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In its third year, the Australian fintech industry continues to mature and grow

Key business challenges decreasing
Suitability of systems and viability of business models are less likely to be internal impediments

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<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Creating suitable systems and processes</td>
<td>47%</td>
<td>31%</td>
<td>29%</td>
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<tr>
<td>Business model viability</td>
<td>37%</td>
<td>25%</td>
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Profitable fintechs (post revenue)
A greater proportion of fintechs are profitable this year

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<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>$</td>
<td>14%</td>
<td>14%</td>
<td>19%</td>
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Future outlook
Australian fintechs continue to focus on overseas expansion in the next 12 months

Expand / expand further overseas

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<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td></td>
<td>38%</td>
<td>54%</td>
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Top 6 markets for potential expansion (excl. don't know)

- United Kingdom: 52% (2018, 49% 2017)
- United States: 38% (2018, 38% 2017)
- Singapore: 40% (2018, 30% 2017)
- Hong Kong: 27% (2018, 30% 2017)
- New Zealand: 27% (2018, 27% 2017)
- Canada: 13% (2018, 22% 2017)

Median revenue growth (post revenue companies)
Year on year post revenue growth continues to grow

- Revenue decline: 4%
- Nil growth: 9%
- 1% to 100%: 33%
- 101% to 300%: 27%
- 301% to 700%: 16%
- >700%: 11%

Post revenue fintechs
68%

Median fintech post revenue growth
125%

June 2018 vs. June 2017
Fast facts: The fintech landscape in Australia 2018

**Sector profile**
- Base: NSW 55%, VIC 25%, Other 20%
- Company age:
  - 1 year or less: 21%
  - 2 to 3 years: 36%
  - >3 years: 43%
- No. of employees (median): Full time 8, Part time 2

**Type of fintech (top 3)**
- Payments, wallets and supply chain 24%
- Wealth and investment 23%
- Data, analytics / Big Data 21%

**End customer profile**
- Only B2C 48%
- Only B2B 48%
- Only B2B 16%
- Both 32%

**Industry gender profile**
- Gender (workforce participation)
  - Male 72%
  - Female 28%
  - 81% of fintechs have all male founders

**Fintech leader profile** (founders / CEOs)
- Average no. of start-ups founded: 1.9
- Top 3 talent shortages:
  - Engineering / software 77%
  - Design / user experience 36%
  - Sales 33%
- Top 2 approaches to talent recruitment
  - Founders / employees / personal contacts 37%
  - Recruitment agencies 20%

**Talent**
- 45% agree that attracting qualified or suitable talent is an internal challenge

**Capital** (multiple response - excl. don’t know)
- Private funding 70%
- Commercial funding 63%
- Average scale of last capital fundraising: $3.2m
- Average capital raised to date: $4.5m

**Government support and the regulatory environment** (excl. don’t know)
- 85% agree implementation of Open Banking would be effective
- 34% have a financial licence
- 68% agree accelerators / incubators are important contributors to the success of the fintech industry

**Outlook: Next 12 months expectations**
- 79% grow revenue
- 67% grow employee number
- 54% expand / expand further overseas

**Paying customers**
- Average burn rate (excl. profitable fintechs) $121k
- No. paying customers (post revenue):
  - 26% 1 to 10
  - 25% 11 to 50
  - 17% 51 to 500
  - 32% >500

**Relationship with incumbents**
- 46% nominate “building partnerships with banks and other financial institutions” as a key external challenge

**Median fintech post revenue growth**
- 125% June 2018 vs. June 2017

**Globally competitive** (excl. don’t know)
- 59% agree Australian fintech companies will be able to compete internationally
- 38% agree Australian fintechs will be able to win against international fintechs

**Government support and the regulatory environment** (excl. don’t know)
- 85% agree implementation of Open Banking would be effective
- 34% have a financial licence
- 68% agree accelerators / incubators are important contributors to the success of the fintech industry

59% agree Australian fintech companies will be able to compete internationally
38% agree Australian fintechs will be able to win against international fintechs
Introduction
Welcome to the EY FinTech Australia Census 2018. FinTech Australia has continued its successful collaboration with Ernst & Young Australia to deliver this important piece of research for the third year running. The Census remains the only detailed, industry-backed analysis of the Australian fintech industry and, at initial release in 2016, was the first Census of its type globally.

This research initiative forms a critical part of FinTech Australia’s efforts to foster a thriving fintech ecosystem. Australia’s fintech industry is continuing to grow and is increasingly becoming the first choice for businesses and consumers when they are selecting a financial service.

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, including how we increase female participation, encourage international expansion and remove 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 and learning about the dynamic fintech industry we have here in Australia.

Alan Tsen
Chair, FinTech Australia

The fintech sector is evolving 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 provide broad, focussed and prescient thought leadership to help define the industry, identify the challenges and cast light on the best way forward.

For the third 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 provides a powerful fact base, combined with broader insight to inform and inspire those involved with the sector.

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

Our 2018 Census finds the Australian fintech industry continuing to mature and grow, becoming broader, more sophisticated and more confident.

Almost 70% of fintechs are at the post-revenue stage with healthy 2.25 times median revenue growth and 1 in 5 report being profitable. Conditions are set for further growth, with the advent of Open Banking and the potential for fintechs to grab consumer mindshare as incumbents deal with the fallout of the Royal Commission. Fintechs are keen to partner to build their businesses, however incumbents remain difficult to engage with and slow to act. In terms of the five pillars of the fintech ecosystem:

- **Talent** - Fintechs are drawing on a limited start-up talent pool and particularly struggling to find engineering / software expertise. This issue will only become more pronounced as artificial intelligence (AI) and machine learning become increasingly integral to fintech offerings. Answers may include tempting ex-pat Australians back to the local industry, and recruiting for cultural fit and attitude (rather than skills), and upskilling in-house.

- **Capital** - The levels of capital available to start-ups in Australia continues to rise, with fintechs securing the most funding of any category in FY18 and average annual capital raised trending upwards. The introduction of equity crowdfunding and other platforms has opened up new avenues for early stage fintechs to raise seed capital.

- **Demand** - Growing demand is being driven by Australia’s improving digital infrastructure and strong consumer appetite for digital financial services. Most fintechs believe the key reason that customers choose their products or services is because they offer “more effective solutions” to their customers and they have a “seamless user experience”.

  The EY Global Adoption Index backs this up, with Australians rating “ease of setting up an account” as their No.1 driver of adoption.

- **Policy** - Supportive policy changes have also assisted fintech growth. Sentiment towards the government is getting more positive as the pending Open Banking regime promises to reduce the cost of acquiring customers. However, fintechs are still crying out for the R&D tax incentive to be made more accessible, seeing this as the top initiative for government to support the industry’s growth. They are also asking for a more flexible regulatory sandbox environment, additional launchpads to support entry into overseas markets and skilled migration visas.

- **Environment** - Fintechs remain lean, requiring strong supports networks beyond the founders. Hubs and accelerators are seen as important to future success, even though half of our participants have never used a shared workspace. Those who do use hubs are highly positive about the experience, especially the potential for sharing ideas and collaboration with other co-located organisations in the hub.

Despite the prospect of overseas competitors entering the market, Australian fintechs believe they have a home-ground advantage and are positive about the industry’s outlook. They are also bullish about their own overseas expansion prospects, looking first to the UK, US and then Asia.

The overwhelming impression is of a rapidly maturing industry, that, given the right government support, has huge potential both here in Australia - and in other jurisdictions. But it will require continued effort on the part of all ecosystem players - government, incumbents and fintechs themselves - for our national industry to realise its potential.
Introduction

About the research

Background

FinTech Australia was founded in March 2016 and is the peak body for fintech organisations in Australia. The board of FinTech Australia focuses on four major streams of activity on behalf of its members: advocacy, support, promotion and connection.

As part of this charter, and in recognition of the growing and dynamic nature of the fintech industry, FinTech Australia identified the need to profile the organisations currently operating in Australia to provide definition for the sector.

Drawing on EY deep experience in fintech, coupled with the knowledge/experience of the EY Sweeney research practice, EY teams have been commissioned to conduct the Census of fintechs in Australia over the last three years. This year, a broad research program was set in place in collaboration with a FinTech Australia steering committee. The research was conducted between August and September, 2018.

This report presents the key findings, offering a powerful platform for FinTech Australia when engaging with members, stakeholders, commercial partners, regulators and government departments.

