



THE REGTECH ASSOCIATION RESPONSE TO ASIC REPORT 523:

ASIC'S INNOVATION HUB AND OUR APPROACH TO REGULATORY TECHNOLOGY

Introduction

Australia is uniquely positioned to be a global leader in RegTech. Our financial services industry employs over 450,000 people, our four major banks are all in the top 25 globally, and compulsory superannuation has meant we have vast pools of investment funds under management. It is widely accepted that Australia fared relatively well through the GFC compared to other markets, and our approach to regulation has been held up as a model throughout the region. The RegTech Association believes that these factors give Australia a unique strategic advantage in developing RegTech solutions, both for use in Australia and to take to the world. In addition, Australia has an open and collaborative culture which allows for dialogue between the regulators, the RegTech community and regulated entities which enables innovation and collaboration. The RegTech Association sees ASIC Report 523 as another example of this open dialogue and as such welcomes the initiatives outlined in the paper.

Comments or suggestions on ASIC's overall proposed future approach

The RegTech Association supports ASIC's comments around the regulatory technology (RegTech) sector being able to build a culture of compliance, identify learning opportunities, and save time and money relating to regulatory matters.

While we also support ASIC's ongoing commitment to the Innovation Hub for supporting new market entrants in the area of FinTech. We would suggest that for supporting the RegTech sector, the Innovation Hub FinTech Regulatory Sandbox be expanded to include a "RegTech Design Sandbox" in recognition of the different challenges to innovation that RegTech firms face as compared to Fintech organisations.

But first – some context:

Our View: What RegTech Is

RegTech is not new....: The combination of technology and regulation to address regulatory challenges has existed for over 20 years with varying degrees of success and different levels of adoption, sophistication and integration. What is new is the access to cloud based infrastructure which allows for the inexpensive development of minimum viable products which can be quickly tested and developed in iterative phases, allowing for increased creativity and speed of development to proof of concept phase. In addition to this, there is an increasing appetite for innovation in highly regulated sectors where failings and fines over the last decade have shown that the current response simply is not working.

The RegTech Association firmly believes though that agile regulatory technology combined with open dialogue with regulators and regulated entities will assist entities to better understand, mitigate and manage their risks, whilst also providing valuable insights to assist in addressing culture and conduct risk issues.



RegTech is different and better than what it's been: Increasing levels of regulation, the explosion of data and new digital risk types have brought the latest new-gen RegTech offering to the fore.

- Back to the drawing board: Tech start-ups in all industries have given birth to new business and operating models. For example, the financial services industry is witnessing wholesale overhaul of front, middle and back office capabilities as part of ensuring customer centricity. Without collaborative and bold re-design, governance, risk and compliance processes will become the weakest link in the chain.
- Digital first and foremost: The businesses that thrive in the coming decades will be those that ground their operating models in the full raft of new and emerging technologies and empower their people to embed and leverage these technologies. Risk and related functions will need to likewise position RegTech at the heart of their delivery models.
- Learning by doing: The pace of technological innovation and volume of niche providers mean that “one size fits all” and off-the-shelf approaches are becoming increasingly extinct. To ensure that risk and oversight functions manage the risks unique to their organisation, and determine which elements of their operating model are ripe for total disruption, there will be no substitute for trying and testing new RegTechs via POC's (Proof of Concept) and a cohesive, integrated jigsaw-like approach.

Our View: Why RegTech Is Different to FinTech

We note that there appears to be an assumption in Report 523 that RegTech and FinTech organisations are very similar, if not the same, and therefore, ASIC is choosing to employ roughly the same model for both FinTech and RegTech organisations. We believe there are some fundamental differences between FinTech organisations and RegTech firms of which ASIC should be aware that directly impact the way in which ASIC can successfully interact with RegTech businesses.

While FinTech are generally early stage companies either looking to disrupt or partner with financial service companies, RegTechs seek to provide services to both FinTechs and incumbents and, since the idea of using technology to support compliance is not new, there are some established players as well as start-ups. Beyond this, RegTechs may be working in a range of regulated industries including pharmaceuticals, utilities, telecoms, and health services. Whilst the focus of this ASIC paper is a RegTech response to issues in the financial services industry, RegTech experience with these other industries will be invaluable in addressing issues in financial services.

This different focus also creates some other points of divergence which affects how they might be dealt with by ASIC:

- Most RegTech companies solve problems faced by incumbents which results in much greater willingness to engage in conversations and partnerships. Australia's major banks are already spending hundreds of millions of dollars in addressing compliance concerns. RegTechs seek to improve outcomes whilst also lowering these costs.
- RegTech organisations are not just solving problems in the financial services industry but across many different regulated industries in the economy.



- Because RegTech firms primarily exist to help drive efficient, effective and insightful regulatory risk management, by their very nature they must meet regulatory requirements. Therefore, some of the benefits of the ASIC sandbox are very limited for RegTech firms.
- Many RegTech firms must be “bank ready”, ie. in order to be used by organisations (including banks/financial institutions but extending to other industry areas), they will have already met robust, sophisticated technology related requirements (such as, cyber security and process documentation requirements, etc). This is quite different to some FinTech firms who may require assistance to navigate such requirements.

