INTERNATIONAL TRADE ADMINISTRATION

2016 Top Markets Report Financial Technology Country Case Study

Australia

According to the 2015 edition of the FinTech 100, Australian FinTech startups are among the best in the world. Early adopters of technology with one of the highest smartphone penetration rates in the world, Australians also hold significant financial assets. According to Credit Suisse, in 2014, Australia had the highest median wealth per adult in the world, with 1.25 million adults with investable wealth exceeding US$1 million. For a developed economy, Australia also has favorable demographics for FinTech, with over 34.4 percent of its population predicted to be between ages 20 and 44 in 2017, compared to 31.5 percent for the G7. For these reasons, Australia ranked ninth for potential FinTech payments and eighth for potential FinTech sector size overall.

Payments Rank	Overall Rank
9	8

The financial services industry is the largest industry in Australia as measured by its sector share to the national economy (9 percent in 2013). Australia's big banks are among the most profitable in the world, providing an attractive market for would-be FinTech disrupters, such as peer-to-peer lenders.[1]

The first green shoots in the Australian FinTech sector, however, are only starting to appear. Until recently, customers have been satisfied with institutions' internal innovations, and Australia's regulatory environment has made it difficult for young startups to enter the market.[2 3] The recent appointment of Prime Minister Malcolm Turnbull, however, has been a catalyst for Australia's FinTech sector. Australia has begun to incorporate FinTech into the recent budget's innovation and science package, including policies and initiatives to help boost startup and entrepreneurial activity.

Australia is home to two GFCs: Sydney (#15) and Melbourne (#27).[4] Sydney is Australia's primary financial center and is closely aligned with Australia's most significant cluster of service industries, such as information and communication technology, digital, tertiary education and creative services.[5] Payments, peer-to-peer lending, crowdfunding and asset management are the most promising subsectors for FinTech.

Figure 1: Australia at a Glance Source: See methodology, 2017

GDP	Population	Consumption	Fin. Assets	Smartphone	Broadband
$1,440 bill.	25 mill.	56.5% of GDP	856% of GDP	60.0%	30.2%

Payments Subsector

Perhaps the most noteworthy absence of FinTech startups in Australia is in payments. Large firms, such as PayPal and Google Pay, have been slow to enter Australia. The country already has one of the world's most advanced online and cashless payments systems, the highest proportion of contactless payments (60 percent of face-to-face credit card transactions) and one of the highest proportions of smartphone ownership.[6] Australian banks have also emerged from the 2008 financial crisis and have retained consumer trust.[7]

Australians may have embraced mobile banking and "tap and go" payments more enthusiastically than most, but the country has been slow to adopt digital money transfers between people, or "P2P" payments.[8]

According to industry sources, Australia remains reliant on cash, checks and electronic bank transfers for payments, but this will soon change with the introduction of more digital firms, such as Facebook and Snapchat.[9] Only 13 percent of customers had made electronic bank transfers, such as a transfer through their bank's digital application (compared to 22 percent of U.S. smartphone owners), and only 1 percent had used an app for making payments provided by other non-bank businesses. Although this figure compares unfavorably to the 22 percent of U.S. smartphone owners that have made electronic transfers through banks' digital applications, Australians remain among the world's fastest adopters of mobile banking.[10] The implementation of Australia's New Payments Platform (NPP), which should go live in 2017, will provide the domestic messaging channeling, settling, clearing and routing needed to satisfy this growth.[11]

Marketplace Lending/Crowdfunding

By 2020, marketplace lending to Australian consumers could soar to $10.4 billion and comprise 6 percent of total consumer lending in Australia. Marketplace lending in the SME market is predicted to grow from zero in 2014 to A$11.4 billion (US$8.55 billion) by 2020, accounting for 12 percent of the viable market.[12] The opportunity for marketplace lending to establish a meaningful presence in Australia is due to a high online and mobile banking penetration (70 percent broadband/smartphone and 75 percent online banking). High returns in unsecured lending and a concentrated banking industry that is not focused on consumer and SME lending are additional factors.[13] Australia's four major banks have a market share of 75-85 percent in retail mortgages, deposits, credit cards and personal lending. The spreads between rates on personal loans and credit cards versus deposit rates in Australia are very wide compared to those in the mortgage market. Although there has been significant product innovation in mortgages, deposits and credit cards in the past 10 to 20 years, the key features of unsecured personal loans have hardly changed. Customers have had little reason to choose banks over marketplace lenders on price, convenience or speed.

