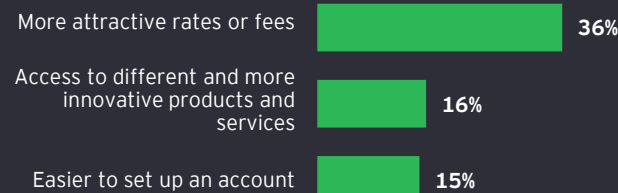


## Categories and services

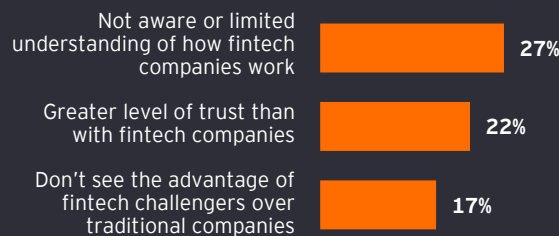
### Adoption rate by category

Category	Australia	Global
Money transfer and payments	78%	75%
Insurance	48%	48%
Savings and investments	24%	34%
Financial planning	17%	29%
Borrowing	16%	27%

### Top reason for using fintech amongst Australian adopters



### Top reasons for using incumbents amongst Australian non-adopters



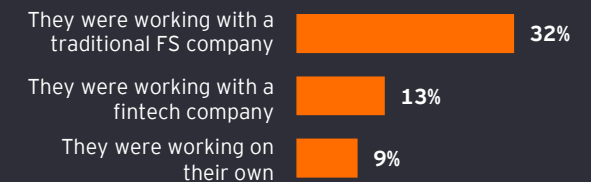
### Data-sharing in Australia (%)

I'd be comfortable with my main bank securely sharing my financial data, if it meant that better offers from...



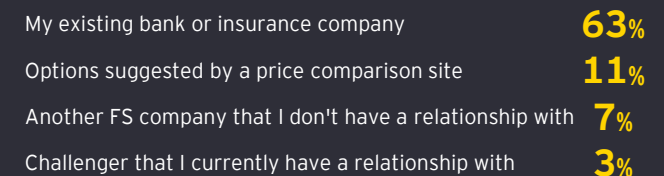
### Non-financial services in Australia (%)

In regards to non-financial services companies providing financial products, I would be happy to use them if...



### New financial services products in Australia (%)

When buying a new financial policy or product, I would typically first turn to ...





## 4 Policy

Appropriate policy, regulation and broader government support are crucial for the continued development of the fintech sector and imperative if Australia is to be globally competitive. In recent years there have been a number of policy initiatives set in place to help the Australian industry realise its potential (see the timeline opposite). However, despite the various initiatives, for the first time we have seen an increase in dissatisfaction around government policy. There is a belief that the Federal Government is less supportive than overseas jurisdictions (45% in 2018 v. 63% in 2019).

On the tightening regulatory framework on Australian fintechs, one in two fintechs express concern, perceiving that the level of regulation is 'excessive' (48%). This negative sentiment is perpetuated by continued barriers to accessing offshore talent through a skilled migration visa, and a further reduction in the R&D Tax incentives.

It is to be noted that post Census data collection, the Federal Government made a couple of significant announcements related to financial services innovation. Firstly, the appointment of the Assistant Minister for Superannuation, Financial Services and Financial Technology and secondly, the establishment of a Senate select committee focused on fintech and regtech. Both have been very positively received by the

fintech industry and at the time of writing, initial feedback from interactions has been good. This is a much-needed addition to the already strong level of support from State Governments which has been in place for the past four years.

As in previous years, we explored a wide range of potential growth initiatives with participating Fintechs. Those considered most effective in the eyes of Australian fintechs are:

- ▶ Making the R&D tax incentive more accessible (88% 'effective')
- ▶ The implementation of Open Banking (85%)
- ▶ Reduction in taxes associated with hiring employees, such as payroll taxes (83%)
- ▶ Capital gains tax relief for tech start ups first incorporated in Australia (82%)

The full list of potential growth initiatives is summarised in the chart overleaf. We also place the spotlight on a number of hot topics - the R&D tax incentive, The Export Markets Development Grants Scheme, Launchpads, Talent and Open Banking/CDR.

