



**FinTechNZ REGULATORY ROUNDTABLE
DISCUSSION PAPER**

*How Government, Regulators and Industry
can accelerate the Fintech opportunity*

BRIEFING PAPER



FinTechNZ Regulatory Roundtable Discussion Paper

How Government, Regulators and Industry can
accelerate the Fintech opportunity for the
benefit of New Zealand

October 2019

This FinTechNZ discussion paper provides insights from the recent FinTechNZ Regulatory Roundtable session held in Auckland. Included are comments from the Minister of Commerce and Consumer Affairs and key observations from group discussions between senior Government, regulatory and corporate representatives.

EXECUTIVE SUMMARY

The fintech sector could provide one of the best opportunities for future economic growth in New Zealand. Whether exporting products and services abroad or improving the success of New Zealanders, New Zealand businesses and the country as a whole, it is brimming with potential. The global fintech market is expected to reach USD 305.7 billion by 2023^{*}, and fintech is the fastest growing segment of the New Zealand technology sector.

It is however a sector that is complicated, fragmented, challenging, and somewhat daunting for non-fintech entities. Regulation plays a significant role in both the financial and increasingly the technology sector, when they come together the landscape becomes even more complex.

Key areas covered were fintech's ability to contribute to the success of New Zealand as a whole and the opportunities and key challenges facing the sector in New Zealand.

*Source www.globenewswire.com/news-release/2019/04/09/1801702/0/en/Global-Fintech-Market-2018-2023-Market-Set-to-Reach-USD-305-7-billion-by-2023.html

While the way forward may not be clear, the willingness to collaborate and work towards a solution clearly is.

The key recommendations from this session were:

- Continue the discussion between government, regulators, and industry with regular, perhaps quarterly meetings.
- Invest in comprehensive research of the sector in New Zealand to close the knowledge gaps, and provide a quantitative baseline from which to promote and advance fintech in New Zealand.
- Investigate the feasibility of establishing an ongoing regional fintech accelerator program.

INTRODUCTION

As innovative fintech products are developing in the market it is becoming increasingly important for industry and the regulatory authorities to maintain engagement to assist with understanding market changes and how new products may require changes to the regulatory environment.

It will be increasingly important for government and regulatory authorities to understand the opportunities and challenges that will help shape financial inclusion for all New Zealanders.

This round table discussion provided an opportunity for collaboration and cohesion across regulators, policy makers and industry with regard to a shared level of understanding of fintech and the opportunities for New Zealand.

The Minister of Commerce and Consumer Affairs, Hon Kris Faafoi opened the discussion outlining his thoughts on the sector.

"I see this sector as an opportunity rather than a burden when we think about the regulatory restrictions that other jurisdictions have tried to tackle"

MINISTER FAAFOI



FinTechNZ believes that there are risks if industry and government don't work together. A lack of shared understanding may lead to a lack of cohesion and confusion in the marketplace. This stalls product development and innovation.

Without collaboration and cohesion there is also risk of conflicting advice which may negatively impact the market development and ensuing social and economic benefits.

The nature of fintech businesses means that there are numerous legal frameworks that apply in respect of their business. In addition to financial services regulations, businesses must also navigate other relevant regulated areas such as AML/CFT, data protection, privacy and IP. Technology also makes it easier for FinTech businesses to cross borders easily. This means, however, that in addition to domestic regulation, they will also need to navigate a new set of laws and rules in each new overseas jurisdiction they enter.*

"Regulation must encourage and allow innovation and flexibility, while continuing to protect both individuals and the integrity of the whole financial system."

JEREMY MUIR,
MINTERELLISONRUDDWATTS

*From the report *Regulation of FinTech: Jurisdiction Analysis*

THEME ONE – Fintech is good for New Zealand

Fintech is playing a role beyond economic growth and exports.

There is increasing evidence that fintech can be used to support both social and economic objectives. We believe that fintech can help the New Zealand government achieve well-being objectives.

For example, fintech is being used to support:

- Climate change initiatives (Green fintech)
- Financial inclusion
- Financial security

“The ability to contribute to social good in terms of using data to measure individual wellbeing and health shouldn't be ignored as they have a massive impact on society.”

STEVE WIGGINS
PAYMENTS NZ



THEME TWO – The Opportunity

Fintech is the fastest growing part of the tech sector in New Zealand, growing at 33.2% [year on year between 2017 and 2018].*

The New Zealand tech sector is now the 3rd largest export sector for New Zealand, with many contributors coming from the fintech sector including Xero, Pushpay, Invenco, Vend, Data Torque and Transactions Services Group.*

The global fintech market is set to reach USD305.7billion by 2023 and is growing at double digit rates. All sub-sectors are growing rapidly including regtech, payment/billing, insurtech, money transfer/remittance, mortgage/real estate, and others (lending, capital markets, wealth management).*

The Asia Pacific region is projected to have a compound annual growth rate of 43.34% during 2018-2023. The pace of Asia Pacific growth is anticipated to be the highest of all regions, attributed to an increasing number of start-ups catering to most of the financial areas, including banking, insurance and wealth management.*

+From *The Investor's Guide to the NEW ZEALAND TECHNOLOGY SECTOR 2019 Edition*
<https://www.mbie.govt.nz/dmsdocument/5753-investor-guide-to-the-nz-tech-sector-2019-pdf>

*Source: www.globenewswire.com/news-release/2019/04/09/1801702/0/en/Global-Fintech-Market-2018-2023-Market-Set-to-Reach-USD-305-7-billion-by-2023.html

THEME THREE – The Challenges and Current Concerns

Some of the key issues that were raised during the session that could affect the progress of fintech in New Zealand were:

- The need to balance our role in promoting innovation and managing regulatory risk
- Too much regulation can lead to a lack of clarity
- Little understanding of the opportunity or market, or our advantage. There is a lack of research and data
- Regulators not communicating with each other and industry effectively
- Not keeping pace with international developments
- Making it too difficult for other countries to invest and work with New Zealand fintechs, it is already difficult for international companies to export financial services from New Zealand
- The lack of financial and technological literacy across New Zealand
- The lack of talent and funding available
- The inability to scale, a lack of support required to scale

RECENT EXAMPLES OF FINTECHNZ MEMBERS, REGULATORS AND GOVERNMENT WORKING TOGETHER

FMA and Sharesies

Online investment platform, Sharesies, has been working closely with the Financial Markets Authority (FMA) and the New Zealand Stock Exchange (NZX) to work towards their goal of making investing accessible to everyone. Sharesies' objective is to give someone with \$5 the same investment opportunities as someone with \$500,000.

