FinTechNZ

FinTech Future

TRADE OPPORTUNITIES FOR NEW ZEALAND AND THE UNITED KINGDOM

JUNE 2020

REPORT

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BACKGROUND TO THE REPORT

FinTechNZ is a not-for-profit industry body that brings together financial and technology companies, service providers, investors, regulators and other stakeholders in New Zealand, with the purpose of contributing to New Zealand's prosperity through technology innovation in financial services.

The Department for International Trade (DIT) is the United Kingdom's (UK) international economic department, responsible for promoting trade and investment policy, delivering a trade policy framework as the UK leaves the European Union (EU) and promoting trade and investment including in UK goods and services.

Both DIT and FinTechNZ are interested in understanding the opportunities available to financial technology (fintech) companies in both countries, as well as fintech companies' key trade and investment challenges. The New Zealand Ministry of Foreign Affairs and Trade (MFAT) is also engaged in the early stages of discussions with UK counterparts on future trade and investment links between UK and New Zealand.

FinTechNZ and DIT supported a delegation to travel to the UK in September 2019, assisting New Zealand and Australian fintech companies to explore trade and investment opportunities in the UK. The delegates attended the Lendit conference and other curated sessions with investors, corporates, fellow fintech companies, regulators and service providers. Delegates emerged from the week with a positive outlook on the opportunities presented by the UK as a market, and an enhanced network to drive trade opportunities in both directions. Delegates also developed commercial relationships (and sales prospects) during the week.

This backdrop, along with the UK's departure from the EU, and each Government's interest in pursuing a free trade agreement (FTA) following Brexit, has prompted this report.

EXECUTIVE SUMMARY

The excellent links between New Zealand and the UK support fintech trade and investment and are a strong platform to build on

There are already excellent links between New Zealand and the UK for bilateral fintech trade and investment. Both countries are outward looking, open economies. The strong links are based on a common legal framework, similar regulatory culture, shared language and business culture and a history of movement of people between the two countries.

The traditional trading relationship between the two countries has acknowledged the relative strengths of each; New Zealand primarily exporting primary products and UK primarily exporting industrial products.

In contrast, trade and investment from the respective fintech sectors of each country would promote symbiotic growth. The UK is a world-leading centre for fintech with a large number of dynamic companies that are moving around the world. The UK is also a highly attractive market in its own right and as a stepping stone to Europe. New Zealand is a small, yet dynamic market with tech-savvy consumers and a sophisticated, profitable financial services sector. There are a number of innovative fast-growing fintech companies emerging in New Zealand and looking to expand into export markets.

There are no major trade and investment barriers for fintech companies…

Our interviews and research did not identify any major trade or investment barriers between the UK and New Zealand for fintech. Both New Zealand and the UK are open economies which make doing business easy, although there are some regulatory and people-movement matters that could be streamlined.

…but formal recognition of the fintech sector in future trade and investment agreements would secure the strong relationship

UK/Australia FinTech Bridge

The UK/Australia FinTech Bridge is an agreement between both countries' governments, establishing a framework to:

- *Enable closer and stronger collaboration on fintech between governments, financial regulators and industry; and*
- *Encourage fintech companies to use the facilities and assistance available in the other jurisdiction to explore new business opportunities and reduce barriers to entry.*

The framework covers four "pillars" of cooperation: government-to-government, regulator-to-regulator, trade and investment and business-to-business. It sets out a number of high-level commitments in each area as well as some practical steps.

The full text can be found here https://treasury.gov.au/sites/default/files/2019-03/UK-Australia-FinTech-Bridge_7.pdf

The existing UK-New Zealand relationship and ease of doing business create the broad conditions to pursue a forward-looking enhancement of the current state in terms of fintech trade. A best-case scenario could see an ambitious, forward-thinking FTA (or separate financial services and technology agreement) securing the corridor for fintech trade and investment between the two countries. Such an ambitious approach could move towards closer regulatory collaboration and alignment and a more open exchange of financial data (while preserving robust data privacy requirements). This recognises that cross-border regulatory differences are one of the most significant challenges for companies innovating in financial services.

The UK's likely increased autonomy over its regulatory environment post-Brexit, and New Zealand's relatively nimble and flexible environment, can be helpful drivers here.

A formal UK-New Zealand fintech agreement (whether as part of a FTA or separately) would formalise closer government to government, regulator to regulator, and trade promotion agency co-operation to support fintech companies entering each other's market. We have heard about the benefits provided by the existing 'fintech bridge' agreements established by the UK Government with various trade partners (including Australia). In particular, interviewees praised the "connectivity" to potential customers and investors and the "market intelligence" provided by the UK/Australia bridge.