### Fintech timeline: Positive policy developments





## Potential growth initiatives

	Very effective	Fairly effective	Not very effective	Not at all effective	Net effective 2019	Net effective 2018	Net effective 2017	Net effective 2016
Make the Research and Development tax incentive more accessible to startups	60%	28%	10%		88%	87%	87%	-
Implementation of Open Banking	48%	38%	13%		85%	85%	-	-
Reduced taxes, such as payroll taxes, which apply when hiring employees	45%	38%	14%		83%	85%	83%	-
Capital gains tax relief for tech startups first incorporated in Australia	53%	28%	16%		82%	82%	85%	87%
An expanded and more flexible regulatory sandbox environment	40%	36%	21%		76%	69%	78%	-
More transparent access points for fintechs to connect to the New Payments Platform	30%	46%	21%		76%	74%	82%	-
A cross-industry solution to share know-your-customer and identity validation information	33%	42%	21%	5%	74%	75%	75%	-
Creation of more referral agreements between ASIC and Regulators in other markets	24%	48%	23%	4%	73%	64%	57%	66%
Removing barriers to the creation of new banking licences	24%	44%	23%	9%	68%	75%	81%	-
Easier access to skilled migration visas to be able to hire new employees	28%	38%	31%		66%	75%	67%	-
Creation of more Government Launchpads in other overseas markets	22%	39%	28%	12%	61%	60%	54%	56%
Programs and grant assistance to access the existing Government Launchpads in Tel Aviv, Shanghai, Berlin, Singapore and San Francisco	19%	42%	31%	8%	61%	70%	64%	64%
Opportunities to pitch for Government tenders and projects	28%	33%	24%	16%	60%	67%	58%	61%
A government-supported digital sovereign currency (i.e., a Digital Australian Dollar)	11%	23%	38%	28%	34%	33%	40%	-

Base: All surveyed fintechs (120). 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?

88%

Make the Research and Development tax more accessible to startups



85%

Implementation of Open Banking is an effective initiative to grow and promote the industry



“

For the fourth year, R&D Tax tops the list of policy initiatives concerning the fintech community as it provides vital support for our growing and highly innovative industry. The scale back of the scheme has certainly continued to disappoint the community, and will likely further impact on Australia's fintech offerings.

Dr Carla Harris, Board Member, FinTech Australia



## Export Market Development Grants Scheme

A further \$60M top up to the Export Market Development Grants (EMDG) Scheme was passed in the 2019-20 federal budget, making this support program available over a three-year period to eligible tech startups of smaller scales (whose annual revenue is less than \$50M). This is a welcome boost to all startups who have their eyes on international markets, however are lacking in runway.

There is currently a cap of two grants available to each eligible startup, and further grants can be secured if eligibility criteria are met. In the last financial year, grants worth \$131.6 million were paid to 3,706 different companies, with an average grant of just over \$34,000<sup>5</sup>.

A review of the EMDG was recently announced, with results to be delivered in March 2020. The review will seek the views of exporters and other interested parties in examining the most effective and efficient way the Government can use these funds to provide assistance to SME exporters in promoting their products and services overseas.

## Access to international markets

This year, the results reveal tapering interest in government initiatives focussed on supporting overseas market entry. This includes support for programs to access existing Launchpads (61%, down from 70%) and creating new ones (61%, consistent with last year). Fintechs seem to be less convinced on the effectiveness of Launchpads which is likely due to a lack of alignment with emerging markets of interest.

Furthering ASIC's work in creating referral agreements between markets is emphasised as an effective mechanism, with a stable increase year-on-year since 2017 (now 73%).

## Access to Talent

Earlier we discussed the growing confidence in local talent within the industry. This may explain a weakening perception that easier access to skilled migration would be an effective mechanism for growth (66%, down from 75% in 2019). There is also a perception that acquiring access to offshore talent is a good idea but execution remains challenging. Looking forward, proposed changes to skilled migration visas are in place but a shift in mindset amongst fintechs is still required for the initiatives to be fully utilised.

“

We need to try to keep up with efforts in US, Europe and Asia who are moving much faster.

Fintech Census participant

Australia is too conservative and not willing to invest in startups based in their own backyard. So we are losing talent to Asia and USA.

Fintech Census participant

## Fintechs agreeing that access to international markets would be effective



61%

Programs and grant assistance to access the existing Government Launchpads in Tel Aviv, Shanghai, Berlin, Singapore and San Francisco



61%

Creation of more Government Launchpads in other overseas markets

Base: All surveyed fintechs (120)

<sup>5</sup> Austrade Annual Report 2017-18



## Open Banking/Consumer Data Right (CDR) Legislation

With the first phase of Open Banking coming online in February 2020, this is high on the agenda for fintechs, the Big 4 banks and the ACCC (the agency charged with overseeing implementation).

The CDR finally passed into legislation in July this year after a protracted journey. In conjunction with defined data/API standards and rules, the implementation program is now well underway. As the leading industry, Banking will deliver consumer data sharing first.