Finally, in early 2014 Australia introduced comprehensive credit reporting (positive and negative information), which now makes it favorable for alternative lenders to assess a borrower's creditworthiness.[14] Marketplace lending growth may still face the risk of regulatory scrutiny by the Australian Securities and Investments Commission. The sustainability of the business model has not yet been tested through an economic downturn.[15]

In December 2015, the Australian government released its *Corporations Amendment Crowd-sourced Funding Act* legislation that details how non-listed public companies, including startups, can access crowdsourced equity funding from external investors.[16] Under the proposed legislation, businesses with $5 million or less in turnover and assets would be able to raise up to $5 million a year through crowdfunding without issuing a prospectus.[17]

Money Management

Although the number of robo-advice providers in the Australian market is still relatively small, this sector is poised to grow given the estimated 80 percent of Australian fund holders who do not seek professional financial advice and financial advisers looking for less expensive ways to service their customers.[18]

Stockspot is Australia's fastest growing automated investment service. Simply Wall Street is another app that visualizes stocks, portfolios and exchange-traded funds using infographics. Both of these companies' products are not very well-integrated into existing social media. It remains to be seen how popular they will be compared to the traditional investment adviser approach.

Going Forward

The Australian Government has proactively responded to the growth of the FinTech sector with the release of a set of its proposals to make the FinTech sector more globally competitive.[19] For example, the Turnbull government's innovation statement in December provided for a 20 percent, non-refundable tax offset based on the size of the investment (capped at $200,000 an investor per annum).[20] The government's FinTech growth statement also discusses its FinTech priorities for data reporting, blockchain technology, wealth management and other FinTech sectors.[21]

[1] Paul Fletcher, "Firms Must be Supported in Embracing FinTech," *The Australian* (June 15, 2015).
[2] "Unlocking the Potential: The FinTech Opportunity for Sydney,"KPMG (October 2014).
[3] "The Term "FinTech" - the Marriage of Financial Services with Technology Companies," *StartUpSmart* (May 27, 2015).
[4] "Global Financial Centres Index 18" Z/Yen Group. (May 4, 2015)
[5]"Unlocking the potential: The FinTech opportunity for Sydney" KMPG (October, 2014)
[6] "Digital Payments are Coming – and Life will be Different," *Premium Official News* (December 10, 2015).
[7] "Digital Payments are Coming – and Life will be Different," *Premium Official News* (December 10, 2015).
[8] Clancy Yeates, "Australia Behind on P2P Payments," *Australian Financial Review* (November 30, 2015).
[9] Clancy Yeates, "Australia Behind on P2P Payments," *Australian Financial Review* (November 30, 2015).
[10] Ibid.
[11] John Adams, "Australia's Slow Move to Faster Payments," *Payments Source* (April 15, 2015).
[12] J James Eyers, "P2P Loans tipped to Hit $22B in Australia by 2020,"*The Sydney Morning Herald* (May 22, 2015).
[13] James Eyers, "P2P Loans tipped to Hit $22B in Australia by 2020,"*The Sydney Morning Herald* (May 22, 2015).
[14] "Global Marketplace Lending Disruptive Innovation in Financials," *Morgan Stanley Blue Paper (*May 19, 2015).
[15] James Eyers, "P2P Loans tipped to Hit $22B in Australia by 2020,"*The Sydney Morning Herald* (May 22, 2015).
[16] Morgan Stanley.
[17] "Crowdfunding Still too Costly," *Australian Financial* Review (December 20, 2015)
[18] "The Term "FinTech."
[19] "Government Response to Australia's FinTech Priorities," http://fintech.treasury.gov.au/government-response-to-australias-fintech-priorities/ (last accessed April 8, 2016).
[20] James Eyers, "FinTechs Want a Touch More Disruption," *Australian Financial Review* (December 9, 2015).
[21] "Government Response to Australia's FinTech Priorities," http://fintech.treasury.gov.au/government-response-to-australias-fintech-priorities/ (last accessed April 8, 2016).