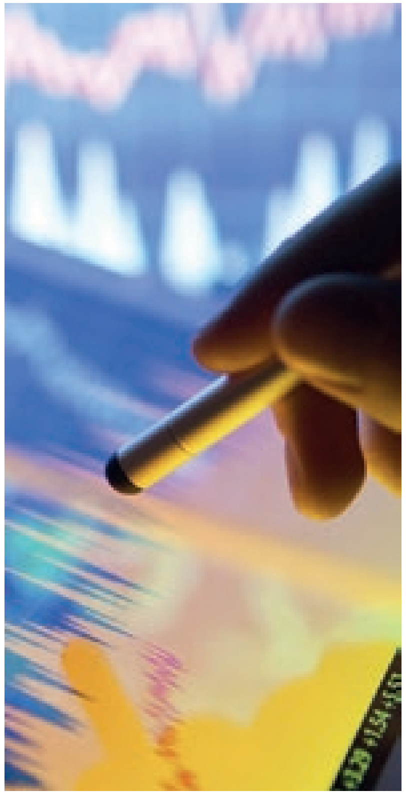


The Committee for Sydney

Unlocking the potential:
The Fintech opportunity for Sydney

Summary

October 2014

KPMG
cutting through complexity

Supported by NSW Government Trade & Investment

Foreword from the Deputy Premier

Sydney's position as Australia's financial services powerhouse is set to move up a gear. The convergence of digital and financial sector strengths and growing global recognition of the city's role as a key financial hub for the Asia Pacific are fuelling Sydney's fast emergence as one of the world's most exciting new financial centres.

The NSW Government has recognised this opportunity and is working with businesses and researchers to improve collaboration and knowledge sharing across the NSW financial services industry. We are supporting the establishment of an industry-led Knowledge Hub for financial services to create a new platform for collaboration, to enhance productivity and innovation, build capabilities, and identify market opportunities.

With an improved culture of innovation and collaboration between government, industry and research, we have the potential to provide fresh insights for NSW businesses to help them build sustainable long term competitive advantages.

The Financial Services Knowledge Hub, coordinated by the Committee for Sydney, aims to capitalise on this by positioning the NSW financial services industry for new markets, new opportunities, new capabilities and global growth.

This report provides some specific insights into the rapidly developing market for financial services technology or Fintech, and it will help to inform the activities of the Financial Services Knowledge Hub. Fintech presents a fantastic opportunity for Sydney as a leading financial services and technology hub for Australia and the Asia Pacific.

I commend the Committee for Sydney for commissioning this highly relevant research, and for its important ongoing role in driving growth and innovation with the Financial Services Knowledge Hub. This initiative will further enhance Sydney's emerging position as a leading global financial services centre.

Andrew Stoner
Deputy Premier

Introduction from Lucy Turnbull

Sydney's financial services industry is a key driver of national productivity. In itself it produces 5 percent of Australia's GDP with a significant extra multiplier effect in innovation and job creation – for the rest of the economy. Overall Sydney's finance and professional services driven CBD produces more wealth for Australia than the mining sector as a whole.

At the same time, Sydney is also the centre of Australia's ICT industry and leads the nation in tech-start-ups. It is because of the agglomeration and combination of high labour productivity sectors here that the Committee for Sydney has talked of Sydney's increasingly important 'dividend' for Australia as the mining boom moderates and the need for public policy and investment to support its continued growth – in the national interest.

However, despite the importance of 'Fintech' both on the global stage and nationally and the fact that many financial services companies are clearly redesigning their business models because of the new digital and mobile platforms, there has been little research on it in Australia. The conditions for the emergence and success of Fintech here have not previously been identified to inform a strategy aimed at actively promoting the growth of the Fintech sector. As Fintech will actually shape the future of Sydney's key financial services industry and produce beneficial spill-over effects in other productive, tech-based sectors of our urban economy, this gap needs to be filled.

This report goes some way towards doing that. It is the first study produced under the aegis of the new Financial Services Knowledge Hub initiated by the Committee for Sydney, its many members in finance and ICT and the NSW Government Department of Trade and Investment. Recognising that digital, mobile and cloud technologies are revolutionising how customers bank and businesses raise finance, the Knowledge Hub will seek to help accelerate Sydney's growing position in the region's financial services industry by supporting its burgeoning Fintech scene and the eco-system and environment required to sustain it.

Focusing on what will enable the sector to grow

Like all Committee for Sydney reports, this is not an academic exercise. The report has a decidedly practical objective. It focuses on what innovations, policies or tools are required across the public and private sectors to help grow the capacity and economic impact of Sydney's Fintech sector. Sydney has great foundations for a thriving Fintech cluster and a significant opportunity to benefit from a technological revolution that plays directly to its strengths both as a financial and an ICT centre.