A dedicated website providing further access to the data and insight from EY fintech professionals can be accessed here.

Methodology

1. Quantitative research: 151 online surveys
   - 15 minute online survey
   - Conducted with people currently working in the fintech industry
   - 52% of participants were founders of fintech companies, 47% were CEOs and 24% were heads of functional areas
   - A mix of members and non-members of FinTech Australia
   - Contact lists provided by FinTech Australia

2. Qualitative Research: 12 interviews
   - Short interviews at Melbourne and Sydney hubs
   - Conducted with fintech leaders

3. Other EY fintech reports
   In particular, the following EY reports have been referenced in this Census report and the microsite:
   - The EY ASEAN FinTech Census 2018
   - The EY FinTech Adoption Index 2017
   - UK FinTech Census 2017
The Australian fintech landscape
Fast facts: Sector profile 2018

Business base

Sample size by state

<table>
<thead>
<tr>
<th>2018 (n=)</th>
<th>2017 (n=)</th>
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<tbody>
<tr>
<td>NSW</td>
<td>83</td>
</tr>
<tr>
<td>VIC</td>
<td>38</td>
</tr>
<tr>
<td>QLD</td>
<td>18</td>
</tr>
<tr>
<td>WA</td>
<td>6</td>
</tr>
<tr>
<td>SA</td>
<td>3</td>
</tr>
<tr>
<td>ACT</td>
<td>1</td>
</tr>
<tr>
<td>TAS</td>
<td>0</td>
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Age of company (excl. didn’t answer)

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<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>36%</td>
<td>21%</td>
</tr>
<tr>
<td>2 to 3 years</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>&gt; 3 years</td>
<td>20%</td>
<td>31%</td>
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Company stage

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<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Pre-revenue</td>
<td>43%</td>
<td>29%</td>
</tr>
<tr>
<td>Post-revenue</td>
<td>57%</td>
<td>71%</td>
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Number of employees (median)

- 8 Full-time
- 2 Part-time

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

- Retail consumers: 42%
- Sophisticated investors: 21%
- SME and / or other start-ups: 41%
- Corporate: 42%
- Banks and other FSIs: 44%
- Government: 16%
- Other: 15%

Type of fintech (multiple response)*

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
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<tbody>
<tr>
<td>Payments, wallets and supply chain</td>
<td>24%</td>
</tr>
<tr>
<td>Wealth and investment</td>
<td>23%</td>
</tr>
<tr>
<td>Data, analytics and information management / Big Data</td>
<td>21%</td>
</tr>
<tr>
<td>Lending</td>
<td>19%</td>
</tr>
<tr>
<td>Business tools</td>
<td>14%</td>
</tr>
<tr>
<td>Insurance / InsurTech</td>
<td>11%</td>
</tr>
<tr>
<td>Marketplace-style or peer-to-peer solution</td>
<td>10%</td>
</tr>
<tr>
<td>Regtech</td>
<td>9%</td>
</tr>
<tr>
<td>Asset management and trading</td>
<td>8%</td>
</tr>
<tr>
<td>Block chain / Distributed ledger solution</td>
<td>7%</td>
</tr>
<tr>
<td>Digital / Crypto currencies and exchanges</td>
<td>6%</td>
</tr>
<tr>
<td>Identity, security and privacy</td>
<td>5%</td>
</tr>
<tr>
<td>Challenger / neo bank</td>
<td>5%</td>
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Note: *Responses below 5% in 2018 are not shown
The Australian fintech landscape

The Australian Fintech Industry continues to expand and mature. In this third edition of the EY Fintech Australia Census, we see an industry that has evolved markedly in a short space of time, from one that lacked definition and structure to one that is re-shaping the provision of financial services in Australia. Underpinning the growth of the industry has been the development of a robust national ecosystem that is helping fintech start-ups realise their ambition. Importantly, it’s now a national eco-system with early signs that this will start to push out to some regional areas.

In our conversations with the founders of many leading and emerging fintech players, we saw much greater confidence than in previous years. What was once in the fringe of the financial services industry is now in the mainstream. The confidence is a function of:

- The scale of the industry
- Increased access to capital from local and international sources
- The level of support delivered through corporate and government partnerships
- Efforts of FinTech Australia in policy advocacy to drive fintech-friendly changes to existing financial services regulation
- Enhanced governance to ensure coherence in the interests of Australia’s diverse fintech companies

The outlook is positive and bullish.

The number of fintechs operating in Australia is now approaching 700\(^1\). More than anything, the scale of the industry underlines its significance in the overall financial services industry and its growing importance to the Australian economy - as recognised by the current Prime Minister, Scott Morrison, when he was treasurer.

Overlaid on the base number of players in the fintech industry are a number of other critical dimensions that reflect the way it is maturing and how the landscape is being defined...

- The breadth of the industry... The broadening of the fintech industry is one of the key findings from this year’s Census. When FinTech Australia was formed in 2016 and the first Census was conducted, it showed a nascent industry that was quite narrow in scope, with a focus on areas such as lending, personal finance and asset management. Today, we see an industry that continues to evolve and broaden its reach, with companies active in areas such as payments, wallets and supply chain, wealth and investment, and data and analytics. The areas of InsurTech (extract on pages 34 and 35) and Regtech have emerged through active grassroots organisations and, in the case of Regtech, active involvement from the regulators to support the merging companies. We have also seen the emergence of adjacent verticals - Agtech, Healthtech - which are often co-located in the same innovation districts enabling the crossover of ideas, talent and enthusiasm.

\(^1\) Source: https://australianfintech.com.au/directory-all/

What is Fintech?

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

EY definition of fintech

“Australia’s fintech industry has seen strong growth over the last few years. With the increase in the breadth of the industry along with changes to the regulatory landscape we’re sure to see further growth in the industry.”

Alan Tsen, Chair, FinTech Australia
The profile of the next wave... As the industry continues to expand, we now have fintech companies that are well-established and successful. In fact, this year’s Census showed that 68% are at the post revenue stage (slightly down on 2017) and, of these, 83% believe their company will grow in revenue in the next 12 months. These organisations are the bedrock of the fintech industry. However, we also found a diverse number of new organisations that are big on ambition, but comparatively fragile given their early stage of development. This spectrum of organisations is an important dynamic, requiring different types of support and engagement to help organisations reach their potential.

The consumer uptake... In the past two Census reports, we spoke about the need for increased consumer demand to underpin fintech industry growth. This year, we are moving beyond this as the Census revealed substantial demand for fintech, as evidenced by 1 in 5 fintechs reporting that they are profitable (up from 1 in 7 last year). Instead, we are focusing our attention on the change in distribution models and how this shaping the industry.

Since last year’s Census, there has been a marked change in fintechs stating that they have a “B2C-only” model (down 9%). This is offset by the rise of fintechs using the “B2B” and “B2B-2C” models with total share rising to 80%. These firms report that they are distributing more via “SME and other start-ups” (up 6%) and also via “corporates” (up 9%). We have concluded that business and distribution models are increasingly focused on filling innovation gaps for other entities, rather than the costly and lengthy process of building end-customer adoption. A number of the fintechs interviewed also said their solutions are being sought after by other fintechs / start-ups.

The story of the Australian fintech landscape is more than just the story of the players within it as there has been more happening in financial services in and around fintechs than we have seen in the past two years. As the report unfolds, it is worth reflecting on the breadth of what is going on.

We see four main dynamics at play...

Open Banking... In one of the more significant changes for financial services consumers, Australia announced it will follow the UK’s lead and legislate the Consumer Data Right starting with the major four banks in 2019. As this pivotal change comes into play and consumer data becomes accessible to trusted third parties via APIs, it will represent more than a step change for many fintechs as it levels the playing field. However, questions remain over whether consumers will be prepared to share data with fintechs, highlighting the importance of getting security right. Lessons from the UK uptake are being closely scrutinised.

“Australia is taking a leading position globally with implementation of Open Banking as the first step in the Consumer Data Right. The key lesson to be learned from other jurisdictions is that “build it and they will come” will not suffice; Consumer education on the benefits and security of the system must be addressed early.”

Meredith Angwin, Partner, Financial Services, EY Australia
Trust deficit and the Royal Commission... Consumer trust in major financial institutions has been declining in Australia for a number of years. The Hayne Royal Commission\(^2\) has solidified this decline. It has been an intense, if not traumatic, experience for many, including the major institutions, as their integrity and honesty has been questioned. The negative sentiment and disapproval in the community is real. As consumers have learned of the misconduct and poor treatment of often loyal customers, their level of cynicism has deepened.