KEY RECOMMENDATIONS AND NEXT STEPS

- At a minimum, the fintech sector in both countries should collaborate to advocate as a sector to demonstrate the nature and scale of opportunities available from closer economic ties.
- The New Zealand fintech sector should plan to quantify the size and scale of the sector. This would support policymakers for both domestic financial services regulation and international trade policy to better understand the potential for increased trade and investment from fintech businesses in New Zealand.
- A formal UK-New Zealand fintech agreement could be implemented to build on existing settings and maximise growth opportunities. This could include:
    1. Formalising the creation of a Committee on Financial Services (or similar) to make recommendations on aligning regulatory approaches to fintech.
    2. Addressing areas where anti-money laundering compliance is creating practical barriers to entry for fintech companies.
    3. Leveraging the common standards for 'open banking' between the UK and New Zealand (and New Zealand's adequacy status under European and UK data protection law) to facilitate secure data transfer and access by fintech companies.
    4. Encouraging further regulatory collaboration, with a view to implementing more formal cross-border regulatory testing initiatives.
- Allowing easier movement of fintech talent would alleviate key practical barriers to trade and investment (time zones and distance). Longer business visas, market validation visas or generally more flexible reciprocal immigration treatment could be considered.

REPORT STRUCTURE

This report sets out the results of our research, analysis and interviews with UK and New Zealand fintech companies, investors, and government stakeholders

- In section 1 we analyse the state of the market and opportunities for fintech companies in New Zealand and the UK respectively.
- In section 2 we consider the legal and regulatory environment in both countries as it relates to fintech trade.
- In section 3 we recommend a series of options for policymakers to consider, to build on the excellent foundation for fintech trade and investment between New Zealand and the UK.

Appendix A includes a list of interviewees and contributors to this report. To encourage openness and ensure a range of opinions are canvassed, we have not attributed quotes to individuals or companies.

1. New Zealand and United Kingdom Fintech Opportunities

There are a range of opportunities in the fintech sector for greater cross-border trade and investment between the UK and New Zealand. New Zealand has key advantages for UK fintech companies. The UK is one of the world's most fintech-friendly jurisdictions and a leading financial hub, which makes it a highly attractive destination for New Zealand fintech companies.

1.1 New Zealand is a small, open economy with a well-developed financial regulatory system

New Zealand is an open economy with a stable regulatory environment, highly ranked in a number of key global indices such as Ease of Doing Business, Corruption Perception and Economic Freedom.[*] This makes it an attractive investment and export destination, in spite of its geographic isolation and relatively small market size.

New Zealand has key advantages as an overseas investment and trade market for fintech companies

New Zealand is already an attractive destination for foreign direct investment (FDI) from the UK. Around 5 percent of the total FDI into New Zealand is from the UK and the UK ranks fourth as a source of FDI. The financial and insurance services industry was the largest recipient of FDI by 31 March 2019 in New Zealand. Since 2009, it has more than doubled to $38.4 billion in 2019.[†] UK companies account for around 6 percent of services imported to New Zealand according to Statistics NZ, ranking after Australia, China and the United States.

New Zealand has several key advantages for UK-based fintech companies. It is English-speaking, has a stable government and good, relatively modern financial regulatory architecture (without some of the complexity and overlapping layers of regulation seen in markets like Europe or the US). UK interviewees identified the common legal system and regulatory culture as important for considering fintech trade and investment into New Zealand.

Market factors were also important. Consumer incomes and a sophisticated approach to technology and software were highlighted as key factors. UK fintech companies entering the New Zealand market also highlighted high cloud adoption as a significant pull factor. These factors make New Zealand a good testing ground for new fintech ideas.

The cloud software provider Xero has had a significant impact on New Zealand trade and investment. Xero was founded in New Zealand, which remains one of its largest markets.

XERO:
A cloud-based accounting platform for small businesses, which enables a number of complementary service providers to integrate with and use Xero's core accounting services. This platform model means Xero has developed an ecosystem of partners and sales channels across its geographical footprint, with the UK acknowledged as its fastest-growing market in terms of subscriber base.[‡]
A number of fintech companies, including some we spoke to for this report, have benefitted from this ecosystem in expanding their operations either from the UK to New Zealand (e.g. Go Cardless and TransferWise) or vice versa (e.g. Figured and Part Pay).