Of course while understanding our strengths we also need to overcome our challenges. While Sydney enjoys many natural advantages and its lifestyle is a magnet for young talent previous research finds that such mobile talent is attracted for rational economic reasons to cities with the right mix of assets. They want to be assured that the employment, enterprise and investment opportunities and the face to face, digital or transport networks they need from their city – and indeed the required tax and visa regimes – are also available alongside the lifestyle they seek.

Providing a supportive eco-system for innovation and growing export potential

With tech entrepreneurs, this means that the eco-system and environment for innovation need to be attractive and supportive and also that the skills and finance they need are readily available. In this context this sector faces some critical challenges and barriers to overcome. This report seeks to identify them and suggest ways in which the ecosystem supporting Sydney's Fintech cluster – that combination of financiers, entrepreneurs, customers and civic support – can be further enhanced.

And, by growing the Fintech sector in Sydney we will further cement Sydney's reputation as the national leader of innovation in the financial services industry, as well as reinforce our reputation as a hub of technology development and talent. With the right policy settings, talent attraction strategies, collaborations and above all ambition, Sydney can become a key Fintech leader within the Asia Pacific region and a key exporter of financial services and wealth management expertise and products to the region. That must certainly be our objective.

Collaborating to compete – and to accelerate learning from competitors

Just as the most successful cities internationally are those who 'collaborate to compete' so too will greater success for the Fintech sector require greater collaboration. In principle the very essence of Fintech is the coming together of financial services and ICT/digital economy enterprise.

We must build on this. Whereas some serendipity always helps in innovation, the report stresses that little should be left to accident if we wish to succeed in Fintech in Sydney. Structuring and enabling collaborations – between banks, alternative finance providers, insurance providers, Fintech entrepreneurs, universities, venture capitalists and indeed government – is vital to overall success and specifically to sharply reduce the typically longer product development and sales cycles found in the Fintech sector. Assertive collaboration, skills development and capacity building are crucial to speeding up the maturing of Fintech firms and to realising a flourishing Fintech sector in Sydney.

Experience from other global cities suggest the initiatives and institutional innovation required. Both New York and London are leveraging the benefits of having the two interlinked sectors of financial services and ICTs close to one another physically by actively promoting closer working of financial institutions and tech entrepreneurs: this ensures innovation is tailored to the specific needs of financial services and their customers. We must do the same.

Both are actively engaged in supporting training and workshop initiatives to arm first time Fintech entrepreneurs with the skills that would otherwise take years of experience to attain. We must do the same.

Both have created Fintech accelerators or innovation labs to reduce the time to market and speed up deal-making between financial institutions and Fintech enterprises from 18 months to 18 weeks. We must do the same.

Vital: effective partnership between the public and private sectors

At the heart of success are effective public-private cooperation. We know that the NSW Government 'gets' financial services and understands Sydney's dividend from them for the state and the nation. We have also seen how creative a partner they have been in working with the Committee and the private sector on developing effective new industry policy and initiatives such as the Global Talent and Knowledge Hub projects. We are confident that our state government will seek to reduce any unnecessary barriers to the success of Sydney's financial services and to the development of a successful Fintech sector.

Some further policy development and advocacy will be required at federal level to ensure that we have competitive tax and visa regimes in place to enable Sydney to attract the global talent and investment required to maintain its existing status as the nation's centre for both finance and ICT and indeed to enable it to increase its economic significance in the region. In making the case for Sydney as Australia's financial services export platform, the NSW Government will we believe, be able to point in the coming years to a flourishing Fintech sector of regional significance. This report, and its key recommendations, will help catalyse this result.

I'd like to thank Andrew Low of Redbridge Grant Samuel for chairing the Financial Services Knowledge Hub which oversaw the development of the report and KPMG for support on the research. The NSW Department of Trade and Investment are partners in the Knowledge Hub and we thank them for their support and collaboration which has been exemplary.

Lucy Turnbull, AO
Chair Committee for Sydney

The state-of-play

Sydney's financial services and ICT sectors are substantial drivers of the Australian and NSW economy. In 2013 alone, the financial services industry contributed 9 percent to the Australian economy, employed 420,000 people, and paid 11.5 billion Australian dollars (A$) in taxes (while contributing A$57 billion to NSW's economy).[1]

The city of Sydney represents around 21 percent of Australia's total finance and insurance industry employment – the greatest concentration of such employment in Australia.[1] And as home to the majority of Australian and foreign-owned financial institutions, financial regulators and the Reserve Bank of Australia, the importance of the sector to Sydney – on both a national and global level – is clear.

Fintech has the potential to disrupt established businesses and challenge Sydney's place as a leading financial services centre.