Those leaders interviewed for this report stated that the Royal Commission will be a “net positive” for fintech enterprises in Australia in the medium term. The sense is that the trust deficit creates an opening for fintechs, with the challenge to ensure that their brand is seen as separate from the incumbents. There is also a sense that the Commission’s findings will slow the innovation focus for the next 12 to 18 months as the industry digests the impact of the recommendations that will be announced in early 2019. As one founder said: “It’s a great opportunity for fintech to grab consumer mindshare and differentiate our risk-based innovative lending models.”

Collaboration and partnership potential... Since the first edition of the Census, major institutions have invested substantially in fostering internal innovation and actively engaging with fintechs. However, the fintech community remains frustrated about the extent to which this is actually being realised. Almost half of the respondents nominate “building partnerships with banks and other financial institutions” as their main external challenge. Three years on, with little change, this is being viewed as disappointing. Many fintechs report that the major financial services organisations remain difficult to engage with and slow to act. Some talk of having “hit a wall”. While the Royal Commission is believed to have tempered incumbents’ innovation focus as the spotlight is now on risk mitigation, the apathy is believed to be driven by broader and more entrenched factors. The fintechs interviewed said common barriers included: coming up against the internal “walls” driven by legacy structures and mindsets; and “show me where you have implemented this before” procurement processes that disadvantage start-ups.

As one fintech founder interviewed explained: “we took part in an incumbent innovation challenge, we won and part of our prize was an introduction to the head of the internal department where our solution could help. He was quite clear when we met that he was not interested in what we had to offer saying, ‘I am only here because I was told to be’. Not the prize we were expecting!”

The question is, will this attitude drive some Australian domiciled fintechs overseas to countries where the level of support from traditional players may be greater? If so, the UK appears to be seen as the most attractive offshore destination.

\(^2\) Source: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Interim Report 28 September 2018
Australia’s place in the regional fintech landscape... The global momentum in fintech continues, with Asia at the centre of this investment and innovation. Australia is well placed to take advantage of this as Alan Tsen, Chair of FinTech Australia, reflected recently: “As part of the fastest growing region in the sector, Australia has the potential to be a regional hub for the next phase of growth for the industry. In fact, there is a perfect storm brewing in Australia for the fintech sector, with changes to the regulatory landscape, growing acceptance by consumers of new and innovative financial service offerings. All this is set against an industry that has not adapted well to ‘software eating the world’.”

While optimism for the future is clear, Australian fintechs face significant competition as they build within our own shores and push into close neighbouring markets. The success of China’s fintech sector is having a positive impact on the region, and Australia is well positioned to gain from this in the coming 1-2 years. While China tends to dominate the fintech conversation, activity is hotting up in other Asian markets, especially Japan and Malaysia. With the support of Austrade, Australian fintechs are exploring opportunities to expand and develop partnerships in these areas.

Overall, it is clear that Australia’s fintech industry has matured and become more sophisticated. The ecosystem around the industry is more established and it is structured to better enable success. Fintech founders and management teams are optimistic about the future, with 56% agreeing that the Australian fintech environment is conducive to growth.

However, success of the Australian fintech industry compared to global peers will be predicated on the extent to which all five pillars on the fintech ecosystem (talent, capital, demand, policy and environment) are supported by the broader / mainstream financial services industry, State and Federal Governments and other stakeholders.

The opportunity for fintechs to not just be a success in Australia but to have a major impact globally is profound, provided the commitment is there.

“The outlook for Australian fintechs is really the outlook for global fintechs. Creating an environment in Australia that encourages globalisation and makes that growth accessible is the next frontier.”

Emma Weston, Deputy Chair
FinTech Australia and CEO and Co-Founder, AgriDigital

Source: http://www.startupdaily.net/2018/10/perfect-storm-fintech/
Drivers of success
Drivers of success

Commercial success is the holy grail for fintech organisations, which aspire to have a major impact in the specific segment of the financial services market in which they operate. Alongside profiling the fintech sector in Australia, a key area of focus for the annual Census is on identifying the main factors that will underpin success for a fintech and the challenges potentially confronting fintech leaders.

We explored this topic from a number of angles, including ranking the main internal and external challenges. What emerged underlines the complexity inherent in launching a successful fintech, with a range of forces potentially conspiring against founders. Our findings also throw a spotlight on where those working to support the sector can focus to set in place the right infrastructure and conditions to maximise success.

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 impact on fintechs - either at an industry-wide level, or from an individual firm perspective. We have isolated these factors as the discussion around the drivers unfolds over the coming pages.
1 Talent

The people side of starting and successfully running a fintech organisation was again one of the most challenging aspects for firm leaders. Even those at the more established and mature end of the spectrum reflect on the talent challenge.

As we have seen in previous editions of the Census, Australia’s fintechs are predominantly lean businesses with a median of 10 employees, slightly up from 8 last year. Given the nature of the industries in which they operate and their focus on success, the pressure on those at the top is significant.

The profile of fintech leaders remains consistent with:
- 81% of fintechs being founded exclusively by males, although we did see a growing list notable female founders making their mark
- Leaders being highly educated (55% postgraduate; 32% undergraduate)
- Founders / CEOs starting an average of 1.9 fintech businesses

Fintech leaders are often highly experienced financial services professionals. They have a background in the category - many from within major institutions - so they know how the industry works. It’s often thought that digital start-ups are the domain of young 20-somethings with enthusiasm offsetting industry experience. However, in the case of the fintech industry, the average age of a leader is 41.

Even though founders have experience and vision, one of their most significant challenges is to attract and retain the right calibre of staff.

In terms of this battle for talent, we observe:
- **Limited start-up talent pool in Australia...** Half (50%) of fintech leaders agree Australia lacks experienced start-up and fintech talent. Attracting suitable or qualified talent is the top internal challenge that they face this year (45% overall and 57% of those trying to scale up and with fewer than 10 employees).
- **Diversity improving...** The employee profile of fintechs operating in Australia continues to show a marked gender imbalance. However, the proportion of females employed at fintechs has been gradually increasing over the last three years, growing from 22% in 2016 to 28% in 2018. While this is a positive shift, those who took part in the research and the industry in general recognise that more needs to be done, with FinTech Australia actively working to address the skew.

Asked how we can improve participation of women in the Australian fintech industry, members of the fintech community suggest: encouraging young women to follow STEM career paths (25%); changing company culture / policies (11%); and promoting awareness of the industry to women (11%).
The return of global talent... Many of those who have been in the industry since its inception talk of the increase in interest from ex-pat Australians returning to the local industry. This return of global talent is important at a number of levels. First, it brings international financial services and fintech experience back into the local market. Second, and most importantly, it brings connection to influencers and business leaders in international markets—a major benefit to local fintech seeking offshore expansion.

Specific profiles more challenging... Of those fintechs that struggle to attract qualified or suitable talent, the majority report difficulties finding engineering / software expertise (77%), design and user experience (36%, up from 24% last year) and sales (33%, although down from 41% in 2017). The issue around attracting specific talent, particularly in engineering / software, will become more pronounced as some of the comparatively newer areas of fintech, like those underpinned by AI and machine learning, gain momentum and grow. This is a challenge for all digital organisations and it will continue into the future.

A shift in recruitment... The main way fintechs recruit talent is still through referrals via founders and other employees. However, this has been gradually decreasing as a method over the last three years. Accessing recruitment agencies is gradually increasing (20% this year) and decreasing the need for network related referral. This reflects a maturing industry with a greater number of players and an expanding talent pool.

Culture vs. deep skills and start-up experience. Long-time fintech industry participants noted that while start-up recruitment is very active, expectations of the skills and experience being requested may be somewhat unrealistic. It may be that fintechs need to temper their requirements, and take a long-term view, looking for the right type of people who can upskill and grow with the organisation as it scales—rather than look directly for people with all the right skills. “Start-ups are no different to larger organisations, the culture and the team ethos are just as important, maybe more so than having the best technical skills on the planet” one industry leader commented.

“It's fantastic to see such a positive increase in women working in the Fintech industry. However the industry won't fully see the benefits that a diverse workforce brings until 100% of the population's talents are realised. This is, and will remain, a core focus and priority for FinTech Australia.”