The RegTech Product Is Compliance – What is needed is a “Design Box” not a Sandbox

The nature of RegTech is the codification of compliance. The challenge of Australian regulators is that our strong, global reputation around regulation stems in part on the model of supervision which has been employed by ASIC and other regulators. This model appears to have involved the setting of regulation and rule through industry engagement and cooperation, but then ASIC stepping into a more supervisory role and letting the market self-determine appropriate responses to such regulations and rules. This model has developed into one of the great strengths of our Australian financial services system.

The RegTech Association recommends ASIC deploying a similar approach in the support RegTech firms. As we’ve stated above, there is nothing special about RegTech; it has been around for many years in one form or another. We do acknowledge that one of the key differences in 2017 is that RegTech is being funded by more speculative sources than in the past. However, this does not fundamentally change the benefits that can be derived from allowing commercial ideation to occur within the industry, and ASIC providing a supporting and supervisory role. There is significant value and capital to be created in the RegTech sector and ASIC’s focus on supporting but not driving ideation is critical.

We believe that the way for ASIC to manage this is to assist RegTech firms in building products to meet the market, by reviewing and assisting at the concept stage, and then having worked through the ideation phase, allow different vendors and clients implement and be assessed on the results they produce. Conceptual approval would reduce the risk for RegTechs in building products.

The RegTech sector has established companies ready to deploy new product. So, we do not believe that hackathons are the most effective way for ASIC to engage with the RegTech sector.

Instead, what The RegTech Association would consider valuable is ASIC trialling and approving some RegTech concepts. At present, if a RegTech Association member wishes to build and sell a different approach to current market practice, to do so they must apply for a ruling from ASIC via a corporate member who ASIC supervises or via a Class Exception. The RegTech Association believes there is great value in ASIC providing rulings about concepts and processes (as opposed to endorsing any products, brands or specific technologies) that might benefit both ASIC and entities regulated by ASIC. This enables the available capital and resources to be harnessed towards productive innovation.



To this end, the RegTech Association suggests that what might be of greater benefit to our members is not a hackathon or “Sandbox” type structure, but instead something like a “Design Box” where ASIC could encourage such concept trials to be undertaken. This would enable learning from all parties involved without fear of repercussions. This would encourage real innovation and experimentation which we believe is critical to support the growth of the RegTech ecosystem. And, globally, this would make Australia the leading market for RegTech deployment which would most likely accelerate deployment of the most innovative solutions globally and enable Australian RegTechs to innovate faster than overseas competitors (creating export potential).

With the existing ASIC framework, some thoughts are provided below as to how the “Design Box” might be deployed. However, the potential exists to build a new process more tailored to it:

Class Exception – Currently ASIC has released two class waivers to allow eligible businesses to test specific services and/or products for up to 12 months with up to 100 retail clients without holding an Australian financial services (AFS) or credit licence. As illustrated above RegTech, by their very nature, must meet regulatory requirements. The challenge however is presented when the RegTech community aims to commercialise a market-ready product to new (generally large) customers. Given certain ASIC provisions for meeting general obligations by financial institutions (i.e. ASIC [RG104](#), [RG259](#)) RegTech solutions are - to some extent - unproven technologies and generally run by the SME sector - with limited balance sheets, large financial services organisation may be motivated to stay away from implementing what could potentially be a well-defined and cost efficient innovative RegTech solution.

In order to encourage further participation from all RegTech ecosystem stakeholders in the industry, the RegTech Association would find it beneficial if ASIC could assess the possibility of enacting a relief provisions aimed at ringfencing a RegTech-Client project under a similar Class Exception to that of FinTechs. For example, RegTech projects could be classified as either in POCs or in MVPs and allowed to be trialled within certain parameters with exempting liabilities for any possible system failures. Taking this approach, ASIC would foster the take up of the RegTech vendor product and its ecosystem as well as encourage large corporates to trial innovative RegTech solution without the fear of reprisal by ASIC in relation to obligations to adequate financial, technological and human resources provisions by a trialled system failure. This approach would be a more useful program of running weekend ASIC sponsored hackathons.

Feedback #1: RegTech liaison group feedback:

Having a formalised, continuing mechanism for a proper dialogue about what is happening in our industry with ASIC is extremely beneficial to The RegTech Association members. As such, we applaud this initiative by ASIC.

Nature of group – we agree with the nature of the group as it is proposed.

Proposed purposes of the group – we support the purpose of the group as it is proposed but believe that as a representative of an ever-increasing number of firms in this area, that we should have a standing, permanent invitation to the group.

How regularly it should meet – quarterly at a minimum.



Whether the group should be invite-only structure, an open invitation or some hybrid model – In the early days, we believe that the group would benefit from being invitation only before the invitee process be reconsidered in a year.

Size of group – a group of more than 16 participants at the outset would seem excessive to The RegTech Association.

Primary purpose – information sharing, policy developing, opportunities for collaboration across industry and with regulators.

