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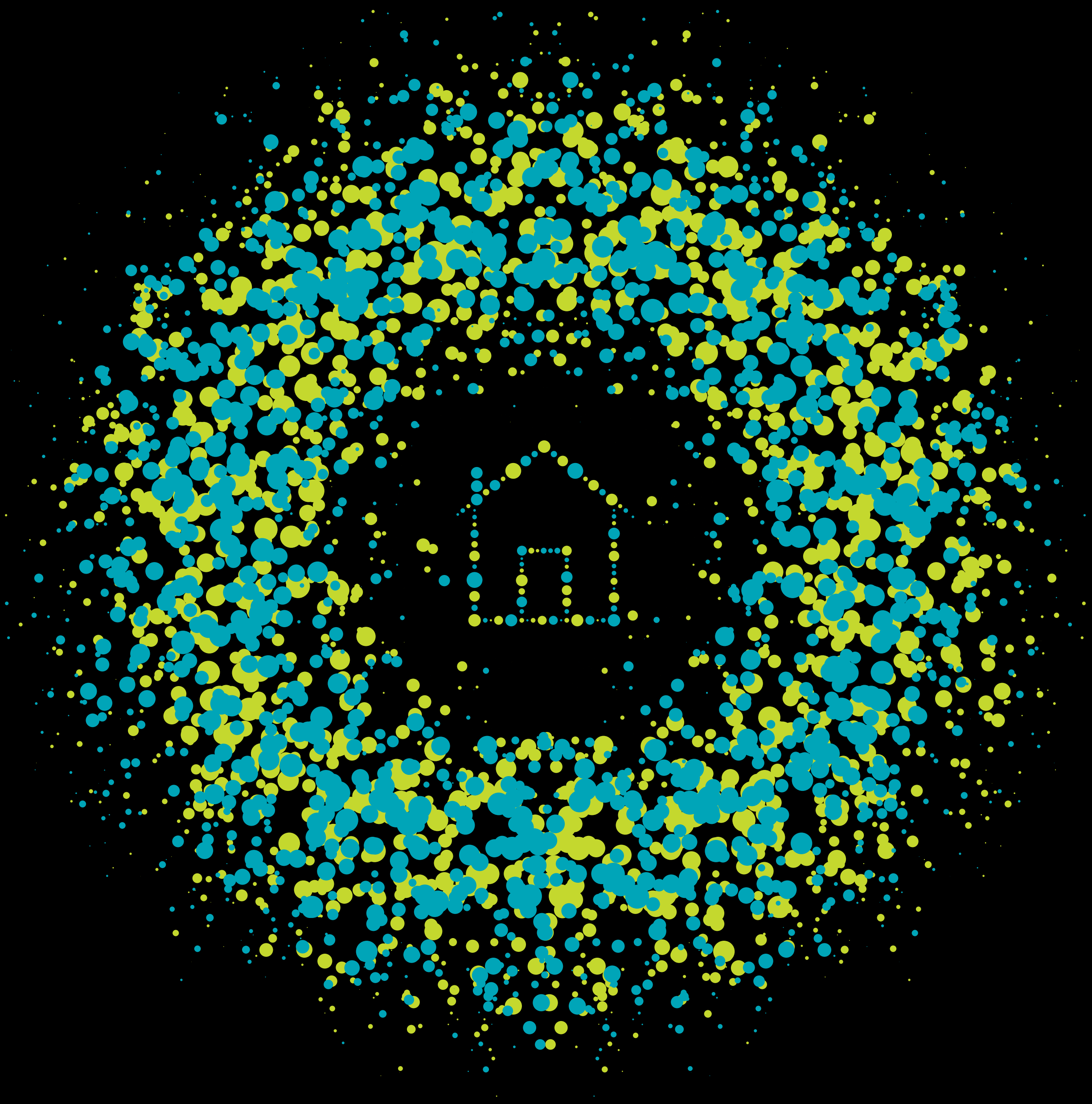


Finding focus in a complex market

Mortgage Report 2017

12th Annual Deloitte Australian Mortgage Report

FINTECHS: Looking back and ahead to 2018
Chris Wilson Fintech Partner Deloitte

In 2016 we expected to see more integration within the industry as smaller FinTechs sought scale. We expected to see more collaboration between large incumbent organisations and FinTechs, bring new offerings into the value chain. InsureTech and RegTech were going to grow, and Blockchain was going to come of age.