Whilst most APIs are mandated to provide consumer data on request, there are opportunities for accredited data recipients to bring new products and services to market. This unlocks data, within a safe data sharing framework, to other firms. Phase one of CDR will see the Big 4 banks release APIs providing competitors (including accredited fintechs) with access to individual consumer data on credit and debit cards, deposit and transaction accounts. In later phases, the bill will cover super/pensions, mortgages, telecommunication and energy usage.

In our research with Australian fintechs, we saw:

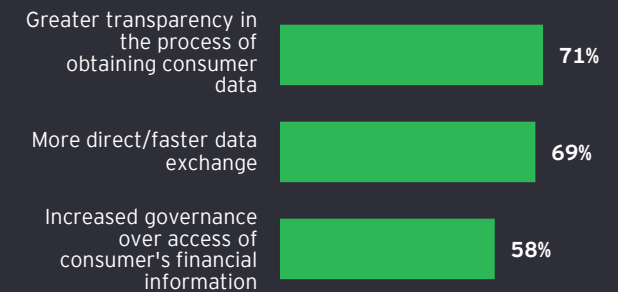
- ▶ Four in ten (40%) anticipate becoming an accredited provider of CDR when Open Banking is launched.
- ▶ Of those, six in ten (60%) would connect to CDR alongside other means of accessing consumer financial information and relatively few plan on connecting to CDR in place of other processes (25%).

- ▶ The greatest motivators to connect to CDR are greater transparency in the process of obtaining consumer data, and the expected increase in volume and speed of the 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 state that they do not know enough about CDR and the requirements of becoming an accredited provider.

From our interviews, the views of the founders on the impact and implications are:

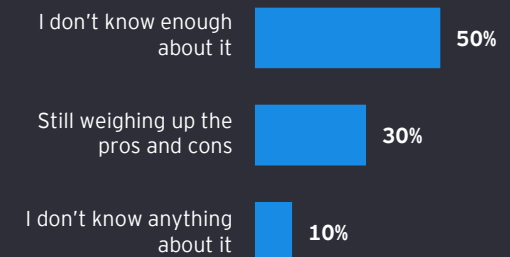
- ▶ Consumer awareness is low with most Australian having no idea of how Open Banking will bring value to the way they conduct their day to day financial services.
- ▶ As one founder said, 'Make it real for the tradies; make it easier and quicker for them to get paid and you will start adoption'. As the initial poor UK adoption has shown, consumers need to be educated upfront on what it means for them, what privacy and security safeguards are built in and how they can gain access.
- ▶ While there is agreement that more consumer awareness is needed, there is also a feeling that it is positive that it is not being oversold to consumers too early. 'It will take time for the positive outcomes for consumers to be clear and it will take time to catch on' was a common sentiment.

## Top 3 motivators for connecting to CDR



Base: Organisations planning to connect to CDR (48)

## Top 3 reasons for uncertainty around becoming an accredited provider



Base: Organisations unsure about connecting to CDR (30)





## POINT OF VIEW: THE EY OPEN BANKING TEAM

# Unlocking Australia's Open Banking potential

## 1 Unlocking Australia's Open Banking potential

Open Banking is arguably one of the most disruptive forces of change currently affecting the banking sector. From a consumer perspective, Open Banking offers a secure way for customers to grant providers access to their financial information, empowering them through increased ownership of their financial data and easier access to a range of financial products and services. For the financial services industry it opens a range of new market opportunities and increased opportunity for innovation and collaboration. However, while it's fast becoming a global phenomenon, Open Banking adoption varies widely around the world.

To track its progress, EY developed the Open Banking Opportunity Index which assesses the potential for successful Open Banking adoption across ten key markets globally - Australia, Canada, Germany, Hong Kong, mainland China, the Netherlands, Singapore, Spain, the US and the UK. By looking at a range of indicators across four key pillars (regulatory environment, innovation environment, consumer sentiment and adoption potential), the Index paints an interesting picture of how Open Banking is evolving across the globe.

Australia ranks right in the middle of the markets surveyed, coming in at number five overall on the Index. Our research shows Australian consumers are positive but cautious about Open Banking, requiring regulators to control security and, importantly,

participants to innovate. In other words, Australians are fully prepared to be delighted by Open Banking - provided we can get the data security right and put compelling offers in front of them.