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* https://www.mfat.govt.nz/en/countries-and-regions/south-east-asia/timor-leste/new-zealand-embassy/doing-business-in-new-zealand/

† Statistics New Zealand, Foreign Direct Investment release dated 29 September 2019, available at: https://www.stats.govt.nz/news/foreign-direct-investment-in-new-zealand-continues-to-increase

‡ Xero Limited Annual Report 2019

Proximity to Asia-Pacific is seen as an advantage

Our interviews confirmed that New Zealand is seen as an investment and trade market in its own right, but that proximity to Asia-Pacific, in terms of time zone and geography, is seen as a further advantage. New Zealand is recognised as having particularly mature trade relationships in the Asia-Pacific region, driven by a network of eight bilateral FTAs with APAC partners (including a world-first bilateral FTA with China), as well as the ASEAN-Australia-New Zealand multi-lateral FTA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which includes 5 APAC nations as signatories.

New Zealand's technology sector is fast-growing; fintech is fastest

The New Zealand technology sector is growing rapidly. The 200 largest technology companies account for 10 percent of total New Zealand exports, according to Ministry for Business Innovation and Employment data. The technology sector is the third largest export sector for New Zealand. The sector is likely to remain vital for New Zealand's exports, particularly because growth in services exports faces fewer limitations than primary sector commodity exports.

> *New Zealand's fintech sector is the fastest-growing component of the technology sector. The five-year compound annual growth rate is 37.6 percent and five-year revenue growth is $705 million.*
>
> ***NEW ZEALAND MINISTRY OF BUSINESS INNOVATION AND EMPLOYMENT (2019)***

Prominent companies offering a range of fintech products and services include Xero, Invenco, Vend, Pushpay and Transaction Services Group – all of whom feature as 'Rising Stars' in the 2019 TIN200 (an annual report capturing key data on New Zealand's top 200 high-tech exporting companies).

13 fintech companies appear in the TIN200 for 2019, and of the TIN200 companies, fintech also had the highest staff growth rate and average wage out of all 'secondary' technology sectors.[§]

Fintech start-up and scale-up companies are also well served by accelerator/incubator programmes like the 'Kiwi Fintech Accelerator' (which is run by KiwiBank in partnership with Xero and others and had its third cohort in 2019). Xero's own 'Rewired' programme for start-up and scale up businesses, which launched in 2019, has provided a landing pad for UK fintech companies entering the New Zealand market.

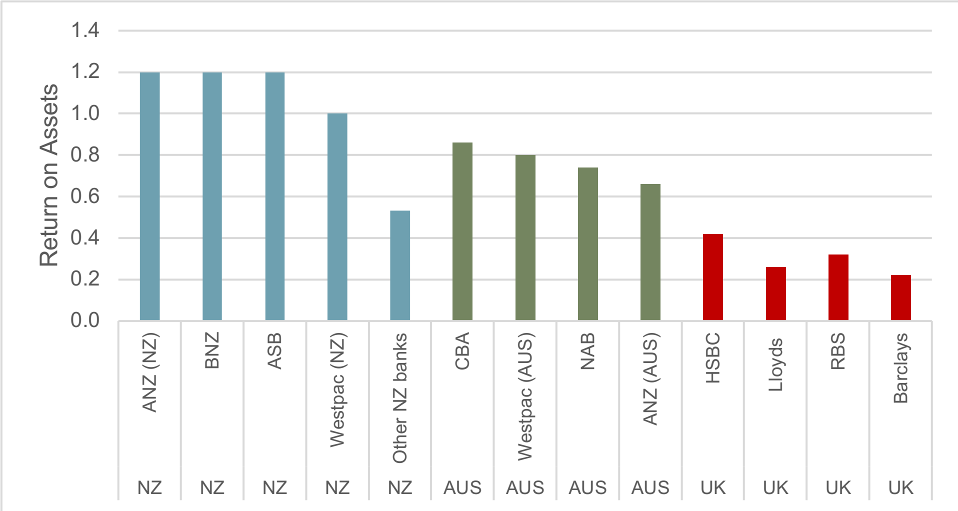
The New Zealand financial services sector is likely to offer opportunities for disruption and B2B support to existing institutions

The New Zealand banking and financial services sector is dominated by four large Australian-owned banks, government-owned Kiwibank, and two large insurers. The sector earns high returns which suggests that there are profitable opportunities for investment. The four largest banks have 86 percent market share for lending.[**] The two largest general insurance companies are reported to hold around 70 percent of the market.