Sharesies' relationships with its regulators have been crucial to its growing success. Earlier this year, Sharesies got an exemption to provide personalised digital advice. Their goal is to provide information and advice to their investors so they can grow in confidence. Working closely with the FMA helped them to get this exemption.

They also became an accredited participant on the New Zealand Stock Exchange. This was a significant event for New Zealand investors — the result of six months' work with the team at NZX.

"Having open dialogue and regular communication with both regulators helped us deliver on our purpose to create the most financially empowered generation", says Natalie Bryant, General Counsel at Sharesies.

As of 8 October 2019, Sharesies has over 65,000 investors and \$100m funds under management.

"We're really proud of our record in supporting the growth and global ambitions of New Zealand fintech companies like Xero, Pushpay, Plexure and others – and we'd love to see more Kiwi tech innovators on show. Technology is also enabling transformative change in New Zealand's capital markets, such as crowdfunding, peer-to-peer lending, robotic/AI advice, and online-only platforms that are removing some of the traditional barriers to investment. The Capital Markets 2029 report released last month encourages further research into the practical application of emerging technologies and highlights the many areas where substantial investment is being made globally by capital markets participants. We also have a role to play as a source of data to provide insights into emerging trends and to enable further technology development."

HAMISH MACDONALD, HEAD OF EXTERNAL RELATIONS AND GENERAL COUNSEL, NZX LIMITED

Payments NZ

Our world is now connected in more ways than anyone could ever have imagined, and Kiwis are increasingly expecting more and better ways to pay and use their financial services data. Globally, open API standards are seen as important building blocks for developing innovations that meet customer expectations.

The launch of our API Centre demonstrates what the industry can achieve when we work together towards a shared goal. This work has been industry led and market driven since day one. The new service will provide a central coordinating role for our fledgling API-enabled ecosystem. We're taking an innovation-first approach, encouraging value add and bringing innovators together." - STEVE WIGGINS, PAYMENTS NZ

"This is a great example of how government and the regulators can work collaboratively with industry to deliver better outcomes for Kiwis."

MINISTER FAAFOI

CONCLUSION

For New Zealand to fully take advantage of the fintech opportunity, regular, ongoing collaboration across regulators, policy makers and industry, to achieve a shared level of understanding of fintech and the opportunities for New Zealand, is essential.

FinTechNZ will continue to help connect regulatory authorities and policy makers and support the understanding of fintech and the opportunities it creates for New Zealand.

KEY RECOMMENDATIONS

1. More Government, Regulatory and Industry collaboration

Quarterly sessions including Government could be incorporated into the existing FinTechNZ Regulatory Round Table working group.

2. Market analysis and research of the New Zealand fintech sector

Comprehensive research of the sector in New Zealand to close the knowledge gaps, and provide a quantitative baseline from which to promote and advance fintech in New Zealand. Does New Zealand need a national fintech strategy? What could this look like?

LONGER TERM CONSIDERATION

- Research into the feasibility/required resource of starting an ongoing national fintech accelerator program – Regionally based to promote regional development and economic growth
- Looking at Digital ID solutions for financial services – Data portability, compatibility with international standards
- Looking at AML/CFT standards – How fintech can be utilised in these areas
- Positioning New Zealand as a sandbox – Agile, flexible, adaptable, supportive of innovation, a hub for fintech development and growth

A first for New Zealand, it was a great discussion about how government and industry can come together to help all New Zealanders prosper. The opportunity is huge and I for one don't want New Zealand missing out because we didn't have a cohesive strategic focus on FinTech.

JAMES BROWN, GENERAL
MANAGER, FINTECHNZ

DISCUSSION POINTS RAISED DURING THE SESSION

- 'New Zealand has the most modern and flexible system in the world. We don't need a sandbox... due to our size and adaptability'
- 'There is a need to balance our role in promoting innovation and managing regulatory risk'
- There is a need to look at the startup/incumbent framework
- There is the potential to look at a funding model – possible funding review of ACC, Superfund, KiwiSaver, onshore investment
- There are opportunities around Green Fintech, sustainability, financial inclusion, economic growth, more collaboration and partnerships
- Fintech enables growth, not only in the financial and technology sectors but it can help all businesses grow
- Fintech can be good for New Zealand consumers, providing products and services that improve financial literacy
- Is there an opportunity to create a Fintech 'talent factory' in New Zealand?
- There is a need to establish how the regulatory environment in New Zealand differs from Australia and the UK and what is coming out of these areas
- Highlight and promote the fintech sector as a major opportunity for New Zealand
- Market New Zealand as a sandbox
- Look into the benefits of joining the Global Financial Innovation Network (an international network of 38 regulatory organisations led by the UK's Financial Conduct Authority)

RECOMMENDED READING:

Regulation of FinTech: Jurisdiction Analysis, Treasury, May2019

- <https://treasury.govt.nz/sites/default/files/2019-06/minterellison-fintech.pdf>

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