## 2 Make it safe

Australians are early technology adopters, but we also tend to have somewhat conservative attitudes when it comes to privacy and security. In the Index, trust in the security of data came through as a key local market concern. Overall, Australia ranked ninth on their willingness to share transaction data with fintechs. However, when Australian consumers were asked the same question but with an added assurance that there would be effective controls over the security of the data exchange, we jumped up into fifth place.

This need for data security and protections is also reflected in the global results. In fact, half of the negative sentiment in consumers' online discussion across the ten featured markets relates to concerns around data protection and cybersecurity, as consumers worry about the potential for fraud and the misuse of their data by third parties.

The good news here is that Australia has a strong regulatory climate. We also have the opportunity to leverage and learn from the UK's Open Banking implementation experience. So, getting the data security right and offering appropriate safe-guards and assurances for consumers is entirely feasible.





### 3 The case for innovation

In our Open Banking online discussion analysis, Australia was the top performer of all markets in the study based on net online sentiment, with 40% of all posts expressing positive sentiment, particularly around the topics of service innovation and increased consumer choice. So, there is a huge market potential here. Australian consumers are willing to be delighted by Open Banking but, to fully engage them, financial institutions will need to move beyond just compliance, to competition.

Our Index shows that several elements need to come together in order for Open Banking to be successful. Consumer sentiment is clearly a key driver, however that, in turn, is at least partially driven by having innovative and interesting offerings available in the market. If Australian banks and financial institutions only do the minimum needed to comply with the new Open Banking regulations, they risk missing a significant opportunity to engage with and attract customers.

Australia currently ranks sixth in terms of innovation on our Open Banking Opportunity Index. While not a bad result, it does leave plenty of room for improvement. The challenge now is to embrace, rather than resist, the impact of Open Banking. We need to foster an environment that promotes innovation, competition and the creation of compelling use cases. Embedding a culture of collaboration and partnerships will also be essential.

Open Banking offers opportunities for organisations to redesign the customer journey; making it easier for Australians to assess, select and manage their finances. Maximising the benefits of Open Banking, for both consumers and financial institutions, will depend on organisations' abilities to use innovation to drive more value from the mandated changes that are on their way. Those that think cleverly about how to compete will be in an excellent position to unlock increased market potential.

You can view the full Open Banking insight paper for Australia [here](#).

#### Contact the EY Open Banking team

EY multi-disciplinary Open Banking and Technology Consulting team can assist if you have questions about the implications of Open Banking for your business.

*Written by: Mike Orman, Partner, EY Financial Services Advisory and Mike Booth, Director, EY Financial Services Advisory.*



## Research and Development tax incentive

Tax related initiatives are again considered the most effective initiative to grow and promote the fintech industry in Australia. The Research and Development (R&D) tax incentive is the primary channel used by the Federal Government to reward and promote local innovation.

The importance of the R&D tax incentive to the industry cannot be underestimated, as evidenced by the large number of fintechs who have successfully applied or are in the process of doing so (64%). Further to this, 76% of fintechs indicate that the R&D incentive helps keep aspects of their business onshore.

In the 2019 budget, the Federal Government announced a cut of \$1.35B in R&D tax incentives over the forward estimates. This adds to a sum of more than \$2B that was effectively stripped from the previous budget.

The absence of an effective R&D scheme would restrict the innovation and monetisation of Australian fintech offerings. Coupled with more competitive access to commercial funding, a dwindling pool of tax incentives means that Australian fintechs need to be even more conservative in their spending and more strategic in their go-to-market approach.

## Glimmers of clarity and certainty for the Australian R&D tax incentive on the horizon

The R&D tax incentive provides crucial support for Australian fintech organisations. Throughout 2018 and 2019, increased regulator scrutiny, policy and budget uncertainties and repeated critical media coverage have put a spotlight on the Incentive, including investigation by small business ombudsman Kate Carnell into the enforcement of the R&D tax incentive program following numerous complaints about unfair treatment from the ATO and AusIndustry about SME R&D Incentive claims.

Recent events should give fintech organisations a positive outlook for continued support from the incentive, and increasing clarity and certainty in program policy and administration.

Over the next few pages, we provide a deep dive perspective on the R&D tax incentive from the EY Government incentives team.



We continue to say it, the R&D tax incentive is incredibly important for the growth of the fintech ecosystem and technology sector.