§ TIN Report 2019

** RBNZ.

Figure 0.1: Return on Assets of Selected New Zealand, Australia and UK Banks (2019)



Source: RBNZ, Bank information releases

The profitability in the New Zealand financial sector should provide opportunities for innovative fintech companies. International experience shows that fintech companies have disrupted existing business models and captured consumer market share directly in specific verticals like payments and money transfer, wealth management, personal finance and consumer banking.

Similarly, the healthy returns of incumbent New Zealand financial companies will be attractive to fintech companies that can provide B2B solutions. Fintech companies can help established banks and other financial service providers work more efficiently with innovative technology solutions to improve existing business practices in areas like customer onboarding, regulatory compliance and data analytics.

The New Zealand banking and investment sector is facing pressure to reduce costs and improve consumer experience. Companies are focussed on reducing overheads by shifting to strategies dominated by digital delivery of services. There may be market opportunities for complementarity where fintech companies can offer alternative consumer solutions or alternative channels for financial services and products.

The New Zealand regulatory environment offers further opportunities

Attention in New Zealand is beginning to focus on areas of the financial services market which require improvement. For example, where the costs associated with contactless payment infrastructure have led to a lack of take-up by merchants and a negative impact on consumer experience. [††]

While regulatory scrutiny of financial services in New Zealand has not risen to the level seen in post-GFC Europe or in Australia following the recent Banking Royal Commission, there is a general trend in this direction as both the Reserve Bank of New Zealand (RBNZ) and Financial Markets Authority (FMA) seek to build on a 'Thematic Review' of the sector undertaken in 2018. RBNZ has also recently announced an increase in the regulatory capital required to be held by New Zealand banks.[‡‡] This provides growth market opportunities in NZ for 'RegTech' and other fintech providers who have developed solutions to deal with the UK/EU regulatory environment.

†† See 'Banks on notice over 'No Paywave' dysfunction' by Bernard Hickey, Newsroom, available at: https://www.newsroom.co.nz/2019/10/07/846601/banks-on-notice-over-no-paywave-dysfunction-1#

‡‡ Reserve Bank Capital Review Decisions 2019, available at https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Policy-development/Banks/Review-capital-adequacy-framework-for-registered-banks/decisions/Capital-Review-decisions.pdf?revision=ebc7cac0-a0ac-4ac4-b079-f7737227e719

'Open Banking' and data transfer

New Zealand and the UK take different approaches to the concept of 'open banking'. While open banking in the UK has been mandated by regulation, New Zealand has so far taken an industry-led approach, with encouragement from Government.

However, the organisation implementing New Zealand's industry-led 'API Centre' programme, Payments NZ, was very clear that "our collective efforts to achieve greater openness in banking should leverage what was already available internationally, especially in relation to the use of common payment-related API standards. As a result, this industry work used standards published by the UK's Open Banking Implementation Entity (OBIE) as the starting point."[§§]

> ***OPEN BANKING:***
> *Initiatives to make bank account information, and the ability to initiate payments directly from bank accounts, available to third party providers.*

There have been some calls from the fintech sector in New Zealand for a regulator-mandated open banking scheme. The Commerce and Consumer Affairs Minister recently issued an open letter to banks demanding faster action on implementing the programme, and directing officials to provide him with advice on possible 'Consumer Data Right' regulation in New Zealand. [***]

Regardless of the overarching approach, New Zealand and the UK can work to leverage this common starting point for technology standards, to facilitate access to each other's open banking infrastructure by companies who are either registered 'Third Party Providers' in the UK or API Centre participants in New Zealand.

Given the current differences in approach, any mutual access would need to fairly reflect the extent to which the regimes are aligned. For example, "third party" entities accessing open banking data in the UK are required to be licensed by the Financial Conduct Authority (FCA). While this licensing is not required in New Zealand, these parties will need to comply with robust security and data practices mandated by Payments NZ and the participating banks.

Helpfully, New Zealand has 'adequacy' status for the purposes of European (and currently UK) data protection law. This status is granted by the European Commission to countries outside the European Economic Area who provide a level of personal data protection comparable to that provided in Europe (and the UK). This status makes data transfers between New Zealand and the UK more straightforward and creates a strong regulatory starting point for fintech companies to pursue business models involving cross-border data transfer to New Zealand.