Specifically, in 2016 we forecast:

- **Scale**: more integration in Australia in 2016 as FinTechs sought scale and distribution
- **Collaboration:** more collaborative environments with increasing partnerships between financial institutions and FinTechs
- **InsureTech:** some 100 new insurance start-ups by year end
- **RegTech**: FinTech companies would also start to use algorithmic platforms and predictive analytics to help large companies and banks with their compliance overheads
- **Blockchain:** blockchain proof of concepts and pilots coming to market. We expect commercial grade scalable blockchain platforms in 2017.

But 2016 was not a smooth ride. The momentum that built across 2013, 2014 and 2015 continued into Q1 2016; but then things slowed down. Investment in the sector continued, and there was still a lot of new capital, but the large deals and rounds[2] were not as common as they were in 2015, which created a plateauing effect.

In 2015 more than US$45.9 billion of capital was invested in FinTechs. An estimated $88bn was looking for opportunity in 2016. This did not eventuate.

About $945.6 million flowed into FinTech in the third quarter (Q3) of 2016, according to Dow Jones VentureSource, a 57% drop from the same period a year ago, when venture capitalists (VCs) deployed $2.2 billion into the broader sector.

The amount invested in the Q3 was also down from the second quarter, when FinTech companies raised $1.04 billion. The Australian government did not move on regulation around equity crowdfunding, which impacted a segment of the market looking to expose retail investors to start up and FinTech investments.

In total the amount invested in FinTechs dropped to 20.8 billion in 2016, a considerable decline of ~50% from 2015, primarily because of geopolitical and macroeconomic uncertainty.

Globally there were no standout 'super rounds' as in 2013, '14 and '15. Alternative lending and alternative marketplaces together with InsureTech - investment in insurance technology companies - was on the rise. Venture capitalists put $167m into insurance tech in the third quarter. There was more funding in each of 2016's quarters than in any of the similar periods the previous year.

Looking at 2017 and beyond.

Many of the trends relevant in 2016 will continue in 2017/18. However, we expect to see some changes in growth areas around InsureTech and RegTech. Some more granular use cases for blockchain, and more cases of FinTechs collaborating and integrating with larger financial institutions.

In Australia

In Australia, it feels we are at an inflection point. The FinTech sector is maturing in many ways. But against the measure of successful FinTechs launching, disrupting, growing and surviving on their own, the volumes we expected more than a year ago are not there.

Nevertheless some very successful FinTechs made their mark in 2016, including three of the five top performing Deloitte Tech Fast 50[3] winners:

- **MoneyMe Financial Group Pty Ltd (NSW):** a diversified mass market direct lending FinTech that uses technology to revolutionise consumer lending to the millennial market in Australia
  - It was set up to disrupt the payday lending market through a proprietary tech platform called 'Horizon', a cloud-based database with a loan management/lending platform that includes customer relationship and payment management capabilities
  - The system enables automatic approval and funding of loans, and was the first to introduce risk-based pricing and to reward borrowers for positive repayment behaviour generating cost savings from lower default rates (2,811% growth)
- **OpenMarkets Australia Limited (Vic):** Australia's fastest growing stockbroker, consistently ranking in the Top 15 brokers in Australia by trading volume in less than three years
  - Independently-owned, innovation-driven and technology-focused, this 'fintech' stockbroker specialises in brokerage integration with third parties (2,778% growth)
- **HUB24 Limited (NSW):** An investment and superannuation platform offering a comprehensive range of investment options, including administration, transaction and reporting solutions
  - The company uses state-of-the art technology to deliver a fully integrated service that helps track and better manage investment and superannuation assets. (1,248% growth).

