The Australian government's statement on supporting fintechs , released by Treasurer Scott Morrison yesterday, will accelerate the process of getting such businesses to market.

Fintech businesses are based on digital finance models, and include peer to peer lenders, crowdfunding platforms, automated advice models and new payments platforms. They offer a compelling consumer proposition with lower costs and more transparent processes. They also inject innovation and competition into Australia's highly concentrated finance markets, and are an emerging export market based on the economy's strength in financial services.

Cutting red tape

The Treasurer's statement endorsed the establishment of a "regulatory sandbox" under the authority of ASIC to enable fintechs to manage regulatory risks during testing stages, thereby reducing the cost and time to market.

While obtaining the necessary regulatory approvals is tough for young companies with limited resources and experience, it is also resource intensive for regulators. As a consequence regulatory bodies such as ASIC and its UK counterpart the Financial Conduct Authority (FCA), have established Innovation Hubs to streamline the licensing of fintechs.

In its consultation paper on a proposed “regulatory sandbox” last November, the FCA reported that in its first 12 months of operation, its Innovation Hub had assisted 175 fintechs but had authorised just five new businesses. Although this might be considered international best practice when it comes to licensing fintechs, this is pretty slow going and suggests a new approach is needed.

Also announced in the fintech strategy were amendments to the draft crowdfunding legislation, which is expected to be enacted later this year. As it stands this legislation is restricted to unlisted public companies with both revenue and assets of less than A$5m in revenue. A cap of A$5 million applies to each issuer in a 12 month period and a cap of A$10,000 applies to retail investors in any issue in a 12 month period.

Proposed amendments include removing the size restriction on issuing companies, and reducing the proposed cooling off period from five days to two days. These would appear to be fairly straight forward and sensible amendments, simplifying and broadening the application of the legislation.

Other initiatives which will assist the growth of innovative fintech firms will be access to concessional tax treatment for investments and moves to increase access to data.

Incentivising investment in early stage innovation companies had already been announced as part of the government's national innovation agenda. The initiative to offer a 20% refundable tax offset up to A$200,000 per year per investor, and a 10 year capital gains exemption once the investment has been held for three years, will do a lot to encourage support for these fintech startups. This incentive will put some wind under the wings of the new crowdfunding companies that will develop once the legislation is passed later this year.

Data is key

The fintech strategy also includes a stronger push to fast track fintech access to data from the relatively new voluntary comprehensive credit reporting (CCR) regime. The recent Financial System Inquiry (FSI) had stopped short of insisting that banks which developed the system, should be made to share this data. For market based lenders or peer-to-peer lenders, an acceleration of this process would be welcome indeed. The Productivity Commission has also been tasked with examining the benefits and costs of improving wider availability and use of data across the economy.

For ASIC, the key regulator in this area, balancing its two key priorities of "ensuring fair, orderly, transparent and efficient markets" while at the same time "promoting investor and financial consumer trust and confidence" is a particularly demanding task when it comes to new disruptive businesses.

The really big unknown lies in consumer behaviour. How consumers react to the new digital models, especially in terms of actual and perceived risk is yet to be seen. For the regulator, ensuring consumers are cognisant of the risks they are entering into will be a paramount concern.

The Turnbull government's fintech strategy with its clear direction and endorsement of new disruptive finance models resets the risk dial on regulating fintech and should assist more young firms in getting to market in a timely fashion. Keeping the balance between supporting innovation and protecting consumers and investors will be an ongoing balancing act.

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