Capitalising on opportunity

There is every reason to be optimistic that a vital Fintech sector can be established. Sydney is ideally located in the rapidly growing Asia Pacific region and regularly scores highly on city indexes for liveability, global reach and even business start-up ecosystems.[2]

Sydney's highly resilient, strong and sophisticated financial services sector is also closely aligned with Australia's most significant cluster of industries and critically-linked industries; such as ICT, digital, tertiary education and creative services. All of which are profiting from a constant stream of highly educated individuals from NSW's universities and business schools, and research from highly regarded institutes such as the Centre for International Finance and Regulation. In 2014 there are more than 13,000 students currently studying information technology in NSW's eleven universities[2] – a huge boon for the ICT sector in particular.

The effects of such a strong industry and educational pipeline also have positive ramifications for businesses throughout the city.

This is particularly true for businesses that directly engage with the banking, finance and property industries – professional services alone (such as accounting, taxation, legal and consulting) accounts for around 30-35 percent of such interactions.[2]

This ultimately creates a supportive and collaborative environment where financial industries, education and research institutions, and governments can work closely with each other to achieve the best outcomes for today and tomorrow.

1 ABS Catalogue number 6291.0.55.003 – Labour Force, Australia, Detailed, Quarterly; Australian Taxation Office, Banking and Finance Industry Strategy for 2014-15

2 City of Sydney Council; Z/Yen 2014; Economist Intelligence Unit, Liveability Ranking, 2013; Singapore Civil Service College, 2014; IBIS World 2014

For the Fintech sector this is the ideal situation for growth. It provides a clear opportunity for Sydney to realise its Fintech potential in a rapidly evolving industry landscape.

Providing a supportive innovation ecosystem

By growing the Fintech industry in Sydney we will further cement Sydney's reputation as the national leader in innovation in the financial services sector, as well as reinforce our reputation as a hub of technology development and talent.

Collaborating to compete

Greater success for the Fintech sector requires greater collaboration. Structuring and enabling collaborations between banks, alternative finance providers, insurance providers, Fintech entrepreneurs, universities, venture capitalists, regulators and indeed government – is vital to overall success. Assertive collaboration, skills development and capacity building are crucial to speeding up the maturing of Fintech firms and to realising a flourishing Fintech sector in Sydney.

The changing industry landscape

The rapid pace of technological change makes one thing clear: if you stand still you're going to be left behind.

This is seeing a surge in traditional financial services institutions – locally and globally – investing in technology innovation, rethinking their business models, and even collaborating with Fintech firms.

All of which are essential to not only effectively compete with new technologies and models, such as peer to peer lending and electronic payment and investing services, but to meet rapidly changing consumer behaviour and demands, which include the following:

Consideration of non-traditional alternatives

Customers are likely to be more willing to consider non-traditional alternatives to 'traditional' loans, savings, investments and retirement products, either as a result of increased availability, customer awareness, social and peer pressure.

Reduced information asymmetry

Technology is reducing information asymmetry in the industry, giving customers greater transparency when selecting a financial services provider, product or service.

Growing advice from peers

Customers may increasingly trust and value advice from alternative sources. Decisions are likely to be influenced not only by their peers, friends and colleagues, but also the opinions of online groups and social media communities, which may span countries, cultures and which will almost certainly be comprised of strangers.

Personalised services

Multitasking and time scarcity is likely to continue to escalate, prompting more customers to look for time-saving solutions, single point of access and aggregation across a range of providers.

This is evidenced by the level with which customers have embraced self-service. In return for sharing more data about themselves, customers will demand even greater levels of personalised service.

Willingness to adopt new technology

As the pace of technological advancement continues to increase, customer's willingness to adopt new products and technologies is also likely to grow. Consumers are adopting innovations at an increasingly rapid rate.

Less loyal

Customers are increasingly value-driven and less loyal to financial institutions. This concern for value has driven increased levels of switching, as well as increased the likelihood of future switching.

Source: KPMG, Investing in the Future, 2014

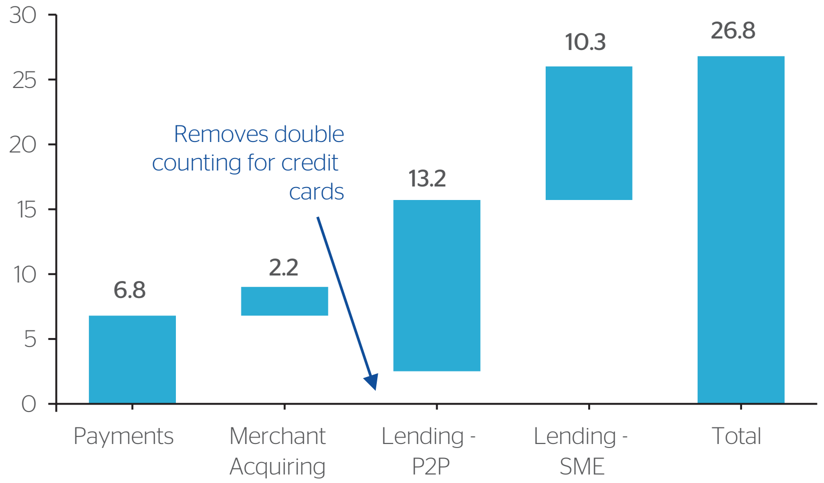
Alignment and collaboration is the new normal

This pace of technological advancement will continue with new entrants altering the traditional financial services landscape (and traditional firms evolving to compete and retain their customers) – especially as the high margins in financial services attracts the attention of many of the world's most innovative companies.