In 2016 there was also a definite increase globally and in Australia around InsureTech and alternative marketplace lenders.

2. A 'super round' is a raising greater than $1billion.
3. For a full list of winners and further information on the Deloitte Technology Fast 50 Australia program, go to www.tech50.com.au and use #TechFast50au on social media.

Technology companies are invited to self-nominate for the Deloitte Australia Technology Fast 50 list via the website. To qualify applicants must accumulate more than $8 million in revenue over the last three years. This financial data provided by entrants, is gathered by an online survey tool and is cross-checked using each company's financial information, verified by their accountants or a registered auditor.

Venture capitalists put $167m into InsureTech in the third quarter, and there was more funding in each quarter in the sector than in any similar periods in the previous year.

Regulatory support
With the Australian Securities and Investment Commission (ASIC) creating a sandbox and the ASIC Advisory Board, there was a healthy move towards create an environment more conducive for startups on the regulatory front.

However the equity crowd-funding issue is yet to be resolved. And those seeking to continue to harness innovation in the tech industry should closely monitor the Government's response to the Research and Development (R&D) Tax Incentive Review due this year (2017).

This combined with last year's 1.5% rate cut in the R&D tax incentive and further probable changes to the tax and regulatory environment could have a particularly significant impact on rapid growth tech start-ups, such as reduced cash flow benefits and fewer activities qualifying for tax benefits.

Blockchain
Although blockchain was again the tech 'term de jour' in 2016, we are now beginning to see more focus on sub sectors such as rewards and loyalty, digital identity and payments.

Last word

1. While much of the lustre and intrigue of the new technology phenomenon has rubbed off, what remains are clear use-cases that encourage different value exchange models, both cost constructs and time-to-value calculations when it comes to realising the value of a given transaction

2. FinTechs were and still are looking offshore for scale and capital

3. The hubs and accelerators continue on their marketing and PR journey, hopefully matching 'returns' with their activity in 2017/18.

The digital banking revolution – an example

Six million customers of one UK major bank are advised through their online banking account how much they can borrow on a personal loan of up to £50k and at what interest rate. It then takes six clicks on their mobile phone to have the loan instantly funded into the customer's account 24 hours a day, seven days a week.

The net promoter score (NPS) is off the Richter scale, bad debts are at historic lows as data is being used to make more intelligent lending decisions and cost to income ratios are at levels not seen before due to automation.

Situation

In the same UK bank, the only thing customers could do on their online banking was to get their mortgage balance. Today customers can go onto the bank's home owner app and see every property that is for sale throughout the country. The customer can talk to a call centre operator instantly, or make an appointment with their local branch or one of 14,000 accredited brokers. They can also get a 'genuine' approval in principle in minutes, and can lodge the application online themselves if they want to.

Customers can also track progress of their application through to settlement and they can then do all of their servicing online. The transformation from being able to do almost nothing with their home loan online, to doing almost everything took just four years. That is the pace that incumbent players are going to need to move at to remain relevant in the future.

Complication

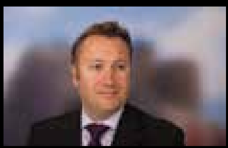
Customers' main transactional bankers at are a distinct advantage because they hold customer data they can use to accurately make lending decisions, including advising pre-approval.

Solution

By 1 January 2018, consumers in the UK and Europe will be able to tell organisations that hold their financial data, to place it into a central repository where it can be accessed by other firms they authorise. This will be as a result of the EU legislation, Payment Service Directive 2.

Once this happens, both FinTechs and customers' non-transactional bankers, will be able to access this data and use it with their credit algorithms to assist them make quicker and more robust lending decisions. This will drive competition among lenders. Australia is not as advanced with its data sharing plans as the UK but we can expect calls for that to occur to grow louder.

Contact



Chris Wilson
Partner, Consulting
chrwilson@deloitte.com.au
+61 3 9671 7411

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