Dr Carla Harris, Board Member, FinTech Australia and CEO and Co-founder Longevity App
## Fintech leader profile 2018

### Gender
- 81% of fintechs have all male founders
- Average founder age: 41 yrs
- Yes: 52%

### Founder
- Average founder age: 41 yrs
- Yes: 52%

### Highest level of education (fintech founders / CEOs)
- 55% Post graduate
- 32% Undergraduate
- 6% High school
- 6% Vocational certificate

### Number of start-ups founded / started by fintech founders / CEOs
- Average: 1.9
- 34% 0
- 26% 1
- 34% 2
- 0% 3+

### Current role
- CEO: 47%
- Head of a functional area: 24%
- CTO: 5%
- Support role: 2%
- Other: 4%

### Work status
- 93% Work full-time
- 5% Work part-time
- 1% Work on a casual basis
- 1% Studying part-time
- 6% Studying part-time
- 0% 1
- 2% 2
- 3+ 3
2 Capital

Capital is the lifeblood of fintech start-ups. The most successful are characterised by their ability to both raise funds and then manage burn rate each month. In terms of capital raising and managing expenditure, the 2018 FinTech Census found:

- **Increased Capital Available in Australia...** The levels of capital available to high-growth businesses in Australia continue to rise. In FY18, the financial year saw the fintech sector recording 111 fund raisings*, with an average value of just under $9m. In fact, according to Techboard’s Australian start-up funding report: “Fintech companies featured very prominently in the report, accounting for $988m of funding events over the financial year, making Fintech the most funded category of companies overall”. The evidence shows that the ability of fintechs to raise greater amounts of capital is increasing overtime.

- **Mixed capital raising success...** Although successfully funded fintechs (51%) far outnumber those that fail to raise capital (4%), or couldn’t raise what they desired (4%), this doesn’t account for organisations that may not be in existence anymore. Views in this Census were primarily collected from existing fintechs, skewing to organisations that were successful in capital raising. Fintechs that have managed to access commercial funding are more likely to have raised the amount of capital required.

- **Increased Average Raisings...** Of those fintechs that have successfully raised capital to date since their inception, on average each has raised $4.5m. This is an increase on what was seen in the last two years ($3.9m in 2016 and $4.1m in 2017), reflecting the maturing industry. Fintechs in existence for three or more years have on average raised $5.95m of capital to date, compared with $1.8m for younger fintechs. If we look specifically at the last round of capital funding, we see a gradual average increase over the last three years ($3.01m in 2016, 3.02m in 2017 and $3.20m in 2018).

- **Private funding dominates...** As we saw in the prior two years, most fintechs in Australia have received private funding (70%). Six in ten (63%) also accessed commercial funding and on average have raised $5.1m in capital. This is greater than the average amount of $3.4m raised by fintechs that exclusively accessed private funding.

The source and type of funding has been varied, with a significant amount of debt funding being made available by non-banking lending companies, as well as the emergence of the Initial Coin Offering (ICO) as an alternative funding option. The sector has seen a slight decrease in activity from corporate venturing versus from other private sources (including other venture capital firms). The ongoing strength of private funding rounds highlights continuing investor appetite to support the fintech sector.

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*The 111 fund raisings included two companies that raised very large sums of capital in FY18. The Techboard relies on the community to report deals.
Alternative funding access begins... Changes in the funding landscape through the introduction of equity crowdfunding and other wholesale platforms has opened up new avenues for early stage fintechs to raise seed capital. This has risen due to legislation changes over the past 18 months that have been welcomed by fintechs and investors.

Post revenue stable... While a relatively high proportion of new participants joined our research this year, the results still show that a similar proportion to last year are "post revenue" (57% in 2016, 71% in 2017 and 68% this year).

Realising profit... One in five (19%) fintechs are currently profitable, marginally higher than 14% of fintechs that were profitable in prior years. Of those that have not started to realise profit, their current burn rate is on average $121k a month. This has gradually been increasing over the last two years ($84k in 2016 and $115k in 2017).

Managing burn rate... Average burn rates are particularly high among fintechs that have received funding to scale up their business, with the increased burn rate reflecting the maturing of Australian fintechs. While 32% of fintechs have a monthly burn rate in excess of $100k, the majority of these businesses are skewed towards larger, more funded fintechs that have raised more than $10m in capital to date.

"Australia continues to be a robust environment for investing in fintech businesses, with a number of funds exclusively focused on the sector. This reflects the strong appetite of investors and also the quality of fintech companies coming through the ecosystem. I expect the quantum of investment in fintech to increase in line with the overall rise of venture capital funding in Australia."

Melissa Widner, General Partner, NAB Ventures

"Since we began investing at the start of 2014, the range of investible fintechs has increased significantly, and with that has come an increasing awareness and interest from the broader Australian VC market, which is also expanding rapidly. This is a testament to the quality of entrepreneurs and teams we are now seeing in the sector as well as the expansion of fintech beyond the initial wave of B2C fintechs into an array of B2B ventures that are driving improvements and efficiencies into the finance stack through the application of AI, blockchain and other emerging technologies."

Simon Cant, Managing Partner, Reinventure
Demand continues to grow for fintech services. Leaders within the industry observed that the fintechs who focus “relentlessly on customer experience while solving a consumer need or want” and “establish network effect through effective partnerships” have been the most successful to date. The two-time Fintech of the Year award winner – Afterpay – is cited by those interviewed as the “Aussie fintech that is relentless in its focus on consumer adoption”.

The growth in fintech reflects the way Australians embrace digital solutions. Australia has one of the highest levels of usage of smartphones in the world (88%) and high usage of digital banking solutions.

Overlaid on this, Australia has a continually improving digital infrastructure with the roll-out of the National Broadband Network and the soon to be launched 5G mobile network. A comprehensive and cohesive digital infrastructure is critical as it will see Australians continue to use digital solutions, including those in the world of financial services.

In EY most recent Global FinTech Adoption Index, we saw China dominate the rankings (69% adoption), with Australia ranked 5th (37% adoption). The next round of this study will be released in late 2018. We expect to see the Australian level of adoption climb as a function of the:

- Market presence and mainstream standing of some of the higher profile fintechs
- Continued strong embrace of digital solutions by Australians
- Broadening of the fintech offer into InsurTech, data and analytics, robo-advice and cryptocurrencies
- Greater uptake of fintech by older generations of Australians
- Roll-out of Open Banking
- Gradual maturing of blockchain solutions

Census data shows the majority of fintechs believe the key reason that consumers or businesses access their products / services revolves around offering customers “more effective solutions” and having a “seamless user experience”.

While fintech usage continues to grow, one of the core challenges for organisations operating in Australia is the “cost of customer acquisition”. This was cited as a key challenge by one in two fintechs involved in the research.

Understanding the drivers and barriers to fintech use was studied in the most recent FinTech Adoption Index for Australia and globally. As shown on the following page, the major barriers to adoption are consumer awareness of fintech services, followed by a preference to stay with the traditional financial services institutions. The drivers of adoption in Australia are consistent with the global average and the Census results with “ease to setup account” and “24/7 access to services” the top 2 reasons. Trust – either as a driver or barrier – was not reported as a significant factor. It will be interesting to see if trust becomes a factor in a post-Royal Commission world.