Despite the threats from new technology players, KPMG research shows that 53 percent of consumers still trust their banks the most when it comes to making transactions over a mobile device.

It is clear why many traditional institutions are developing a wide range of approaches to try and keep up with this wave of innovation and why businesses and governments need to foster a truly aligned and collaborative environment that ensures everyone benefits from these rapid changes.

A$27bn of current banking industry revenue is at risk of digital disruption



Source: Macquarie Research: Australian Banks 'Trust' in the IT Arms Race

This is especially relevant as Fintech is challenging existing business models (and creating new ones) as non-traditional entrants leverage technology to deliver new and existing services to consumers and business in more relevant and convenient ways.

This cannot be taken lightly. Current estimates show that 25-30 percent of current banking industry revenue is at risk.[3]

The future of digital innovation in financial services

Change is being driven by:

- new and affordable information technology
- increasingly widespread mobile penetration
- strategic imperatives for financial institutions
- changing consumer behaviour, and
- regulations that rely on technology (such as the Financial Claims Scheme, which requires Single Customer view, real-time payments and internal ratings-based models).

All of which are spurring a surge in innovation and competition. This is especially true for shorter-tenure, high turnover products like credit cards, loans and payments.

This landscape presents huge opportunities for both the Fintech sector as a key enabler, and Sydney as a financial services hub.

3 Source: Macquarie Research: Australian Banks 'Trust' in the IT Arms Race

The development of Fintech

The delivery of financial services through technology is not a new phenomenon.

It is the close combination of financial services with technology (including software, hardware, processes and services), which enables financial institutions to streamline their operations while offering their customers an enhanced and more personalised experience that helps them fulfil their own financial needs.

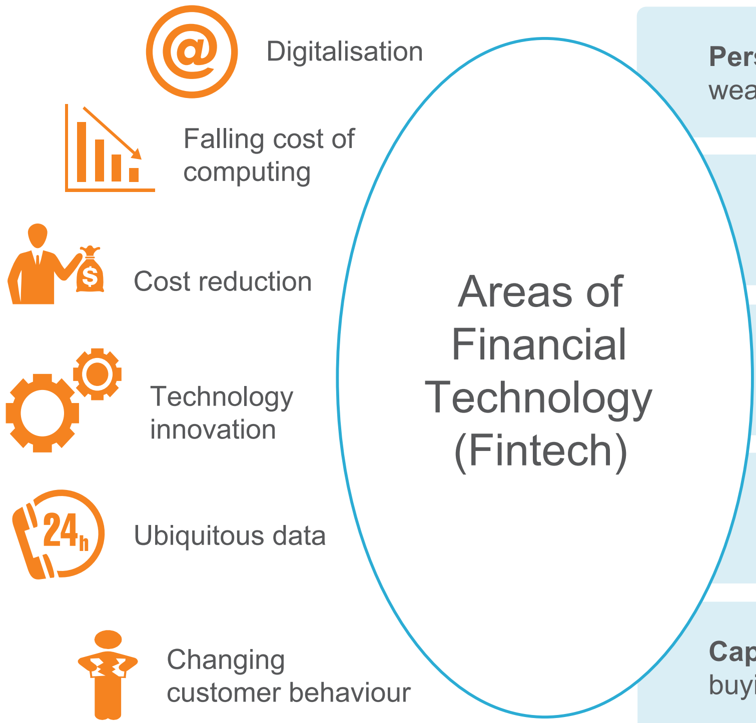
The difference is that today Fintech exists both inside and outside of traditional financial services circles and includes:

- new start-ups (in financial technology)
- the activities and investment in technology innovation from established financial services institutions
- ICT/technology providers, and
- collaboration between these parties or 'disruptive innovation' by any of them individually.

Fintech is a sector experiencing exponential growth around the world, with financing activity in 2013 at US$3 billion, and predicted to rise to US$6-8 billion by 2018.[4]

4 Accenture and CB Insights report 'The Boom in Global Fintech Investment' 2014

This growth is being driven by a convergence of six key trends:



Personal Finance – Tools to help individuals manage their wealth, including stock portfolios, personal budgets and taxes.

Big Data & Analytics – Application of big data and advanced algorithmic techniques to risk management, fraud detection, credit scoring, calculation of insurance premiums, etc.