1.2 The UK is a world-renowned fintech hub with a well-developed financial services sector

The UK is an attractive market for New Zealand fintech companies seeking to access UK and European markets. The UK Government envisions that UK financial services will be the most competitive and innovative in the world.[†††] In practical terms, the UK Government is promoting the lowering of barriers to entry for financial companies and implementing regulations (such as open banking regulations) which promote competition. The UK Government is ensuring that regulators are also supportive of competition and innovation. The FCA has an express duty to promote effective competition, the Payment Systems Regulator must promote innovation, and the Prudential Regulatory Authority has a secondary objective to facilitate effective competition.

§§ Payments NZ API Centre – "Our Open banking Journey" June 2019

*** https://www.mbie.govt.nz/assets/open-letter-to-api-providers-regarding-industry-progress-on-api-enabled-data-sharing-and-open-banking.pdf

††† UK fintech: State of the Nation (2019), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801277/UK-fintech-state-of-the-nation.pdf and HM Treasury Regulatory Innovation Plan (2017), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/606953/HM_Treasury_Regulatory_Innovation_Plan.pdf

London is an attractive location for New Zealand fintech companies seeking to raise capital

New Zealand companies consistently told us in interviews that London offers very good access to investors. London is a key meeting place for innovative companies and venture and growth capital funding. All companies we spoke with identified the networks and availability of capital as compelling reasons to locate in the UK.

Despite Brexit, the UK was still seen as a 'landing pad' for further expansion into Europe by companies we spoke to, while others noted that the size of the UK market was sufficient on its own to drive growth. We also heard from a New Zealand company which had set up in the UK that this made it more likely to acquire customers in Australia, due to the validation provided by a successful UK rollout.

UK has a large and fast-growing fintech sector

Fintech is a fast-growing sector in the UK, driven by high rates of consumer adoption, an innovative financial sector culture, a favourable regulatory environment and strong government support. UK digital companies attract more capital than any European country. London-based digital technology companies are second only to Silicon Valley in terms of international connectedness. The growth is occurring in London but also in other regions, such as the North of England, Northern Ireland and Scotland.[‡‡‡]

Digital or "neo" banks like Monzo and Starling, and cross-border payments innovators like TransferWise and Revolut, often grab the headlines. But the UK has strong depth across a full range of fintech verticals including money transfer and payments, insurance, borrowing, financial planning, savings and investments, 'RegTech' and other B2B solutions.[§§§]

UK has good pre-existing links with New Zealand through bilateral exchange of talent

Talent is key for the growth of technology companies, where physical capital is often less important than the intellectual property and skills of people employed. The UK, and London in particular, is already a popular choice of destination for young finance and technology professionals. New Zealand finance professionals (and professionals from a range of support industries) have cemented an early-career stint in the UK as a rite of passage. These strong existing links make the UK attractive for New Zealand companies seeking to enter a foreign market. Our interviewees included managers of New Zealand companies who had prior career experience in the UK. These pre-existing links and networks were often instrumental in ensuring a successful UK launch.

Highly-skilled UK workers are a source of talent for New Zealand tech companies. The UK remains in the top five countries for inward migration to New Zealand. Companies interviewed noted these links as important for ongoing business relationships.

The UK has historically been an open economy with opportunities for highly-skilled workers from around the globe. The UK retains policies, such as the Tier 1 Exceptional Talent Visa in digital technology, that enable UK-based companies to attract and retain talent.

New Zealand- and UK-trained finance and tech sector professionals integrate well

Companies identified the ease with which talent from the respective countries can be integrated. Both New Zealand and the UK have high-quality tertiary education institutions. Early career training at New Zealand financial institutions and technology companies is valued by UK fintechs. This is due to the small market size and breadth of early-career experience that New Zealanders generally enjoy. Likewise, New Zealand companies value UK-trained professionals.

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‡‡‡ UK Fintech State of the Nation (2019)

§§§ https://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-Census-2019/$FILE/EY-UK-Fintech-Census-2019.pdf

2. Legal and Regulatory Environment is Mostly Enabling for UK and New Zealand Fintech Companies

There are few barriers for New Zealand fintech companies to enter the UK and vice versa.

2.1 New Zealand companies face few barriers to enter the UK and European fintech markets

The interviews and our research and analysis revealed few barriers for New Zealand companies wanting to enter the UK. The difficulties associated with entering the UK market are mainly practical.