*Belgium and Luxembourg
**Hong Kong SAR of China
Notes: The figures show FinTech users as a percentage of the digitally active population. All figures are shown in percentages.
The EY global fintech adoption index

<table>
<thead>
<tr>
<th>Australian and global drivers of adoption (%)</th>
<th>Australia and global barriers to adoption (%)</th>
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<tbody>
<tr>
<td>Easy to set up an account</td>
<td>Was not aware they existed</td>
</tr>
<tr>
<td>Access to services 24 hours a day, 7 days a week</td>
<td>Prefer to use a traditional financial services provider (e.g., bank, insurance)</td>
</tr>
<tr>
<td>More attractive rates / fees</td>
<td>Did not have a need to use them</td>
</tr>
<tr>
<td>Access to different products and services</td>
<td>Don't understand how they work</td>
</tr>
<tr>
<td>Better online experience and functionality</td>
<td>Don't see the advantage of fintechs over traditional services</td>
</tr>
<tr>
<td>Better quality of service</td>
<td>Do not trust them</td>
</tr>
<tr>
<td>More innovative products than available from traditional financial institutions (e.g., banks or insurance companies)</td>
<td></td>
</tr>
<tr>
<td>Greater level of trust than with traditional institutions</td>
<td></td>
</tr>
</tbody>
</table>

- Easy to set up an account: 27% (Australia), 30% (Global)
- Access to services 24 hours a day, 7 days a week: 17% (Australia), 16% (Global)
- More attractive rates / fees: 16% (Australia), 13% (Global)
- Access to different products and services: 16% (Australia), 17% (Global)
- Better online experience and functionality: 9% (Australia), 8% (Global)
- Better quality of service: 7% (Australia), 8% (Global)
- More innovative products than available from traditional financial institutions (e.g., banks or insurance companies): 6% (Australia), 7% (Global)
- Greater level of trust than with traditional institutions: 1% (Australia), 2% (Global)
- Was not aware they existed: 19% (Australia), 14% (Global)
- Prefer to use a traditional financial services provider (e.g., bank, insurance): 10% (Australia), 10% (Global)
- Did not have a need to use them: 10% (Australia), 10% (Global)
- Don't understand how they work: 10% (Australia), 8% (Global)
- Don't see the advantage of fintechs over traditional services: 8% (Australia), 6% (Global)
- Do not trust them: 4% (Australia), 5% (Global)

“Australians are adopting fintech services and solutions and this will continue to gain momentum. The fintech industry, supported by government, needs to build consumer awareness of the range of services that fintech provide and how they are secured and regulated.”

Tim Coyne, Partner, Financial Services, EY Australia

4 Policy

Policy, regulation and broader government support are fundamental dimensions in creating a healthy and sustainable fintech ecosystem. Over the past 12-18 months, significant policy changes have impacted fintechs positively, including:

- Equity Crowdfunding
- Comprehensive credit reporting (CCR) expansion
- Double GST removal from digital currency transactions

Compared with three years ago, a very positive fintech environment has emerged due to supportive government initiatives and effective and consistent industry advocacy. In keeping with previous years, we explored a wide range of potential growth initiatives with interviewees. Those considered most effective in the eyes of Australian fintech start-ups are listed below.

**Tax tops the list again**

Tax related initiatives are again considered the most effective initiatives to grow and promote the fintech industry in Australia.

Nine in ten (87%) of those who took part in the Census agree that the top effective growth initiative is to “make the research and development tax incentive more accessible to start-ups”, followed closely by “reduced taxes, such as payroll taxes, which apply when hiring employees” (85% effective) and “Capital gains tax relief for tech start-ups first incorporated in Australia” (82% effective).

**Access to Open Bank Data**

Not surprisingly, the “Implementation of Open Banking” is next on the list, considered effective by four in five (85%) of those interviewed.

Open Banking will be launched in July 2019 as the first step of the Consumer Data Right (CDR) implementation. This will permit consumers of the four major banks to allow other financial companies and third parties access to their banking information, initially in read-only mode and for limited information. But this will expand over time. Open Banking is a long-anticipated regulatory change that will help to address one of the main challenges identified by fintech leaders – the cost of acquiring customers and the ‘effort’ required to switch and be on-boarded. Open Banking levels the playing field. Most fintechs (74%) believe that providing more transparent access points for fintechs to connect to the New Payments Platform is one of the top effective industry growth initiatives, down from 82% last year. This reveals that fintechs are unconvinced about the ease of access to this infrastructure.

“FinTech Australia has been successful in working with policy makers, regulators and its members to achieve substantive changes like CCR for equity crowd funding. This has opened competition and customer choice as well as creating opportunities for further innovation in the financial services landscape.”

Rebecca Schot-Guppy,
Head of Strategic Partnerships,
FinTech Australia
Drivers of success

Potential growth initiatives

Make the research and development tax incentive more accessible to start-ups

- Very effective: 60%
- Fairly effective: 28%
- Not very effective: 9%
- Not at all effective: 3%

Net effective 2018: 87%
Net effective 2017: 87%
Net effective 2016: -

Implementation of Open Banking

- Very effective: 48%
- Fairly effective: 38%
- Not very effective: 8%
- Not at all effective: 7%

Net effective 2018: 85%
Net effective 2017: -
Net effective 2016: -

Capital gains tax relief for tech start-ups first incorporated in Australia

- Very effective: 52%
- Fairly effective: 30%
- Not very effective: 13%
- Not at all effective: 5%

Net effective 2018: 82%
Net effective 2017: 85%
Net effective 2016: 87%

Reduced taxes, such as payroll taxes, which apply when hiring employees

- Very effective: 50%
- Fairly effective: 35%
- Not very effective: 11%
- Not at all effective: 4%

Net effective 2018: 85%
Net effective 2017: 83%
Net effective 2016: -

Make the research and development tax incentive more accessible to start-ups

- Very effective: 60%
- Fairly effective: 28%
- Not very effective: 9%
- Not at all effective: 3%

Net effective 2018: 87%
Net effective 2017: 87%
Net effective 2016: -

A cross-industry solution to share know-your-customer and identity validation information

- Very effective: 36%
- Fairly effective: 39%
- Not very effective: 19%
- Not at all effective: 5%

Net effective 2018: 75%
Net effective 2017: 75%
Net effective 2016: -

Easier access to skilled migration visas to be able to hire new employees

- Very effective: 34%
- Fairly effective: 41%
- Not very effective: 16%
- Not at all effective: 9%

Net effective 2018: 75%
Net effective 2017: 67%
Net effective 2016: -

Removing barriers to the creation of new banking licences

- Very effective: 32%
- Fairly effective: 42%
- Not very effective: 18%
- Not at all effective: 7%

Net effective 2018: 75%
Net effective 2017: 81%
Net effective 2016: -

Opportunities to pitch for Government tenders and projects

- Very effective: 30%
- Fairly effective: 37%
- Not very effective: 26%
- Not at all effective: 7%

Net effective 2018: 67%
Net effective 2017: 58%
Net effective 2016: 61%

An expanded and more flexible regulatory sandbox environment

- Very effective: 27%
- Fairly effective: 42%
- Not very effective: 26%
- Not at all effective: 5%

Net effective 2018: 69%
Net effective 2017: 78%
Net effective 2016: -

More transparent access points for fintechs to connect to the New Payments Platform

- Very effective: 26%
- Fairly effective: 47%
- Not very effective: 23%
- Not at all effective: 4%

Net effective 2018: 74%
Net effective 2017: 82%
Net effective 2016: -

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

- Very effective: 24%
- Fairly effective: 46%
- Not very effective: 25%
- Not at all effective: 6%

Net effective 2018: 70%
Net effective 2017: 64%
Net effective 2016: 64%

Creation of more referral agreements between ASIC and Regulators in other markets

- Very effective: 24%
- Fairly effective: 40%
- Not very effective: 26%
- Not at all effective: 9%

Net effective 2018: 64%
Net effective 2017: 57%
Net effective 2016: 66%

Creation of more Government Launchpads in other overseas markets

- Very effective: 20%
- Fairly effective: 40%
- Not very effective: 28%
- Not at all effective: 12%

Net effective 2018: 60%
Net effective 2017: 54%
Net effective 2016: 56%

A government-supported digital sovereign currency (i.e. a Digital Australian Dollar)

- Very effective: 9%
- Fairly effective: 25%
- Not very effective: 41%
- Not at all effective: 26%

Net effective 2018: 33%
Net effective 2017: 40%
Net effective 2016: 41%

It is no surprise that R&D Tax tops the list again as it provides vital support for our growing industry. What we want to see in the coming 12 months is further action to address the issues already raised by start-ups.”

Tim Dean, Board Member, FinTech Australia & Founder & CEO, Credi

Base: n=151 (All respondents)
Q26a. How effective do you believe each of the following initiatives might be for growing and promoting the Australian fintech industry?
Licensing / sandboxes

As fintech start-ups move forward with their technology solution, ASIC licences are an important part of their go to market strategy.

- **Licence uptake...** Two in three (66%) fintechs surveyed do not currently have one of the three key ASIC licences (financial services licence, credit licence or market infrastructure licence). The introduction of a restricted banking license by APRA late last year has paved the way for the rise of local neo banks to challenge incumbents.

- **Regulatory sandboxes...** The Census data shows that seven in ten (69%) fintechs believe an expanded and more flexible regulatory sandbox environment would be an effective initiative. The data also shows that only 2% of Australian fintechs currently use an ASIC regulatory sandbox, with 5% intending to use this in the next 12 months (down from 9% last year). At the time of writing, ASIC is in consultation with a cross section of fintech participants on how to improve the effectiveness of the sandbox to meet their developing needs.