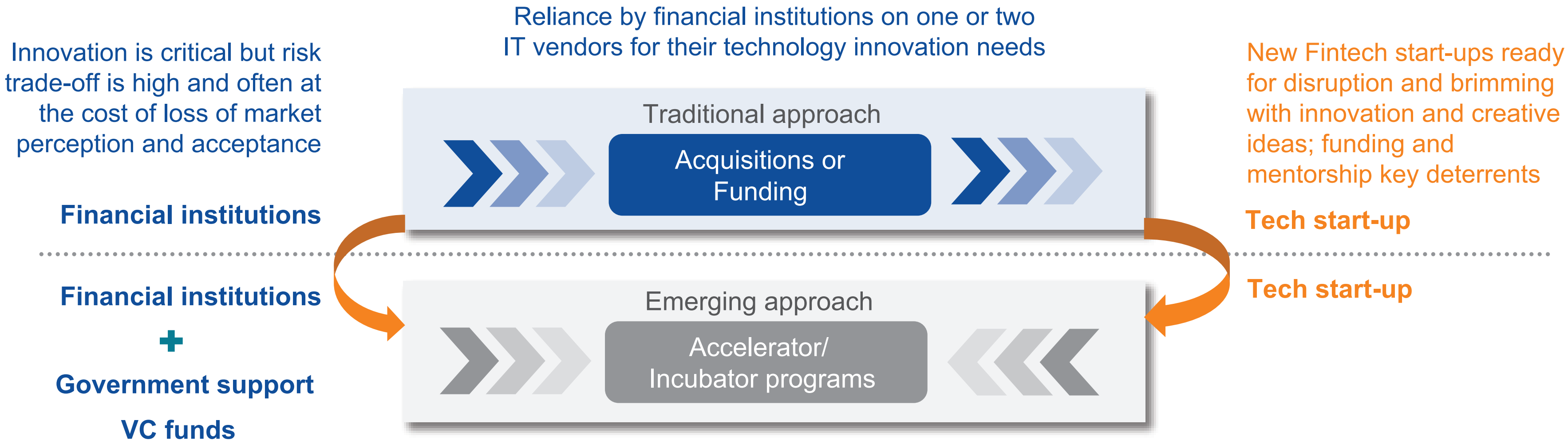
Payments – Technology and tools to facilitate transactions of virtual currencies and mobile payments to eliminate processing costs.

Front Office – Tools and platforms that drive efficiencies into traditional banking operations and practices such as loan origination, fundraising and sales etc.

Capital Markets Technology – Tools and platforms that enable buying and selling of securities such as foreign exchange .

In turn, these are driving a new and more collaborative model of innovation in financial services, bringing together financial institutions, government, technology start-ups and investors.

This is different to the traditional model, which typically sees financial institutions relying solely on IT vendors, as well as acquiring or funding start-ups to meet their innovation pipeline:



The new and emerging model brings together multiple stakeholders who collaborate via duration-based accelerator programs to incubate and nurture talented tech start-ups in the financial services space.

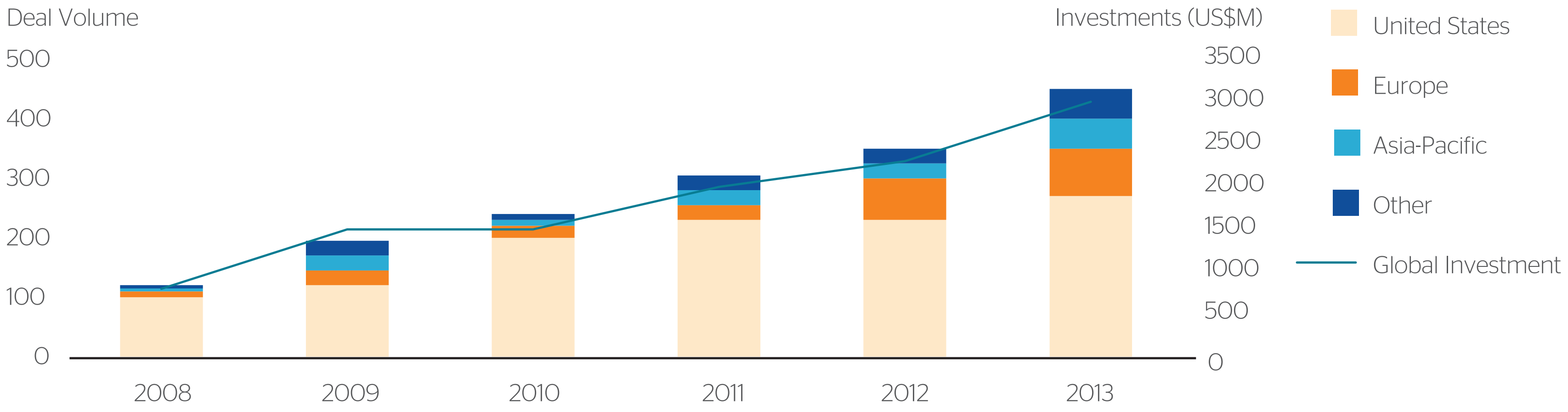
And there are benefits for all participants.