Feedback #2: Continued use of technology trials

The RegTech Association believes that regulators will need to become significant users of RegTech themselves if they want to keep up with developments and understand them sufficiently to supervise their use. We are very supportive of technology trials to help regulators find better ways to effectively fulfil their mandate related to oversight and enforcement.

The RegTech Association also submits that it will be important for ASIC to delineate between itself as a buyer/consumer/user of RegTech and as a market orchestrator of the use of RegTech by the financial services market.

Feedback # 3: Hosting a problem-solving event

The RegTech Association does not believe a traditional hackathon is of value to our members who all have well developed solutions already in market. The RegTech Association feels that the time taken to bring new concepts to market and be “bank ready” would outweigh the effort required to run such a forum. We would however recommend that for this event ASIC contemplate the full spectrum of Australian RegTech entities and their levels of market maturity, and perhaps consider running a problem-solving event that looks at particular pain points in getting RegTech projects up and running in Australian organisations.

The RegTech Association would submit that, as Australia has a better regulatory framework and reputation than many of the countries referred to, a problem-solving event that is focussed on getting RegTech projects up and running within a twelve-month timeframe would be of more value to all participants. This will give ASIC and Australia an opportunity to take a leading position in the region and provide content for research papers and conference presentations.

Other Suggestions:

The RegTech Association suggests that ASIC may want to consider some of the following initiatives:

1. ASIC leading Compliance by Design initiatives – specifically, The RegTech Association is aware of some of the work that is currently underway with Data 61 involving machine readable rules and growing “compliance by design” style initiatives. If ASIC could actively support collaboration between Data 61’s initiatives, RegTech providers, industry and government (through ASIC), this would be very helpful to the development of RegTech in Australia and to our members. This is an area where The RegTech Association believes that ASIC could be truly world leading by linking the various members of the regulatory



ecosystem to jointly develop solutions to difficult regulatory issues for business. This is also linked to the concept outlined above of the “Design Box”;

The RegTech Association is currently working on a project which will have the support of an external consulting firm to develop a maturity model for RegTech companies. This project will develop a framework under which buyers of RegTech products and services will be able to understand how “bank ready” a RegTech solution is. The framework will also help to define the internal hurdles to innovation faced by the buyers of RegTech solutions with a view to assisting in mitigating risk and enabling buyers to be “innovation ready.” By centralising this effort into a single model, we aim to reduce the costs and time involved in convoluted procurement due diligence and cloud risk assessment efforts.

ASIC would be welcome to play a role in developing this framework.

2. Helping RegTechs be joined through “Compliance by Design” – this would require ASIC to take a thought leadership approach and share their forward projections about how they see Compliance by Design evolving in the Australian market. If ASIC could show case their desired future state in events with RegTechs, in turn the RegTech firms could demonstrate how their solutions support that outcomes. Alternatively, RegTech firms can go and design solutions and establish new product lines or new businesses to support that outcome.
3. ASIC to explore data consistency options ranging from API standardisation through to data platforms. The introduction of application programming interfaces (APIs) and other systems allowing for interoperability make sure that different software programs can communicate with each other. The benefits to ASIC, customers and RegTech firms would be lower cost access to meaningful data. At the other end of the spectrum are a range of global initiatives that have been implemented using a share utility model include the Association of National Numbering Agencies ([ANNA](#)) which has been driving the creation of an industry over-the-counter (OTC) ISIN (International Securities Identification Number) generation service. Where similar rules exist for different regulations the European Market Infrastructure Regulation ([EMIR](#)) can be another example.

ASIC has entered FinTech referral and information-sharing agreements with the Monetary Authority of Singapore, the United Kingdom’s Financial Conduct Authority, Ontario Securities Commission, Hong Kong Securities and Futures Commission and the Japan Financial Services Agency, as well as a deal with Indonesia’s & Malaysia’s regulators. The RegTech Association sees that these relationships can be key to supporting and promoting “Brand Australia” when it comes to regulatory technology. With that in mind, we would encourage a multi-agency approach that includes other Australian regulators and Austrade to assist with promotion of Australia’s RegTech industry.

In conclusion, The RegTech Association applauds and supports ASIC’s desire to support the RegTech industry and believes that the spirit and intent of Report 523 is very pleasing. The Association wishes to encourage strong support to innovation via experimentation. We believe that the application of RegTech solutions and other technologies will not only make processes more efficient but also lead to new products and markets and may even allow previously unprofitable client segments (i.e. financial inclusion) to have (better) access to financial products. In order to achieve this goal, a workable, sustainable RegTech ecosystem will need the regulators, the public and the private sector incumbents to embrace change and deep collaboration. The RegTech Association looks forward to being a strong partner with ASIC in this bright future ahead of us.



About The RegTech Association

The RegTech Association is a global business network working together with the aim of streamlining regulatory compliance and improving conduct risk outcomes in regulated entities.

Established in 2016, The RegTech Association and its members promote good corporate practice in the management of compliance. The RegTech Association aims to collaborate with key stakeholders including governments, industry bodies and international compliance organizations. For further information see www.regtech.org.au