Access to international markets

This year, the results reveal increased interest in government initiatives focussed on supporting overseas market entry. This includes support for programs to access existing Launchpads (70%, up 6%) and creating new ones (60%, up 6%), and furthering ASIC’s work in creating referral agreements between markets (64%, up 7%).

Talent

As discussed earlier, sourcing the right calibre talent is one of the key challenges for those running fintechs in Australia. Accordingly, three-quarters of those interviewed (75%) believe that “easier access to skilled migration visas to be able to hire new employees” would be effective. This has increased since last year and is likely to be driven by ongoing changes to migration schemes.
The regulatory environment is one of the more challenging areas for fintechs as often policy can’t keep up with the pace of change in the industry.

Fintech Industry leaders reflect on the role that FinTech Australia and some of the early fintech founders have played in shaping today’s landscape.

**CASE STUDY**

**The positive impact of the FinTech Australia trailblazers**

The over three year process to legislate for equity crowdfunding in Australia has seen startup competitors, supported by FinTech Australia, come together to push the whole industry forward. When we founded Equitise we were driving growth in New Zealand while we helped get the change we needed in Australia. Now Australians can invest in private and public startups and small businesses and we only need to look to the $545 million raised last year in the UK as to the potential opportunity in the market.”

**Crowd Funding**

"The over three year process to legislate for equity crowdfunding in Australia has seen startup competitors, supported by FinTech Australia, come together to push the whole industry forward. When we founded Equitise we were driving growth in New Zealand while we helped get the change we needed in Australia. Now Australians can invest in private and public startups and small businesses and we only need to look to the $545 million raised last year in the UK as to the potential opportunity in the market.”

**Double GST on Digital Currency**

“Making Australia a world class blockchain ecosystem requires that we have a regulatory system that doesn’t stifle adoption of the new technology. Changes to the GST Act helped to reduce friction in adoption of the cryptocurrencies as a payment method and placed Australia at the forefront of this growing fintech vertical.”

**Comprehensive Credit Reporting (CCR)**

“The banking industry has been working on CCR for almost 10 years, but it wasn’t until FinTech Australia put this on the Federal Government agenda and on the public radar that we now finally have major bank participation. With CCR data, MoneyPlace has seen 90% of borrowers get a better interest rate, with fintech lenders leading the way in providing customer value in financial services.”

**Open Banking**

“Open Banking presents a huge opportunity to drive innovation in financial services and give consumers truly new alternatives. It’s critical that the design of the system and operational details strike the right balance between consumer protection and open access; FinTech Australia plays a pivotal role in ensuring that the conversation is not driven by the large banks under the guise of security.”

**Open Banking**

“FinTech Australia was instrumental in bringing together a diverse set of businesses, from among its members, to lobby government and regulators for an Open Banking and Consumer Data Right framework that was fair, equitable and conducive to innovation and competition. Whilst there is still a lot to be done, the early signs are positive for fintech businesses.”

**Crowd Funding**

Jonny Wilkinson, Co-founder, Equitise

**Double GST on Digital Currency**

Alan Tsen, Chair, FinTech Australia

**Comprehensive Credit Reporting (CCR)**

Stuart Stoyan, CEO, MoneyPlace

**Open Banking**

Tommy Mermelshayn, CEO, Zip

**Open Banking**

Peter Lalor, CEO, MoneyBrilliant
The importance of the R&D Tax Incentive

For the third consecutive year, the FinTech Census has revealed that providing better access to research and development (R&D) tax incentives is a key policy priority for fintech companies’ growth and promotion. With the majority of respondents citing accessibility of the R&D tax incentive as one of their biggest sources of funding and growth, R&D incentives and grants are often the lifeline that provides the runway for fintechs as they head towards a capital raise or a launch date.

EY 2018 Worldwide R&D Incentives Reference Guide illustrates that many countries, especially across Asia-Pacific, are expanding their R&D incentive, innovation policies and investments. The Australian Government has publicly stated that the R&D tax incentive provides critical cash flow support for start-ups who are often unprofitable in their early years. However, is this just rhetoric?

On 20 September 2018, proposed changes to improve the integrity and fiscal affordability of the R&D tax incentive were introduced in Parliament, without public tabling of the feedback from the consultative process on the Exposure Draft released on 2 July 2018. The proposed R&D tax Bill proposes significant cuts to innovation support.

A Senate inquiry has commenced into the amendments proposed by the Bill given stakeholder concerns about further complexity and withdrawal of support for R&D and innovation.

At issues is the real risk that, in a competitive global innovation race, Australia will be sidelined. Another recent EY report, The outlook for global tax policy in 2018, reveals a consistent picture of tax competition across many policy measures. But the R&D tax incentives category sees more taxpayer-supporting measures than in any of the 13 other business tax categories tracked, many targeting their incentives toward the development of digital activities where fintech’s R&D often resides.

For Australia to remain relevant and globally competitive, certainty, clarity and ease of accessibility to the R&D tax incentive is critical. R&D business spending is already lower than in many other countries—less than 1.88% of gross domestic product, compared with an OECD average of 2.38%. Fintechs tell us that R&D and innovation comes in many forms. It requires a longer term view and investment, not savings, for the future to flourish. Yet, if the proposed changes to the R&D tax incentive receive Royal Assent, we can expect further reductions in R&D business spending in Australia. This will be an uncompetitive move away from the global tax policy trend of new or more generous R&D incentives.

If the proposed changes to the R&D tax incentive receive Royal Assent, we can expect further reductions in R&D business spending in Australia.
In the fintech sector, the current Australian R&D tax incentive encourages R&D activity, creates and sustains new jobs in Australia and supports the pursuit of innovative fintech practices.

To incentivise Australian fintech’s to pursue globally leading innovation, R&D incentive compliance, administration and enforcement must not outweigh its benefits, risks or costs. The FinTech Census has validated that the R&D tax incentive is crucial for the Australian fintech community to support growth and diversification.

Current regulator scrutiny of R&D claims

R&D activities and associated expenditure are currently subject to cross-agency scrutiny by the regulators against the backdrop of recently documented R&D tax incentive cases and R&D Tax Incentive Taxpayer Alerts.

Regulators are concerned that:

- Activities are registered where they do not meet eligibility requirements for the R&D tax incentive
- Expenditure forming part of the claim may not relate to eligible R&D activities (“nexus” test)
- R&D claims are not being substantiated sufficiently by corporate governance and documentation

What should you do?

While the R&D tax incentive is a self-assessment regime, recent experience confirms the importance of preparing a well-substantiated R&D claim, maintaining appropriate levels of documentation and governance, and seeking appropriate advice from a trusted R&D tax advisor.

To protect entitlement to the R&D tax credit, fintechs should gain an understanding of the key elements needed to support the technical, legal, tax and accounting eligibility criteria and work with stakeholders to ensure strong, globally competitive and sustainable government support.

Contact the EY Government Incentives team

EY multi-disciplinary Government Incentives team can assist if you have any uncertainty about any R&D tax incentive claim, the progress of the proposed R&D Tax Bill or regulator expectations of R&D corporate governance.
Open Banking and the Consumer Data Right – and we’re off!

Comply

The legislation has been drafted, the governance bodies established, and the transformation programs are underway. Within a year, an Open Banking working regime will be in place across Australia to safely share banking information as customers authorise it.

The first tranche of participants in the ecosystem have programs underway to establish the API platforms, governance and legal frameworks, source the data, and establish security and consent solutions needed to participate. But this is just the beginning. The Australian regime will rapidly open up to new industries and participants.

Compete

EY research shows that consumers want easy-to-use banking services that help them manage their money. Open Banking lowers the barriers for fintechs to connect with potential customers, and access a full picture of a customer’s banking transaction to customise their offerings. This reduces barriers to entry, and raises the stakes as new technologies enhance pricing, risk, decisions and financial recommendations for customers.

As data becomes more available, information asymmetry is reducing. As the banking business model is deconstructed, it gives fintechs opportunities to provide unique services within the ecosystem. As the barriers to data sharing reduce through the standardised comprehensive data right environment, opportunities to overlay analytics and customer-centred propositions increase. This is good news for fintechs who are able to partner with banks to deliver these services, or who can use this as an opportunity to acquire customers more quickly.