Financial institutions can introduce other stakeholders to manage these programs, greatly reducing risk exposure, driving innovation, increasing customer satisfaction and engagement, and engaging better with start-ups to explore and evaluate innovative options beyond traditional vendors.

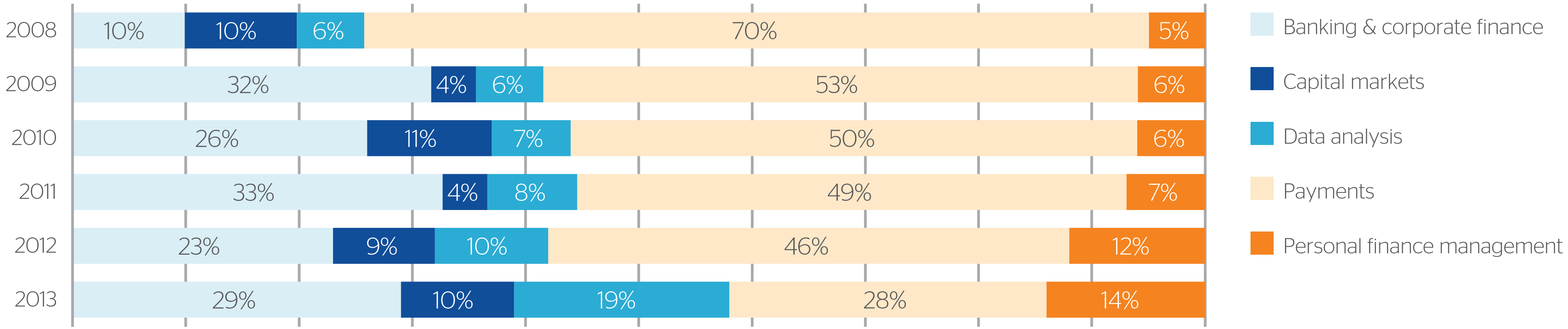
The start-ups themselves can gain funding, working spaces, sector guidance, a better understanding of how financial services operates, and banking group support to reduce their sole reliance on 'informal' funding sources, venture capital and private equity firms.

And it's working. Take a look at the substantial growth in Fintech financing activity and the areas of investment.

Fintech financing activity (US$)



Fintech investment areas



Source: Accenture and CB Insights report 'The Boom in Global Fintech Investment' 2014

Global perspective

Leading international financial centres are pursuing the Fintech opportunity and supporting this through a strong alignment of activity and investment at all levels of government, regulators and industry to accelerate their success.

Silicon Valley is the undisputed global capital of Fintech today, with New York the world's second largest Fintech hub, and London third. Each has formidable assets and capabilities. However, each also has limitations – including strict visa requirements.

Emerging centres, including Sydney, have the potential to develop into global or regional hubs for Fintech. In Europe, Dublin and Berlin are both promising centres with good access to technical skills. However both are challenged in terms of financial services skills. Dublin suffers brain drain to London, while the financial services sector in Berlin is relatively underdeveloped.

In Asia, Singapore and Hong Kong are both vibrant financial services centres. Singapore is aggressively pursuing Fintech development. Hong Kong's proximity to China represents significant opportunities for financial services. However access to private sector venture capital investment remains a key hurdle for both cities.

In the Middle East, Tel Aviv has spawned several successful technology ventures. Its strong capabilities are underpinned by skills developed during military service. The incentives for Foreign Direct Investment in Fintech are among the most generous in the world.

London calling

The United Kingdom, in particular, is at the forefront of global efforts to support the development of Fintech with strong alignment across government, regulators, industry and Fintech start-ups.

The government is leading this charge through numerous initiatives:

- Committing over £100 million to Fintech firms through the British Business Bank, which is also collaborating with Innovate Finance (an industry body established to promote the interests of the UK Fintech sector) to increase small and medium enterprise (SME) lending by promoting alternative forms of funding.
- Establishing the Financial Services Trade and Investment Board to attract inward investment, promote external trade, and remove restrictions of the UK's financial services sector.
- Directly engaging with Fintech firms developing innovative approaches not explicitly covered by regulation, or for which application of regulation is ambiguous.
- Developing a coordinated approach between agencies to ensure the UK is seen as the destination of choice for companies wanting to establish a global presence in Fintech.
- Placing personnel 'on the ground' in Australia who are promoting the UK to local Fintech start-ups.
- Introducing 'coding' into the school timetable for children aged 5-16 on a national level.

Fintech is finding additional support with the development of London's Level39 – a hub for early-stage Fintech businesses, which plays host to innovation and accelerator programs.

UK banks are also launching venture capital funds and accelerator programs targeting Fintech start-ups. And the Fintech Innovation Lab was launched in 2013, which provides a 12-week mentorship program that brings together Fintech start-ups with senior executives from 13 of the world's leading banks.

This level of investment by London and the UK should be closely studied by Sydney and New South Wales.