Rebecca Schot-Guppy, General Manager, Fintech Australia

### Application for R&D Tax



**58%**

Successfully applied for R&D Tax



**76%**

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

Base: All surveyed fintechs (120)

**POINT OF VIEW: THE EY GOVERNMENT INCENTIVES TEAM**

## The importance of the R&D tax incentive

### 1 Industry responses in Senate enquiry reject proposed changes to Incentive

- ▶ In September 2018 a contentious bill was introduced to parliament imposing significant cuts to the R&D tax incentive. A Senate enquiry into the bill involved three public hearings and 75 written submissions R&D claimants, advisors and industry groups, with broad opposition to the proposed changes. Of key concern was the contrast between cuts to the Australian incentive while there is increasing availability of R&D tax incentives overseas, with many responses suggesting that they would consider shifting their R&D offshore.
- ▶ The Committee recommended that the measures and implications were examined in further detail before being considered by the Senate. As a result, the bill lapsed following the May 2019 Federal Election, and measures have not been re-introduced to Parliament. The outcome is a positive result for Fintechs, whose growth through on-shore R&D investment will receive continued support from the R&D tax incentive.

### 2 Full Federal Court rejects regulator's narrow approach and provides certainty for R&D activity eligibility

R&D claims have been subject to increasing regulator scrutiny. A recent landmark decision by the Full Federal Court in favour of an R&D Incentive claimant has affirmed a common-sense approach to interpreting the R&D eligibility criteria. The claimant, Moreton Resources, appealed an earlier decision by the Administrative Appeals Tribunal (AAT), which found that the disputed activities did not meet the regulator's interpretation of the R&D eligibility criteria. The Court found that the AAT approach to defining 'experimental activities' was too narrow, and that the concept can include applying existing technologies in new contexts, including site-specific contexts. By analogy, it follows that these judicially binding principles could be related to fact patterns in other industries, including the technology industry. The Court also supported a holistic approach to considering experimental activities, in contrast to myopic approaches taken by the regulator in considering experiments only in isolation.

“

To make R&D investment in Australia globally attractive and sustainable, we need stability, clarity and ease of accessibility to government incentives. The Fintech Census process confirmed that innovation come in many forms and that we need a longer term view and investment, not savings, to ensure Australia is not sidelined in the global financial services innovation race.

Malia Forner  
Partner, EY Government Incentives



- ▶ The Court highlighted the object of the legislation, being to encourage industry to invest in R&D that might otherwise not be conducted due to an uncertain return. Moving forward, a common sense and commercial approach should be taken to purpose and meaning of the legislation in R&D Incentive disputes. The judgement provides a much-needed positive endorsement of the R&D incentive, and may encourage fintech industry participants to revisit eligible experimental activities. The decision may also give welcome support for R&D claimants involved in current disputes.

### 3 R&D incentives and government funding - a needed key policy priority

- ▶ Welcomed, pragmatic actions are being taken by Minister Karen Andrews to improve the administration of the R&D tax incentive. Following technology industry consultation the Minister announced she is working with regulators to give companies greater certainty about claims made under the scheme, particularly in relation to software R&D.
- ▶ With a backdrop of increasing clarity, certainty and positivity, now is the time to change the R&D tax incentive narrative to demonstrate the importance of R&D incentives and government funding in supporting the Australian technology industry in terms of employment, export enhancement, as well as accelerating our global competitiveness.

### The outlook

- ▶ To retain individual talent, attract investment and encourage productive growth of the fintech sector amidst a looming productivity challenge and falling business expenditure on R&D, Australia must be competitive in both its support for R&D and its R&D Incentive administration. Generous R&D tax incentive programs are available overseas, and for Australia's nearest neighbours Indonesia, Hong Kong and New Zealand, are seeing increased funding from Governments with popular support from industry.
- ▶ The Australian R&D tax incentive continues to be an important source of support for Fintechs. To protect entitlement to the R&D tax benefits, fintechs should gain an understanding of the key elements needed to support the technical, legal, tax and accounting eligibility criteria and continue to work with stakeholders to ensure strong, globally competitive and sustainable government support.

### Contact the EY Government Incentives team

EY's multi-disciplinary Government Incentives team can assist if you have any uncertainty about any R&D tax incentive claim, the impact of recent positive outcomes and outlook for your claims, or regulator expectations of R&D corporate governance. The team also offers support in accessing other state and federal grants nationally.

*Written by: Malia Forner, Partner, EY Government Incentives and Dr Dene Murphy, Senior Consultant, EY Government Incentives.*

**EY Worldwide R&D incentives Reference Guide**  
<https://www.ey.com/gl/en/services/tax/worldwide-r-d-incentives-reference-guide---country-list>



## 5 Environment

The environment in which fintech organisations operate in Australia is one of the key drivers of success. A number of observations can be made around the prevailing dynamics.