Few explicit regulatory barriers were identified by companies entering UK market

Very few explicit regulatory barriers were identified by companies we spoke to. The main issue raised by New Zealand companies entering the UK market was the practical barrier of the time taken to open a business bank account (and flow-on effects like delays concluding corporate mobile phone contracts). While a seemingly basic concern in the context of trade discussions, this points to a wider issue around certain areas of regulation.

In particular, there are some pain points for fintech (and other) companies resulting from differing requirements and methods of compliance under anti-money laundering (AML) legislation – particularly in relation to 'Know Your Customer' (KYC) requirements. Companies we spoke to identified banks' approaches to AML/KYC compliance as the cause of these lengthy waits to open bank accounts. Interviewees mentioned timeframes of anywhere from 6 to 18 months, and this was the case even for companies with long-established presence and scale in New Zealand and other markets.

Many fintech companies also raised travel time and time zone issues as a practical barrier to UK/New Zealand trade. Companies have mostly had to send staff and senior management on long-term secondments or permanent emigration to resolve this.

UK market offers attractive regulatory environment

The FCA's role in sustaining a regulatory environment that facilitates innovation should be highlighted. The FCA's 'Innovate' department (which has grown from five staff in 2014 to over 100) has been set up specifically to help companies with innovative business models to operate and develop in the regulatory context, and to engage both nationally and internationally to further promote innovation in the interests of consumers.

The FCA's Regulatory Sandbox is now well-known internationally – providing fintech companies with the ability to test their propositions in a restricted environment with bespoke safeguards for consumers.

In addition, the FCA offers a package of "direct support" for truly innovative businesses (including dedicated case managers to help these companies understand how FCA rules apply to specific business models).

> *"There is a strong business relationship between New Zealand and the UK, and it is easy to do business. That is precisely the reason why policymakers should focus on this relationship to support more trading and investment. Fintech is an ideal sector because the UK is a world leader, New Zealand has a number of high performing companies, and there are significant opportunities in both countries."*
>
> **JAMES BROWN**
> **GM FINTECHNZ**

2.2 UK companies have straightforward access to New Zealand market (though more could be done in fintech)

New Zealand has a relatively lightly regulated financial services sector. However, in contrast to the UK, the formal regulation is less enabling for fintech companies.

New Zealand has a good regulatory framework and relatively accessible regulators but is not as open and enabling as the UK and other jurisdictions that prioritise fintech

The New Zealand regulatory framework should make the country an attractive market for fintech companies. There is modern legislation such as the Financial Markets Conduct Act 2013. Other areas are undergoing modernisation, such as financial advice regulation. Despite its lack of a formal regulatory sandbox, New Zealand's regulators are generally viewed as accessible – taking advantage of the smaller scale of the market. New Zealand is currently ranked number 1 in the world for ease of doing business by the World Bank.

New Zealand has a 'Council of Financial Regulators' (COFR), which is made up of the five core financial regulatory agencies and meets quarterly to discuss financial markets regulatory issues, risks and priorities. Fintech is one of seven workstreams making up COFR's work programme for 2020.

New Zealand could be more active in advertising these benefits. New Zealand could also do more to create the regulatory settings to enhance innovation and promote quality fintech businesses. For example, New Zealand regulators are currently not members of the Global Financial Innovation Network (GFIN) – a network of around 50 global regulators seeking to create a new framework for co-operation between financial services regulators on innovation-related topics.

New Zealand also lacks specific regulatory regimes similar to those which have enabled fintech innovation in the UK (and Europe).

These specific regulatory regimes are designed to enable competition, encourage innovation and reduce barriers to entry for companies providing payment, electronic money and account information services. In particular, the Payment Services and Electronic Money Directives have provided a framework for a number of new fintech business models. The European Banking Authority notes that these two regimes "are creating new opportunities, with new players entering the payments sector, using technology to redesign traditional networks and business models across retail and wholesale payments". Over 1,000 entities within the EU had been authorised or registered under these regimes as at 25 May 2019.[****]

Governments in other jurisdictions (such as Singapore[††††] and Switzerland[‡‡‡‡]) have recently introduced "light" digital banking/fintech licences as part of actively prioritising fintech growth in their markets.

