

More lessons on fintech to come for Scott Morrison

Written by Pat McConnell, Honorary Fellow, Macquarie University Applied Finance Centre, Macquarie University

This week, Treasurer Scott Morrison will be in Germany, as [part of the run up](#) to this year's G-20 Summit, [taking](#) to other finance ministers about "Digitising finance, financial inclusion and financial literacy". The Treasurer is due to give a keynote speech on "Developments and challenges of fintech with a focus on Australia".

Just before Christmas, ASIC [released a document](#) with the new rules on how new fintech businesses can test certain services without holding an Australian financial services or credit licence. The waivers provide a "sandbox" for new fintech start-ups to play in without incurring the wrath of the regulator.

However, the restrictions for playing in the sandbox are actually [quite onerous](#). First, and probably the biggest hurdle, is that would-be Warren Buffets must be a member of "one or more ASIC - approved external dispute resolution (EDR) schemes", [such as](#) the Financial Ombudsman Service (FOS). The budding billionaires must also organise some professional indemnity insurance cover, of at least A\$1 million. Not too many small firms will have the sort of money lying around to do both of those.

The things that the startups are allowed to do are fairly restrictive, with limits on the products that they may offer and the money they can manage with a "total customer exposure of no more than A\$5 million".

When in Europe the Treasurer will also visit London, where among other visits, he is due to meet with Internet royalty - none other than Sir Tim Berners Lee. He's the inventor of the World Wide Web (www) and head of a new UK government initiative, called the [Open Data Institute](#) (ODI).

Among many areas that Berners-Lee and the ODI are looking at is Finance and particularly something called the [Open Banking Standard](#). This standard has the lofty goal of:

Unlocking the potential of open banking to improve competition, efficiency and stimulate innovation.

ODI describes the rationale for the standard:

The European Union is rapidly advancing legislation that will, upon implementation in the next two years, require UK banks (subject to consent from individuals and businesses) to open access to their customer data and payments capabilities.

It means the banks will be required to make (some of their) data available, or “open”, to all. But it won’t be everything, the example ODI gives is “financial product information”, basically the pamphlets that are available in bank branches today. But it’s a start.

Other data is considered “closed” or “shared” such as personal bank details or a company’s transaction data. Access to such sensitive data would, according to ODI, be subject to the consent of the individual or business to whom the data belongs and specific governance related to that. Access to the data would be through standardised application programming interfaces (APIs) and, subject to privacy constraints, data could be made available to banks and fintech developers.

The ODI approach promotes fintech development by allowing start-ups to develop new services and products that can access bank data directly rather than having to suck data out of banks and massage it locally. The data remains with the banks and customers, but the logic moves to the fintech developer.

The banks, in the UK or Australia, are not going to be happy. For example, a fintech could write a program to extract a customer’s data from their bank or credit card accounts and run a program to see how much better the customer would be if they moved their accounts to another bank, using real data rather than marketing promises. Customers, for example, could also set up alerts on their account balances not at the simple overdraft level but also using real rules taking into account upcoming expenses, such as holidays.

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On the subject of bank accounts, the Treasurer should take note of how the UK banking system is actually implementing [bank account number portability](#) rather than still [talking about it](#) as in Canberra.

But while fintech is a fascinating subject, I suspect other topics in global finance might just take up some of the visit, such as the [reversal of the global trade agenda](#) and [Brexit](#) both of which could be considered financial exclusion rather than inclusion.

Pat McConnell does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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