Established and emerging Fintech hubs

There are a number of leading and emerging Fintech hubs around the world, including San Francisco (Silicon Valley), New York, London, Dublin, Berlin, Tel Aviv, Singapore and Hong Kong.

KPMG has analysed each of these and identified their respective strengths as follows:

Established hubs

Silicon Valley

- Silicon Valley boasts a vibrant technology sector and is home to many of the world's best known companies. Against this backdrop Silicon Valley has developed a formidable Fintech eco-system. Almost one third of global Fintech investment in 2013 went to Silicon Valley companies.
- Initial government support for the American defence sector in the 1930's to 1950's, as well as strong universities (e.g. Stanford) have played a key role in establishing the valley. More recently successful repeat entrepreneurs and availability of venture capital have played a key role in funding and establishing new ventures. However Silicon Valley has a relatively small financial services sector which may hamper long term primacy.
- Approximately 11,000 people working in Fintech in the valley.

New York

- New York is the second largest Fintech hub globally, with Fintech investment growing rapidly (CAGR 31%), increasing twice as fast as Silicon Valley over the past five years. However as deal volumes rise, deal value is diminishing which may impact the ability of start-ups to attract latter stage funding.
- New York is a world centre for financial services. As a result there is a ready pool of financial services skills to feed entrepreneurial Fintech business. Other 'tech' businesses such as Google, Facebook, Amazon and eBay are growing in New York which may impact the ability to attract quality engineering talent.
- Approximately 43,000 people working in Fintech in New York.
- The city's relatively low Fintech profile affects its ability to attract influential capital.

London

- London is second only to New York in terms of global financial services. The UK government is promoting London as a Fintech hub and actively attracting investment and talent. This coupled with reasonable access to funding, talent and a conducive business environment position the Fintech eco-system in London for growth.
- Private funding has been growing strongly (the 5 year CAGR in 2013 was twice the global average). Late stage funding/IPO options may have been problematic in the past but are less of an issue today.
- Approximately 44,000 people working in Fintech in London.

Emerging centres – Middle East

Tel Aviv

- The Yozma Fund has been offering generous incentives to attract foreign investments for over 20 years. Tax breaks also exist for research and development and the government supports entrepreneurs through events and provision of shared working spaces.
- A good education system and technical skills developed during mandatory military service contribute to a strong skills base. Changes to make it easier for foreigners to start a business in Israel are also under consideration.
- Almost 300 venture capital firms are active in Israel. Seed- stage funding is a relatively small proportion of aggregate investment.

Emerging centres – Europe

Dublin

- The Fintech sector in Dublin benefits from strong government support. Mechanisms include pro-investment tax settings, to bespoke services/ support, and actively recruiting foreign talent.
- It also has a network of angel investors and venture capitalists. The government also supports inward investment from foreign investors. Latter stage funding is harder to secure.
- There is a strong education sector and a good supply of young skilled workers (ranked #1 for the availability of skilled labour).

Berlin

- Berlin has a robust education system and attracts young talented people.
- It has a good business environment and costs are modest by European standards. However it lacks a strong financial services sector. Government support for Fintech and entrepreneurship is limited but may be growing.
- Access to private funding and venture capital is also limited as are sophisticated investors who can help guide entrepreneurs towards success. This may present an opportunity for foreign investors.

Emerging centres – Asia

Singapore

- The Singapore government has invested heavily in the promotion of an innovation eco-system through direct investment, tax incentives, and measures to make Singapore an attractive destination for entrepreneurs.
- Singapore's strategic location, conducive cultural and legal factors, developed financial services sector and ICT capabilities provide a fertile environment for Fintech. However, early stage funding is not matched by funding available later in the cycle.

Hong Kong

- There are a range of government incentives and services. The government is also active in attracting foreign entrepreneurs however the visa process can be an impediment and tax structures are less favourable than some other centres.
- The local pool of venture capital is small but growing and foreign investors are becoming more active.
- The financial services and ICT sectors are well developed. Additionally, Hong Kong has a strong entrepreneurial pedigree and a supportive business environment.
- Hong Kong is also a key gateway to the Chinese mainland which represents significant a opportunity for financial services.

What we can learn from the global leaders

These established and emerging hubs all exhibit to varying degrees a set of common characteristics that have helped them develop a strong Fintech ecosystem, and which Sydney must consider in its aim to become the leading Asia Pacific Fintech hub.

Our analysis found the following factors are important enablers to developing a strong Fintech ecosystem:

- Available and accessible early stage funding for Fintech start-ups and a strong pipeline of opportunities for investors/venture capital funds.
- Depth of financial services and technology talent and close proximity of these talent pools to each other (in city locations).
- A robust financial services industry, with a vibrant technology start-up community with mentoring, networking and high visibility.
- Government commitment and regulatory support for the Fintech sector specifically, and technology start-ups generally.
- Business backing for a Fintech hub, with high levels of collaboration and a culture which encourages innovation and risk taking.