Innovate

Following Open Banking, the Consumer Data Right regime will rapidly roll out to other industries, giving them the opportunity to share data. This opens the door to richer customer information, greater insight, heightened personalisation and enhanced customer experiences – as seen in loyalty schemes and bank partnerships in the US, US and Asia.

Already, non-financial services players are entering the market, delivering a seamless customer experience. This platform business model centres around the customer, providing banking, insurance, retail, messaging and telco services. In response, incumbent banks are ditching legacy operations and establishing new core banks to support the speed of innovation, and non-banks are deploying next generation cores to supercharge their new business line.

Fintechs will need to adapt to an environment where incumbents are becoming equally as nimble, and new non-traditional competitors have existing customer bases to convert to their new financial services businesses.

With global standards, comes global competition and global leading practices. Speed and execution quality will be a differentiator of success. Investors will be looking for fintechs’ ability to adapt to ever-changing environment.

Trust

Despite the rapid pace of change, the ecosystem must maintain customer trust. This will require everyone to meet accreditation standards, deliver on time, maintain data security, comply with customer consent terms, and use the data appropriately. As new industries adopt the CDR, they will be subject to a new level of scrutiny, and customers will expect participants to behave appropriately. Fintechs should be prepared for increased scrutiny and oversight to reflect their new power.

EY Open Banking

EY teams offer a broad range of services for Open Banking, helping clients to comply, compete and innovate at pace with the ability to scale globally.

Our Open Banking global index offers a comparison of sentiment surrounding Open Banking and its adoption around the world.

For more information, go to https://www.ey.com/en_gl/open-banking
5 Environment

Most fintech start-ups are lean operations, with relatively small numbers of staff, but a big vision. The Census underlines 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.

Again, this year, we explore the use of accelerators / incubators and co-working spaces with Australian fintechs.

- **The power of hubs...** Accelerators and incubators are considered an important contributor to the success of the fintech industry in Australia by 69% of Census participants (up from 60% in 2017). Hubs provide the fintech start-ups with important formal support, but just as invaluable is the ability to connect with others in a less formal environment. Users of hubs and co-working spaces describe the workplaces as a source of ideas, experience, insights, expertise, accommodation and support. However, they haven't cut through to all. One in two fintech start-ups surveyed (50%) have “never used a shared workspace”. In the interviews conducted with founders (majority working in Hubs), all were positive about being able to work in the space that “fosters creativity and innovation among like-minded people”.

- **Lower cap firms more reliant...** Typical usage of co-working spaces is more limited among fintechs that have raised in excess of $5m of capital to date or are more than five years old. Most of the larger firms have spent time in / around the established hubs and have graduated as they have evolved to lease their own offices, having surpassed their initial requirements for co-working spaces.

- **High usage among the converted...** Hubs are accessed on average more than twice a week, with three in ten fintechs accessing hubs between five and seven times a week. Frequency of usage of co-working spaces is higher among fintechs based in Victoria - not surprising given the creation of two fintech / innovation hubs in Victoria in the last 12 months. The co-location of existing hubs and accelerators to the Sydney Startup Hub, which includes a fintech hub and a number of technology start-up hubs and accelerator programs, has also been greeted very positively. The impact of State Governments’ supporting the creation of innovation hubs that are used, not just by fintech, but by broader technology start-ups is profound, cascading through the entire ecosystem.

As the fintech industry has evolved, fintechs have become more positive about the role of government. This year, fintech leaders were less likely to agree the Australian Government isn’t as supportive of the fintech industry than governments of some other countries (down to 45% v 60% three years ago). Clearly, the role of the government in helping to create the right environment is resonating.

“Building a strong and positive community in the fintech ecosystem is important to create a successful support network and bring people together to advocate, share knowledge and experiences.”

Bradley Delamare, CEO, Tank Stream Labs

“Building an ecosystem requires knowledge of accelerators, programs, mentors, investors, start-ups, scale-ups and the existing deep technologies. As Australasia’s largest fintech hub, we believe the key ingredient to true collaboration is ensuring that priority is given to the interests of the start-ups in the ecosystem. It is important to foster a ‘give first’ or ‘pay it forward’ mindset and behaviour on the part of those involved in the hub.”

Alex Scandurra, CEO, Stone & Chalk
Future focus
Outlook and optimism

The challenges confronting any start-up in any industry are significant, however for the third year, the Census has again affirmed deep self-belief and a bullish outlook prevailing in the industry.

Among post revenue fintechs, year-on-year revenue growth is substantial...

- Fintechs indicated median growth of 125% on their revenue from June 2017 to June 2018.
- This is driven by a segment of fintechs (27%) that have experienced growth in excess of 300%.
- Higher growth rates are also experienced by fintechs under three years in existence, reflecting their lower base start point.

The assured outlook is further emphasised when we look at perceptions around the relative competitiveness of fintechs in Australia...

- Internationally competitive... Six in ten (59%) of fintechs agree that Australian fintechs will be able to compete internationally. Thirty-eight percent agree that Australian fintech organisations will be able to ‘win’ against international peers.
- Local competition... Compared with three years ago, Census participants believe there are more “quality fintech” companies in Australia, which speaks highly of the domestic market. A new factor has emerged that impacts on competition – an increase in the number of established overseas competitors entering Australia. These pose some threats to local fintechs as they arrive with proven business models and already have traction in existing markets, boosting their speed to market.

Despite overseas players entering the market, the industry has a positive outlook, founded on a belief that Australia fintechs have a competitive advantage. As we saw in previous years, they consider the three key elements of this potential competitive advantage to be...

- Regulatory environment... Notwithstanding the revelations from the Royal Commission, Australia’s sophisticated and trusted regulation of financial services provides a solid foundation from which to develop solutions.
- Advanced financial services industry... Australia’s advanced financial services and wealth management sector delivers both commercial experience and creates opportunities.
- Access to Asia... Australia is a good starting point from which to develop export solutions – particularly in the Asia Pacific region with its proximity to capital sources from major Asian centres such as China.

“When we started in 2012, there was no fintech industry to speak of here. Fast forward to now and Australia not only feels different, but is leading the way with world class innovation. Given the regulatory changes, there is real confidence in fintech helping to shape the future of the industry.”

Katryna Dow, Founder & CEO, Meeco

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**Annual revenue growth %**

Revenue in June 2018 compared to June 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue decline</td>
<td>4%</td>
</tr>
<tr>
<td>Nil growth</td>
<td>9%</td>
</tr>
<tr>
<td>1% to 100%</td>
<td>33%</td>
</tr>
<tr>
<td>101% to 300%</td>
<td>27%</td>
</tr>
<tr>
<td>301% to 700%</td>
<td>16%</td>
</tr>
<tr>
<td>&gt;700%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Base: Companies in post-revenue stage excluding ‘prefer not to say’ (n=45)*

**Median post revenue growth**

125%

June 2018 vs. June 2017

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The rise of InsurTech

There are a number of ways in which the fintech landscape is broadening and evolving. One area in the spotlight is InsurTech.

The insurance industry is undergoing profound change. Key drivers include the changing needs of customers, a low growth market driving sustained downward pressure on margins for insurance incumbents and the rapid development of technology. Insurance incumbents recognise the need to innovate. Most executives have one or more of the ‘Big 5’ technologies on their radar: connected devices, AI and machine learning, blockchain, data analytics and platforms.

InsurTech represents a new way of creating value for insurance incumbents and insurance consumers. Its formidable force draws from a different methodology for creating products and services - one that ensures solutions are customer centric, scalable, and align to the values of today's consumer.

Insurance incumbents are responding by embracing digital technologies that help transform business models and maintain resilience. They recognise the core strengths of InsurTechs: innovative application of technology, speed to move from ideation to a proof of concept and attitude to challenge the status quo. However, many feel threatened by InsurTechs or are finding it challenging to incorporate InsurTechs into their innovation strategy while also serving existing customers and sustaining value for shareholders.

Much of what is happening in the InsurTech landscape is actually enabling the future of insurance, rather than disrupting the sector. InsurTechs are working with incumbent insurance players to challenge and test all parts of the insurance value chain. This collaboration among different players in the wider insurance ecosystem is resulting in new approach to product development and service delivery, and enabling risk management and risk avoidance rather than simply responding when incidents occur.

InsurTech Australia

InsurTech Australia is a national, not-for-profit organisation, run for the benefit of our members and partners across all corners of Australia. InsurTech Australia is a division of FinTech Australia. We are all about supporting and growing the Australian InsurTech community including InsurTech start-ups, Insurers, Hubs, Accelerators, Investors and advocating on behalf of our members and partners.