Some New Zealand regulatory tools could be tailored to encourage market entry

Without such tailored regimes in New Zealand, fintech products can fall within the perimeter of more traditional banking regulation that is less fit-for-purpose. The RBNZ's registration process for banks and non-bank deposit takers (currently under review[§§§§]) has rarely been used in a fintech context. Fintech companies like TransferWise have enjoyed the benefit of direct access to underlying payment infrastructure and settlement systems in the

**** EBA Report on the Impact of fintech on Payment Institutions' and E-Money Institutions' Business Models, July 2019.
†††† https://www.mas.gov.sg/regulation/Banking/digital-bank-licence
‡‡‡‡ https://www.finma.ch/en/authorisation/fintech/fintech-bewilligung/
§§§§ https://treasury.govt.nz/news-and-events/reviews-consultation/reviewing-reserve-bank-act

UK. However, to date, all members of New Zealand's settlement systems (managed by Payments NZ) are traditional banks.

We should add that a UK-based fintech company reported that it found dealing with its New Zealand sponsor bank (required for accessing the New Zealand payments/settlement infrastructure) to be straightforward in comparison with its experience of other international markets.

> ***"we encourage the New Zealand Government to look closely at more tailored regulatory and licensing approaches as a way of encouraging entry into the New Zealand market by international fintech companies and the growth of the domestic fintech sector."***

These tailored regulatory regimes carry their own complexities and compliance burdens. However, they generally provide a more robust and certain framework to launch fintech products.

At a minimum, further guidance around how the existing legal framework applies to fintech products (for example, the FMA's guidance around cryptocurrency[*****]) would be a welcome first step.

3. Recommendations to Improve Commercial and Regulatory Environment for Trade and Investment for UK and New Zealand Fintech Companies

We make a number of recommendations below. These are not mutually exclusive. The recommendations match the degree of appetite that the fintech sector and policy-makers in New Zealand and the UK have to build on an already strong relationship.

3.1 At a minimum, encourage sector-led collaboration to take advantage of opportunities (least ambitious)

The fintech sector could improve its sector-wide coordination to take advantage of opportunities from trade policy changes. This should be pursued as a minimum.

Our engagement with policymakers and sector leaders (in the context of New Zealand and the UK's discussions for refreshing economic ties) revealed that New Zealand fintech companies in particular do not always see themselves as services exporters. We encourage the fintech sector in both the UK and New Zealand to engage directly with their trade departments and other Government stakeholders. We received a clear message from both Governments that they would like to hear more from the fintech and wider technology/services industry.

One obvious next step is for the New Zealand fintech sector to organise – via FinTechNZ and existing industry groups – to quantify the size and scale of the sector. This would support policymakers for both domestic financial services regulation and international trade policy to better understand the potential for increased trade and investment from fintech businesses.

Goods exports have historically been the focus of trade negotiations but policymakers and trade officials are shifting to recognise the contribution made by services and digital products. Recent trade and investment agreements (for example CPTPP) have focussed on ensuring that the growing technology services export sector is not overlooked – and show what is possible in this area.

***** https://www.fma.govt.nz/compliance/cryptocurrencies/

3.2 Formal trade agreement or other bilateral instrument

There is a case for formalising regulatory alignment for financial services and fintech in particular.

New Zealand and the UK already have open financial markets and both jurisdictions make investment and doing business easy for foreign companies. In the financial sector, there are few barriers (that are not justified by legitimate local regulation).

The regulatory, enforcement and judicial institutions of both countries are trusted to be independent, impartial and efficient. Because of this, the more high-level investment and trade agreement clauses typically found in multilateral trade agreements would mostly be unnecessary. However, an ambitious approach would seek proactively to change existing settings to maximise growth opportunities.

FinTechNZ's latest delegation to the UK

Closer regulatory alignment would be a key achievement

One mechanism for formalising closer regulatory alignment is including fintech as a focus area under a bilateral FTA. Closer regulatory alignment could be achieved in a bilateral FTA or separate fintech agreement between the two Governments, potentially modelled on existing fintech bridge arrangements in other jurisdictions.

The following specific issues could be addressed or considered in the context of a fintech-focussed trade agreement:

- The agreement could formalise the creation of a Committee on Financial Services (or similar) comprised of regulators and policy-makers from both countries. The Committee could make recommendations on aligning regulatory approaches to fintech.
- AML/KYC concerns could be addressed by building on the existing international framework provided by the Financial Action Task Force, with a specific focus on addressing areas where regulatory compliance is creating practical barriers.[†††††] We note that New Zealand is currently in the process of setting a National AML/CFT Strategy, meaning this subject is already on the New Zealand Government's agenda.[‡‡‡‡‡]
- New Zealand and the UK could work to leverage their common starting point for "open banking" API standards to facilitate access to each other's open banking infrastructure by fintech companies. An example of this type of collaboration can be found in the 'API Exchange' – an initiative formed jointly by the Monetary Authority of Singapore, the World Bank Group's International Finance Corporation and the ASEAN Bankers Association, as a global, open-architecture platform that supports financial innovation and inclusion in ASEAN and around the world.[§§§§§]
- New Zealand is one of the few countries outside Europe with 'adequacy' status for the purposes of GDPR and is in the process of further strengthening its data privacy laws. This means the current regulatory settings around data protection provide a comparatively strong starting point for New Zealand and the UK to pursue 'open banking' initiatives on a cross border basis, and for New Zealand and UK fintech companies to access each other's markets and customers. A FTA could seek to ensure this alignment on data protection is maintained and strengthened over time.

