Analysis

Fintechs have just paused to catch their breath

There are more than 600 active fintech companies in Australia. Their growth may have paused this year, but it is bound to pick up.

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Lending and payment providers have been the early darlings of the local fintech scene, helping Australians spend up big, but the next wave of up-and-coming fintechs is more focused on helping people better manage their finances.

There are more than 600 active fintechs across Australia, according to KPMG, receiving $101 million in investment in the first half of 2019. Fintech investment slowed globally compared to the year before, but KPMG views this as a "pause" rather than a stop.

Payments and digital accounts form the lion's share of Australia's fintech providers [https://www.afr.com/link/follow-20180101-p54zt1], with five neobanks appearing on the local fintech landscape. Of the seven Australian players which made KPMG and H2 Ventures' Fintech 100 list, it's little surprise that global payments provider Airwallex, SME lender Judo Bank and buy now, pay-later provider Afterpay lead the way.



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As a result, the local fintech sector is set to contribute $4 billion of new revenue to the Australian financial services sector by 2020. At the same time, fintechs are poised to take $10 billion in aggregated revenues away from the big Australian banks, according to Frost & Sullivan's 2015–2020 fintech report.

Australia has followed the global trend of payments leading the fintech charge, but this is set to diversify as more attention turns to areas like wealthtech, regtech and insuretech [https://www.afr.com/link/follow-20180101-p53ub6], says Shailendra Soni – principal consultant, ICT, APAC at Frost & Sullivan.

One aspect holding back Australian fintechs is their primary focus on working with incumbents rather than looking to truly disrupt the financial service sector, Soni says.

"When you are working with the incumbents, all you can think about is how do you help them improve aspects of their business like processes and compliance," he says. "If that's your horizon then you won't get very far, because you're really narrowing down your vision.

"Wealthtech, for example, should be booming as part of the growing focus on financial inclusion – with a boost from the introduction of Consumer Data Right and its upcoming extension to mortgage and personal loan data – but once again these wealthtech players are generally looking more to assist rather than disrupt."

At the same time, Soni warns more disruptive overseas fintechs will start moving into Australia as they reach the point where they need to show their shareholders that they're expanding. Unfortunately, local fintechs have struggled to scale up, in order to push back and compete on the world stage.



Michael Lukman sees financial wellbeing and sustainable finance as key growth areas.

"There is phenomenal innovation in Australia and the businesses are certainly there," Soni says, "but scaling up has been an issue for a lot of companies and I think the local community needs to ask why."

While Australia has "world-class" fintechs, the local financial sector tends to have more faith in overseas providers than home-grown start-ups – but this is starting to change, says Michael Lukman, former APRA banking analyst, now managing director of Gen Advisory, a professional services firm supporting fintechs and authorised deposit-taking institutions (ADIs).

Based in Sydney's Stone & Chalk hub for emerging tech, Lukman sees financial wellbeing and sustainable finance as key growth areas. He says the financial

services sector is set to change as banks and ADIs move beyond acting as financial services and credit providers, to also become enablers for financial wellbeing. Investors are also placing more importance on environmental, social and governance (ESG) factors.

"Post COVID-19, there will be a higher degree of financial stress and exclusion in the community," Lukman says. "Many will find the current financial products increasingly unreachable and unaffordable – this will be a driver for savvy players in the personal financial management and financial wellbeing sector.

"Emerging technologies such as robo-advice [https://www.afr.com/link/follow-20180101-p55flx] have the potential to take off because of the value proposition – these low-cost, low-fee models will be more accessible while also having the potential to create higher long-term returns than your high-fee financial products."

Sydney-based robo-advisory Stockspot was established in 2013 to take advantage of automation to simplify portfolio investment, says Chris Brycki – Stockspot founder and CEO, former fund manager and member of the ASIC Digital Finance Advisory Committee.

Stockspot took advantage of a generational change in how financial platforms could be built, following the example of online retail and travel, which gives it a very different cost base to traditional advisors, Brycki says.



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At Stockspot, humans still pick the asset allocations. The term "robo-advice" refers to automating processes such as providing statements of advice, along with basic investment strategies such as automatically investing dividends and rebalancing portfolios.

Stockspot has raised $8 million through four rounds of capital raising, but Brycki says it was initially a difficult sell to VCs.

"I think they struggled to visualise the future of tech and wealth management because it didn't fit into any of the other fintech boxes they'd invested in up until that point," Brycki says.

"Some fintech segments have thrived through tapping into the consumer bent towards spending money they don't have, but an inflection point is coming where more Australians will aspire to be smarter savers and investors – and that's our opportunity."