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Invest fines and penalties to support new regulatory technology solutions

****New analysis shows Australia's local RegTech industry is the third largest in the world.**

****However, Australia's local industry attracts just 1 per cent of global equity funding, with investment falling by 50 per cent since 2018.**

**** The RegTech Association recommend the establishment of new funding pools, including diverting a portion of the fines and penalties levied against regulated industries to support local RegTech companies to develop new solutions to improve compliance.**

Australia's regulatory technology (RegTech) industry has huge potential for growth but could suffer unless it receives more private and public investment, according to new research by Boston Consulting Group and The RegTech Association.

Among a suite of recommendations to improve access to capital funds, BCG and The RegTech Association recommend the Australian Government consider diverting a portion of the fines and penalties levied against regulated industries to the RegTech sector, to back the local sector and to drive new solutions that support companies to comply with Australian laws.

With more than 80 RegTech companies headquartered here, Australia has become the third largest hub for RegTech innovation globally.

The new analysis shows that since 2015, the growth in Australia's innovative RegTech sector has grown by 15 per cent (compound annual growth rate; CAGR), outpacing the global average of just 6 per cent.

BCG Managing Director and Partner, Wendy Mackay says that while the Australian RegTech sector is undergoing record growth, it's at threat amid declining investment.

"Our analysis shows that while we're pulling our weight globally in this emerging market, the sector attracts just 1 per cent of global equity funding, below that of countries producing fewer RegTech solutions each year, such as Cyprus, Ireland and Israel," says Mackay.

"Indeed, investment in Australia has actually fallen by 50 per cent since 2018, with many RegTechs bootstrapped by founders, or their friends and family. Two thirds of equity funding is seed or angel funding, which creates challenges for established RegTechs that are looking to scale.

"RegTech solutions are often developed specifically for organisations and industries facing complex regulatory challenges, which can take years to develop and then commercialise.

"While not unique to this industry, this gap between development and commercialisation poses a significant challenge to the RegTech industry, and we need to build new funding pools to help companies bridge this gap."



Deborah Young, Chief Executive of The RegTech Association, says that new solutions are needed to support this industry with huge potential, which is helping to solve some of the nation's most complex regulatory challenges.

“With Australian organisations, and indeed even public sector agencies, facing an ever expanding and changing suite of regulations, RegTech has been pivotal in helping organisations to cut through the complexity and ensure compliance with Australian and international laws,” says Young.

“Investment and interest in RegTech gained significant momentum following the findings of the Financial Services Royal Commission, however the industry is also growing into new areas, even helping to protect children and families and ensure companies meet their international human rights obligations.

“Today, RegTech underpins many day-to-day interactions and transactions that make doing business simpler and safer and in-compliance with the law.

“While 67 per cent of RegTech companies have seen a negative impact on revenue as a result of COVID-19, the sector remains positive about future growth, particularly as the pandemic accelerates the shift toward more digital transactions and increasing oversight of regulators.

“However, to fully realise the potential of this growing sector as the next big addition to Australia's vibrant tech industry, we need new solutions that will bolster investment and provide companies the certainty they need to take risks and continue to innovate.

“In our report, we suggest a number of solutions that will help boost investment in this sector, including the establishment of patient capital fund to support companies to bring solutions through to commercialisation.

“We also recommend the Australian Government consider re-investing some of the billions in fines and penalties levied against regulated industries each year into the local RegTech industry, to not only support the viability of the sector but ensure that companies are more able to meet their regulatory obligations.”

The full report [Australia's global RegTech hub poised for growth](#) is available on the Boston Consulting Group website.

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[Boston Consulting Group](#) (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customised approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results.

About The RegTech Association

The RegTech Association was founded in 2017 in Australia as a non-profit organisation that focuses on what is needed to support the growth of the global sector and to accelerate RegTech adoption across all regulated industry verticals. Our vision is to be a global centre of excellence by facilitating the building of higher performing, ethical and compliant businesses through RegTech innovation and investment. www.regtech.org.au