[†††††] https://www.fatf-gafi.org/
[‡‡‡‡‡] https://www.justice.govt.nz/assets/Documents/Publications/8487-Setting-the-Strategic-Direction-AMLCFT-Regime-locked.pdf
[§§§§§] https://www.mas.gov.sg/development/fintech/api-exchange

- Further areas of potential that would require a more ambitious approach are:
  1. Further regulatory alignment on specific payment, e-money and digital banking regimes (relevantly, the prudential regulation of banks and deposit takers is currently under review in New Zealand).
  2. Mutual recognition of existing regulatory licences/authorisations. A recent New Zealand precedent is the Asia Region Funds Passport, which came into force in 2019.[******]
  3. Joint review of any rules requiring companies to establish a corporate presence (or hold intellectual property) in a market, to access investment and other benefits like tax relief schemes – to ensure companies from each country can retain intellectual property and other assets in their local jurisdiction while still having full opportunity to export their products and services.

> ***"Mutual access to regulatory testing for fintech products and services is likely to encourage fintech trade. Closer ties could be achieved through a more formal cross-border testing initiative, building on the framework currently being piloted by GFIN."***

- Mutual access to regulatory testing for fintech products and services is likely to encourage fintech trade. This could be achieved in the short term using existing mechanisms such as the FCA regulatory sandbox, GFIN and the general accessibility of New Zealand's regulators. Closer ties could be achieved through a more formal cross-border testing initiative, building on the framework currently being piloted by GFIN.[††††††]

Movement of talent should also be considered

Allowing easier movement of fintech talent would alleviate key practical barriers to trade and investment (time zones and distance). Longer business visas, market validation visas or generally more flexible reciprocal immigration treatment could be considered. New Zealand's recent trade agreements have included a visa category to make intra-corporate transfers of staff between the two countries easier and facilitate longer-term secondments. Market validation visas have been used to permit innovative export companies to enter and test a market for a limited period.

Recent New Zealand trade policy developments in DEPA could provide a framework

We also recommend that the UK and New Zealand look closely at developments in the negotiation of the Digital Economy Partnership Agreement (DEPA) between New Zealand, Chile and Singapore. DEPA aims to establish new international rules and best practice for supporting and promoting trade in the digital era, and addresses 'frontier' issues not traditionally the focus of trade negotiations, such as cross border data flows, digital identity, artificial intelligence, electronic invoicing, and open data. Alignment and standardisation on these issues is key to the success of cross-border fintech and there are likely to be lessons from DEPA on the 'art of the possible' for trade agreements in these areas.

[******] https://www.fma.govt.nz/compliance/offer-information/asia-region-funds-passport/
[††††††] 'GFIN One Year On' (http://dfsa.ae/Documents/fintech/GFIN-One-year-on-FINAL-20190612.pdf) p 9.

APPENDIX A: INTERVIEWEES/RESPONDENTS

David Kirby
Figured

Richard Eaddy and Nathan Cox
Hedgebook

Julian Grennell
Part Pay

Joanne Smith
TCC Group

Nicole Buisson and Geoff Ward-Marshall
Xero

Pranav Sood
Go Cardless

Stephen Jordan
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George McLellan
Fieldfisher

Angus McLean
Simmons & Simmons

Simon Papa
Cygnus Law

Andrew Dentice met with representatives from the following organisations as part of the DIT Lendit Fintech Mission in September 2019:

Memery Crystal
UK Financial Conduct Authority
RBS
LendInvest
Fintech Australia
SavvyKiwi
Seismic Foundry
Beringea
Design By Structure
Visa
Innovate Finance
Fund Tap
Project Pay
Mainframe Cloud
Octopus Investments
Barclays / Rise
Gateley
Cash Plus
Aply ID
Xgen Group
PaypaPlane