- ▶ **Continued evolution...** Over the past four years, the environment for fintech startups to be incubated, nurtured and flourish has changed markedly. In 2016, only Sydney had dedicated fintech hubs (as opposed to broad technology startups). Come forward four years and all east coast capital cities have well established fintech hubs and there are plans for expansion across the continent in the coming 12 months. We continue to hear about the importance of strong support networks beyond the founder, the board (if there is one) and investors. The ability to effectively leverage peer and industry support is imperative.
- ▶ **Importance of co-working...** Fintechs continue to highlight the importance of easy access to quality accelerators and incubators. Consistent with last year, two in three (66%) agree that accelerators and incubators play a vital role to the success of the fintech industry. Hubs provide the fintech startups with important formal support, but just as invaluable is the ability to connect with others in a less formal environment. Users of hubs describe the workplaces as a source of ideas, experience, insights, expertise, accommodation and support.

However if expectations of the hub participants are not met, they will seek alternatives such as moving to co-working spaces (standalone).

- ▶ **Government support is vital...** The impact of State Governments' supporting continued operation of innovation hubs that are used, not just by fintech but by broader technology startups, remains important to foster continued, and also attract international participants, to connect with the upcoming startups and as a place for talent incubation.
- ▶ **Working collectively to support cross-industry initiatives...** Working together via FinTech Australia, fintechs have had a major impact on Government policy settings over the past four years. Fintech founders value this highly and highlight the importance of this approach to the creation of an 'effective regulatory landscape to support effective fintech services for consumers'.

**Accelerators and incubators are an important contribution to the success of the fintech industry** (exc. Don't know)



Base: All surveyed fintechs (120)

3% don't know

“

We have built strong connections across the fintech industry at home and also globally, in large part driven by the work of FinTech Australia. We now need to prepare to support the next stage of fintech growth and scale, and also have a role to play in strengthening consumer adoption, particularly through the implementation of Open Banking.

Lauren Capelin, Deputy Chairperson, FinTech Australia



# Future focus



1. Best Prices Anywhere  
When buying images, you want to make sure you do so at the lowest possible price. That's why we've built a powerful search engine that finds the best prices for you. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you.

2. The World's Best Selling Collection of Images  
For the last five years, our exclusive ProImage.com collection of images has been the most popular in the world. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you.

3. Only Site in the World With Just Exclusive  
You can get your images many places, for sure, but if you're looking for a truly professional partner who delivers every time, look no further. If you want top quality images, you need ProImage.com as your go-to source. Why? Our images are of the highest quality and exclusive to us and Gettyimages.com, so you won't find them anywhere else.

4. For Professionals, By Professionals  
Made for you, the professional designer who needs images daily and spends large amounts of time searching for them. Our site is built for you, the professional designer who needs images daily and spends large amounts of time searching for them. Our site is built for you, the professional designer who needs images daily and spends large amounts of time searching for them. Our site is built for you, the professional designer who needs images daily and spends large amounts of time searching for them.

5. Digital Perfection - Our Average Resolution is More Than 10000  
Nothing is more than finding the perfect image and being able to download it in the resolution you need. Our average resolution is more than 10000 pixels wide and 10000 pixels high. That's why we've built a powerful search engine that finds the best prices for you. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you.

6. We are not your average stock site  
We are different. We are on a constant hunt for authentic, high-quality images that you can't find anywhere else. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you. We know we're not the only one who's looking for the best prices, so we've built a powerful search engine that finds the best prices for you.

7. On ProImage.com we have done the hard work for you so that you can enjoy browsing one of our outstanding quality images without being bothered with the rest of the world.  
ProImage.com



## Outlook and optimism

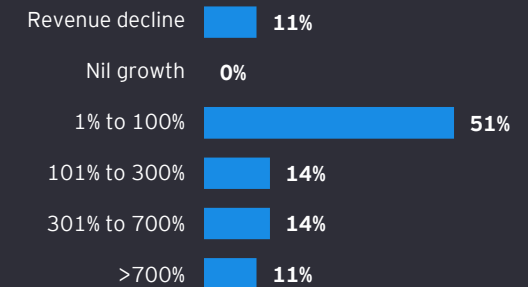
As the industry has matured and grown, different types of challenges have emerged. Over the past 12 months, some of the most prominent challenges have included progress on CDR, the cooling of investment (particularly at the start-up end), further cuts to the R&D Tax, continued limitations around skilled migration visas, amongst others. While the challenges are many and varied, overall a positive outlook still prevails. Reflecting the optimism are a number of the highlights in the 2019 Census data:

- ▶ **Better collaboration with incumbents post Royal Commission...** When compared to 12 months ago, Fintechs are experiencing better access to and more collaborative relationships with incumbents. For two in five fintechs, there has been a notable improvement in the relationship post Royal Commission (42%), with just 8% perceiving a negative impact.
- ▶ **More fintechs are realising profit...** With the proportion of fintechs indicating they are in a post-revenue stage increasing significantly since last year (77% vs. 68%). In addition, fintechs indicated median revenue growth of 80% from June 2018 to June 2019. A slowing of median revenue growth in the past three years may be attributable to the increased number of newly profitable fintechs.