InsurTech Australia aspires to make Australia one of the world’s leading markets for InsurTech and insurance innovation. We do this by collaborating with insurers, start-ups, regulators and investors to create the best possible regulatory environment and by fostering an ecosystem of supportive partners and networks so InsurTech can thrive and grow in Australia.

InsurTechAustralia.org (https://InsurTechAustralia.org/).
EY and InsurTech Australia collaborated to produce “InsurTech: Enabler or Disruptor? An assessment of the Australian InsurTech ecosystem” earlier this year.

The key themes are summarised below.

1. A greater level of collaboration is needed between InsurTechs and incumbents.

Most InsurTechs exist to add value to the existing value chain, yet the majority of these feel that incumbent players are not doing enough to collaborate with them.

2. InsurTechs and incumbents need to identify and leverage their strengths.

When seeking partnerships InsurTechs and incumbents are very different. But, together, they have the capabilities to develop a value creation vehicle to address the dynamic challenges in the insurance landscape.

- InsurTechs – bring an iterative and customer-centric approach that ensures new products and services deliver a great user experience.
- Incumbents – bring strength in their stores of valuable data, access to customers and ability to help scaling into new markets supported by traditional underwriting capability.

3. InsurTechs are bootstrapping their ventures, with short runways.

This puts them at increased solvency risk, exacerbated by prolonged and drawn out sales cycles with B2C and B2B players. More than half of all InsurTechs have a runway shorter than 12 months. Their Top 3 external issues all relate to customer acquisition or channels to market. This confirms the need for a greater understanding and collaboration between InsurTechs and incumbent players.

4. InsurTechs need to be effective people and economic managers.

This is essential to overcome internal challenges. InsurTechs identify their Top 3 internal issues as managing capital, attracting qualified and suitable talent, and product and market Fit.

5. The Australian ecosystem is young, growing very fast and represents a great launchpad into other regions.

The average age of InsurTech in Australia is three years. 24% have raised more than $2m in capital and 40% have attracted a capital raise from overseas. 83% already operate in New Zealand and / or other overseas markets. Support from government funded programs, such as the Landing Pad Program, have contributed to this global success. Access to foreign accelerators and the general global nature of InsurTech founders have also contributed to this impressive statistic.
Global reach

When asked “How will you take your fintech global?”, one founder’s answer was simple, “Start with global scale in mind and build your business with broad market focus”. This also came through in the way many fintechs are developing their solutions, utilising cross-border teams to collaborate virtually.

More than half (54%) of the fintechs involved in the Census are intending to “expand or expand further overseas” in the next 12 months. This is consistent with last year. The main drivers of overseas expansion or relocation are better access to capital (although this is down on previous years) and easier access to talent.

The top two expansion destinations for Australian fintechs are:

- **The United States**... The US has risen to second position due to the fall of Singapore (down 10%) to the number three spot.

Two of the countries that fell in ranking are:

- Why Singapore has dropped sharply in the past 12 months is subject to some conjecture. It may be the result of Austrade’s activity in many Asian countries (e.g., Japan and Malaysia), which is broadening the fintech focus. Also, Singapore’s success as a fintech centre has created a busy marketplace, which takes time and energy to navigate.

- While holding appeal in 2017, interest in New Zealand tapered significantly this year, dropping from 19% to 7%.

Fintechs that are not considering expanding / expanding further overseas cite the following reasons.

- Business plan is currently focusing on the local market growth (54%).
- Lack of time to investigate potential overseas markets (21%).
- Happy with their current overseas expansion (21%).

“It is not all positive sentiment from founders about global expansion, with warnings that this “takes considerable time, money and resilience to make in-roads in many markets”. They recommend “developing strong partnership models with local market organisations so you can navigate the local ways of doing business.”

Future outlook

Expand / expand further overseas

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>38%</td>
</tr>
<tr>
<td>2017</td>
<td>54%</td>
</tr>
<tr>
<td>2018</td>
<td>54%</td>
</tr>
</tbody>
</table>

Among the fintechs that are looking to expand, the top four markets for expansion are...

- United Kingdom 52%
- United States 38%
- Singapore 30%
- Hong Kong 30%

“Over the past 12 months Austrade has worked with the local fintech industry to take innovative solutions to Asia and beyond; I am pleased to see fintech firms remain focused on expanding their businesses globally and see increasing value in our “Landing Pads’ program” in five global innovation hubs. Austrade is committed to supporting the fintech firms and technology start-ups more broadly to be successful internationally.”

Stephanie Fahey, Austrade, CEO
Census participants*

Advice RegTech
Advisr
AgriDigital
AirPay Financial Technologies
Alpha7
AliFi
Astute Wheel
AtlasTrend
Automagic.ai
AxeTrading
Balance Impact
Banjo
Basiq
bBillr
BrickX
Brighte
Cashwerkz
Cloudcase Software Solutions
CoinJar
Credi
Credit Simple
Cunnington & Co
CXi Software

Doshii
Edmund Insurance
EFTlab Pty Ltd
Ezypay
Fair and Square
Finactly
FlashFX
FloodMapp
Frankie Financial
FreshChain
Funda
Galaxy Crowdfunding
GBST
Get A Better Rate
GigSuper
Gobbill
Hip Money
HomeChain
Ignition Wealth
Imperium Markets
InDebted
InfraRisk
InvoiceInterchange
Iungo
Jacaranda Finance
Joust
Kada
Kasada
Labrys
Lending Advisor
Localz
Longevity App
Mapcite
Meeco
MoneyLoop
MoneyPlace
Moneytree
MyMy
myprosperity
NEXRIGHT
noobill
Novatti
OnDeck Capital Australia
OnMarket
Open Spark and PAX Technology
Optimo Financial
PayDock
Payreq
Pelikan (GOFX Group)
Pingal Technologies
Plenty Wealth
Pop Tech
Prospa
QuietGrowth
QxBranch
Radium Capital
Reckon Limited
Recovery One
Reinventure Group
RoyalPay
Rundl
SavR
SelfWealth
Sirius Cove Partners
Six Park
Skippr
Sniipt
Snug Technologies
SocietyOne Australia
Spitfire Corporation
Spotcap Australia
Stockspot
Stone & Chalk
Suite2go
Super Myway
SuperEd
Tappr
Tapview
Tier One People
Trade Ledger
Tralty
Trax Print
Troovo Technologies
USD Mint Inc
VendorPanel
Verrency
WordFlow
YBF Ventures

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

About the research

Drivers of success

The Australian fintech landscape

Future focus

Contact us

Contact us

EY

Meredith Angwin
Partner, Financial Services
EY Australia
meredith.angwin@au.ey.com

Government Incentives
Malia Forner
Director, EY Australia
malia.forner@au.ey.com

Tim Coyne
Partner, Financial Services
EY Australia
tim.coyne@au.ey.com

Open Banking
Mike Booth
Director, EY Australia
mike.booth@au.ey.com

Rowan Macdonald
Partner, Financial Services
EY Australia
rowan.macdonald@au.ey.com

InsurTech
Andy Parton
Partner, EY Australia
andrew.parton@au.ey.com

EY Sweeney

Marc L’Huillier
Partner
EY Australia
marc.lhuillier@au.ey.com

Lewis Jones
Associate Partner
EY Australia
lewis.jones@au.ey.com

Aditi Kane
Manager
EY Australia
aditi.kane@au.ey.com

FinTech Australia

Alan Tsen
Chair
FinTech Australia
alan@fintechaustralia.org.au

Rebecca Schot-Guppy
Head of Strategic Partnerships
FinTech Australia
rebecca@fintechaustralia.org.au

@ausfintech (twitter)
http://www.fintechaustralia.org.au

EY Sweeney

Marc L’Huillier
Partner
EY Australia
marc.lhuillier@au.ey.com

Lewis Jones
Associate Partner
EY Australia
lewis.jones@au.ey.com

Aditi Kane
Manager
EY Australia
aditi.kane@au.ey.com

FinTech Australia

Alan Tsen
Chair
FinTech Australia
alan@fintechaustralia.org.au

Rebecca Schot-Guppy
Head of Strategic Partnerships
FinTech Australia
rebecca@fintechaustralia.org.au

@ausfintech (twitter)
http://www.fintechaustralia.org.au

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