RegTech

Australian RegTech Needs Investment to Lead $127bn Global Market

The RegTech Association study finds Australia's role as a global RegTech leader is at risk; due to a subdued investment capital environment for RegTech

11th December 2019, Sydney: The RegTech Association research shows that, despite rising global demand for RegTech – and even though Australia has one of the world's highest concentration of RegTech product development – an equity gap is stymying mainstream adoption.

Deborah Young, CEO, The RegTech Association, who commissioned the research of members, said:

"Australia stands at the brink of a global regulatory revolution – where technology will enable corporates to automatically comply, monitor and respond to financial regulation. A rich, diverse RegTech sector is emerging in response to Australia's global renowned, rigorous regulatory standards. Despite having everything needed to be a global player in RegTech, Australia's piecemeal domestic investment is preventing Australian innovation from underpinning the global RegTech transformation.

"The Government has a key role to play as the ultimate orchestrator of RegTech – and to back the RegTech market through formal recognition of the potential economic benefits, in particular around exports, to encourage investment into the sector and continued expansion of regulatory innovation."

The market for RegTech is predicted to rise from US $25 billion in 2019, to US $127 billion by 2024[1]; driven by the rising threat of money laundering and increasing financial penalties. For example, in 2018, global financial institutions were charged more than US $100 billion for failures of regulatory compliance[2].

The RegTech Association's qualitative study summarises the views of their RegTech member firms, a sub-set of its 120 member firms. Key findings include:

- 70% of RegTech firms are bootstrapped by their funders, directors, or employees.
- 64% have been in business for more than three years; the majority without external funding.
- Only 15% have received investment from Venture Capital and only 12% have received Corporate VC investment.
- Only 9% of RegTech firms have received Private Equity investment.
- Only 9% of RegTech firms have received grant funding.

Deborah Young added,

[1] https://www.juniperresearch.com/press/press-releases/regtech-spending-to-reach-$127-billion-by-2024
[2] https://www.reuters.com/brandfeatures/venture-capital/article?id=56498

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"The member study shows an ecosystem of bootstrapped, mostly very senior innovators, that have designed and fine-tuned technologies to meet the exponential global demand for RegTech. Despite clear signs of adoption from corporate and government as customers of RegTech, investors have been slow to realise the promise of this space for achieving returns."

- 94% of firms have achieved full customer deployments, of those 23% have achieved 30+ deployments.
- More than half of firms have won contracts with Tier 1 (52%) and Tier 2 (52%) Financial Services (FS) companies.
- Government is the 3rd highest adopter of RegTech; awarding 38% of RegTech firms with contracts.
- Superannuation could be a key RegTech beneficiary, both via improved efficiency as a buyer of solutions, plus via investment returns. Yet, only 14% of RegTechs have superannuation customers.
- ASIC and AUSTRAC have active RegTech innovation adoption programs in place, but only 3% of RegTech firms have won business with regulatory agencies.

Deborah Young, added:

"Early adopters in banks and regulators have strengthened their ability to comply and enforce regulation - whilst boosting human productivity, by installing RegTech. But, ironically, RegTech is being starved of capital by the sectors that need it most, including superannuation and corporate venture funds. We must institute the mechanisms for our economy to become 'RegTech-ready'; to meet our needs at home, which in turn, will foster international export of solutions abroad."

On average, 59% of RegTechs rated lengthy procurement cycles as the greatest adoption challenge from initial discussion to Proof of Concept (PoC), then again from PoC to full deployment. On average, it takes RegTech firms 13 months to move projects from initial conversations to full deployment, across all regulated industry customers. FS is closer to fourteen months. Many solutions requiring deep integration actually take closer to two years.

CEO of Pax Republic (which is a member of the RegTech Association), Ms Barbara Sharp said:

"Australia punches above its weight in RegTech, but the impact of under investment of funding will be a classic "brain drain" to overseas markets. RegTechs must meet stringent risk standards as they are solving huge problems for conservative, risk averse companies. So, it takes much longer to validate what is most often a very big market.

"Any and all initiatives that reduce the time to value over the next 12 months will be key to ensuring that by 2022, Australian RegTech companies continue to lead and that growth happens in Australia, not overseas."

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The Senate has identified the potential for RegTech to improve resilience across society – and has established a committee to inquire and report on RegTech opportunities, barriers, and future trends by October 2020. The RegTech Association is submitting its response before the end of 2019. Key to this submission will be four key themes for RegTech to bring 'Trust-at-scale' and financial resilience: the excellent RegTech export potential for Australia; a sector-agnostic approach across all regulated industry verticals; and a call for more patient capital to help grow this specialised area.

Tickets are currently available for the RegTech Association's conference, ACCELERATERegTech 2020, taking place in Sydney on 17th March 2020. The event will comprise a series of thought leadership sessions, a pitch fest of RegTech startups, an expo of the latest technology and an innovation lounge. The RegTech awards will also be hosted over a gala dinner in the evening to celebrate the industry's achievements.

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About the Research:

The study can be downloaded here. It involved the conduct of 33 x 7-minute online surveys carried out between 17 October and 11 November 2019. To be eligible for participation, all respondents were founders or senior executives at a RegTech founder led company. The sample for the survey was drawn from RegTech founder member organisations of The RegTech Association.

77 potential participants were emailed an invitation to participate in the survey. The response rate for this survey was 43%. The findings should be treated as indicative due to the lower than usual sample size. Sub-group analysis (e.g. cross-breaks by industry) are only indicative and should not be treated as a reliable representation of characteristics amongst particular industry, geographical or other sub-groups.

About the RegTech Association:

The RegTech Association (RTA) was founded in 2017 as a non-profit organisation focused on supporting the growth of the RegTech sector and accelerating adoption. The RTA has a clear vision to be a global centre of excellence; by facilitating higher performing, ethical and compliant businesses through RegTech innovation and investment. RegTech Association members comprise both RegTechs and Regulated Entities, and membership has grown to 120+ members in the last two years.

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