- ▶ **More confidence in local talent...** The proportion believing that Australia is wanting for local startup and fintech talent continues to decline, with confidence in the Australian talent pool significantly higher than it was four years ago in 2016.
- ▶ **Internationally competitive...** A majority of surveyed fintechs believe Australian fintechs will be able to compete internationally (63%), up 4% from last year. This belief is particularly evident amongst fintechs who have 'lived experience' venturing to overseas markets. The industry is also more likely to back the home team this year, with 48% stating Australian fintechs are capable of competing with international fintechs - compared to a more modest figure in 2018 (38%).
- ▶ **Progressing towards a more diverse and inclusive industry...** The positive trend in female participation both within and at the helm of the fintech startups heralds a promising outlook for gender equality within the industry.

### Annual revenue growth %

Revenue in June 2019 compared to June 2018



### Median post-revenue growth



Post revenue fintechs

**77%** 68% in 2018

Median fintech post-revenue growth

**80%** In the past 12 months

Base: Companies in post-revenue stage excluding 'prefer not to say' (37)





## Global reach

From Brexit and the US-China Trade War, to recent political unrest in Hong Kong, the current global climate presents an added degree of potential instability within many major markets. This geo-political uncertainty does make it more challenging for fintechs with global ambition. Despite this, fintechs largely remain optimistic about the opportunities that await offshore. Australia's fintech presence in overseas markets is strong and forecast to grow further:

- ▶ **Overseas presence...** 41% of surveyed fintechs already have an established presence overseas.
- ▶ **Intention to go offshore...** 51% intend to 'expand or expand further overseas' in the next 12 months.

### Prospective destinations for expansion

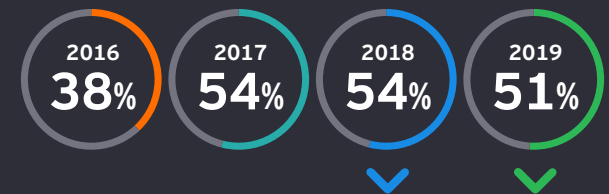
- ▶ **UK...** Whilst still the top destination for expansion, the UK has become less attractive. More broadly, we are seeing investments redirected to the EU - countries such as France and the Netherlands, as a result of Brexit concerns.
- ▶ **US...** Continues to grow in popularity particularly the East Coast; driven by easier access to deeper capital funding options, the huge consumer potential and depth of niche fintech markets.
- ▶ **New Zealand...** Has jumped to #3, as it is easy to expand into our close neighbour's market with a similar regulatory landscape and co-banking model.

- ▶ **Singapore...** It remains an attractive market due to proximity and language however difficult to penetrate due to popularity and need for local credibility.
- ▶ **Canada...** An appealing market similar to Australia with potential to provide a gateway into the US. Prospective expansion to Canada has rebounded this year (24%), following a minor dip in 2018 (13%).
- ▶ **Hong Kong...** While holding appeal in 2018, interest in Hong Kong has also tapered a bit this year, dropping from 30% to 20%, potentially reflecting fintechs' concerns about the uncertain political environment.
- ▶ **Japan...** A market of significant scale with a relatively under-penetrated fintech sector. Proactive government policies in areas such as e-payments and Open Banking are increasing attractiveness.
- ▶ **Malaysia...** A relatively dynamic and welcoming market proves an attractive jumping-off point for Southeast Asia. Progressive regulatory policies including a forthcoming 'digital bank' licencing regime should benefit new players.
- ▶ **China...** Appears to be the only casualty of the current trade war (with expansion interest dropping from 13% to 5%).

## Future outlook

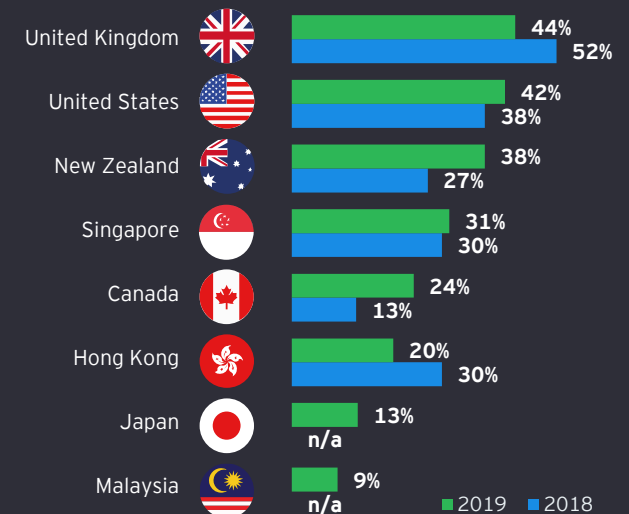
**Australian fintechs continue to focus on overseas expansion in the next 12 months**

Expand or expand further overseas



Base: All surveyed fintechs (120)

### Top 8 markets for potential expansion (excl. don't know)



Base: Organisations that plan to expand or further expand overseas in the next 12 months excluding 'don't know' (55)



## Inhibitors to overseas expansion

Of the 49% indicating they have no plans to expand offshore in the next 12 months, a local growth focus and time restraints continue to be the primary barriers. Whilst not significant, compared to last wave there is a heightened sense of difficulty in the process - both from a perspective of exporting financial services and in obtaining the funds to do so.

For the first time this year, Census participants were asked to nominate the top three areas in which they would need support in expanding overseas. Support is most sought in areas relating to developing customer and business networks, and understanding the local regulatory landscape. Fintechs are less likely to need assistance in applying for a visa (11%) or opening business accounts (11%).

The following were nominated as the top three areas of support required for developing business overseas:

- ▶ Developing customer networks (66%)
- ▶ Developing business networks (64%)
- ▶ Understanding regulatory landscape (63%).

“

Austrade is pleased to continue to provide ongoing support to Australian fintechs through opening doors to our global network and assisting them with understanding global markets. Austrade recognises the importance of the fintech sector in scaling and flourish globally, which will contribute to our nations prosperity and keep Australia on the map in fintech.

Katherine Heathcote, Senior Trade & Investment Advisor, Austrade

## Fintechs not intending to expand or expand further overseas in the next 12 months reference the following reasons:



**54%**

**Business plan is currently focusing on the local market growth**

(2018: 54%)



**36%**

**Lack of time to investigate potential overseas markets**

(2018: 21%)



**17%**

**Too difficult to export financial services**

(2018: 9%)



**15%**

**Difficulty in accessing private funding to help expand overseas**

(2018: 10%)



**12%**

**Already happy with their current expansion**

(2018: 21%)

Base: Organisations that plan to expand overseas in the next 12 months or beyond the next 12 months (114)



## Census participants\*

255 Finance	Cwedit	Longevity App	Rollit Super
Advisr	Data Republic	MarketLend	Search365
AgriDigital	Do Claims	Mclowd	Selfmade
AirPay Financial Technologies Pty Ltd	Elbaite	Mega IT Services Pty	Sniip Limited
Amber Labs	Entersoft Security	Moneycatcha Pty Ltd	SocietyOne
Athena Home Loans	Escientia	MoneyPlace	Startupbootcamp
BetaSmartz	Ezypay	Moneytech Payments	stone & chalk
Beyond Merchant Capital	Financial Mindfulness	Moneytree	Super Myway
BGL Corporate Solutions Pty Ltd	Fintos Investment	Multilateral	SVX Group
BigFuture	FlashFX	myprosperity	Tanggram Pty Ltd
Bit-e Financial Services	FloodMapp	NA	Tappr
Blue Zebra Insurance	frollo	nCino	Tekkon Technologies Pty Ltd
BrickX	Geora Ltd	Nelnet International	Telescope Financial Services
Bromleigh Capital	Goodments	Novatti	Trade Ledger
Centelon Pty Ltd	Hip Money Pty Ltd	OneCheck	Urth.io
Certified By PL	ID Exchange Pty Llimited	OnMarket	Verrency
Choosemylifeinsurance.com	IDS	OurMoneyMarket	Vix Technology
Cinch Insurance	InfraRisk	PayDock	WordFlow
Claim Central Consolidated	Instant Global Payments	Paypa Plane	XBRL Advance
Cloudfloat	Integrity Life	Practifi	Xinja Bank
CoinJar	Investfit	Prospa	Zuper
Credi	InvoiceInterchange	QuietGrowth	
Crowd Property capital	Joust	Raiz Invest Limited	

\*Note - Fintech participants listed above specifically provided their permission to be cited in this report



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ED None.

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