Those who performed strongly across three or more of these factors had the strongest Fintech ecosystems (particularly Silicon Valley, New York and London). In addition, aligned activity and coordinated action across each of these factors influenced success.

What also became clear through the analysis was a need for Fintech (and other technology) start-ups to gain better access to relevant government agencies. Clear start-up contact points in government and regulatory agencies can greatly assist Fintech start-ups throughout their development.

For Sydney, city/municipal support is a must-have to foster entrepreneurial clusters.

Sydney Fintech today

Sydney is ideally positioned to capitalise on the growing Fintech sector.

However, while it is Australia's financial services centre, the city is still in the early stages of establishing itself as a key hub for Fintech start-ups.

This is surprising as Sydney clearly leads the way in tech start-up activity with over 950 businesses in 2013 (Melbourne followed with 350). Yet Fintech start-ups were only a small portion of these businesses.

Nonetheless, on a national level, most of them originated in Sydney and covered sectors such as personal finance, big data and analytics, payments, front office, middle-and-back office and capital market technology.

This fledgling development is supported by a small number of new specialist financial services Fintech venture capital funds and accelerator programs (though established firms currently have limited participation in Fintech – Westpac is a notable exception).

This is not to say mature Fintech doesn't exist.

Sydney already hosts a number of established Fintech businesses (such as OzForex and Tyro Payments) and emerging players, including SocietyOne and PocketBook. The majority of these companies are located in and around the city's CBD.

Sydney has a steadily growing Fintech community with 450 members that is already holding events ("Meet Ups").[5]

Other leading international financial centres are also pursuing the Fintech opportunity and are supporting their efforts – and accelerating their success – through a strong alignment of activity and investment at all levels of government, regulators and industry.

This represents an opportunity for Sydney to export its financial services and ICT/digital capabilities globally. Local technology start-ups are already gaining attention from offshore governments, with some, such as the UK, targeting them to move to London.

The city may be underperforming today but the potential is definitely in place for tomorrow.

> The Australian tech start-up sector has the potential to contribute A$109 billion or 4% of GDP to the Australian economy and 540,000 jobs by 2033 with a concerted effort from entrepreneurs, educators, the government and corporate Australia.[6]

5 Sydney Fintech Startups Meetup website, 2014
6 "The start-up economy – How to support tech start-ups and accelerate Australian innovation", Google Ventures & PwC (April 2013) accessed July 2014

There are many examples of an emerging Fintech landscape in Australia, with most Fintech start-ups originating from Sydney

Personal Finance

SocietyOne
Debt To 10k
BANK STATEMENTS
TOUCH
NIMBLE
stockspot
Pygg
SelfWealth
Money Buddy
cashflower
#ashChing
BetaShares Exchange Traded Funds
flongle.
VENTURE CROWD
AgileCredit Small Business Credit that Works
macrovue
stocklight
SIMPLY WALL ST

Front Office

EQUITISE
flamingo

Big Data & Analytics

DS finance
AnalytixWare
sirca
QUANTIUM
FinSuite

Venture Capital

reinventure
AWI

Accelerators & Incubators

TechBeach MANLY
AWI ventures

Payments

distra
Fat Zebra
COINJAR
mint
CashWerkz
Pin Payments
tyro

Capital Market Technology

PAC-INVEST
OZFOREX
TAQTIQA
GBST

Middle and Back Office

vistr
bravura solutions

Source: KPMG analysis, 2014; company websites

Enabling conditions

Sydney has many of the required elements to become a Fintech hub. But compared to the global leaders, it is underperforming.

Developing and fostering Fintech is all about looking for growth opportunities for the Australian and state economies.

But the right conditions need to be built. This will require a strong focus on collaboration at all levels.

KPMG analysis has revealed a series of important enablers for successful Fintech development – from ensuring available and accessible early-stage funding, having government commitment and regulatory support, placing financial services and technology talent in close proximity, promoting a robust financial services industry, and ensuring business support for the development of a Fintech hub.

Building on existing foundations

When it comes to Fintech development, Sydney can learn a lot by looking at London and cities like Tel Aviv and Singapore, which also provide strong government support for technology start-ups.

Thankfully, Sydney doesn't have to start from scratch. Sydney has strong financial services foundations, with access to skilled and capable resources, technology, digital and creative industries.

For Sydney to have a vibrant and flourishing Fintech ecosystem, it must focus on those enabling conditions where it is strong and seek to develop the areas where it is underperforming.

What Sydney needs to do

To become a leading Fintech hub in the Asia Pacific region, Sydney must meet a number of key enabling conditions.

The city must have:

- available and accessible early stage funding for Fintech start-ups and a strong pipeline of opportunities for investors/VC funds;
- depth of financial services and technology talent, with close proximity of these talent pools to each other (in city locations);
- a robust financial services industry, with a vibrant technology start-up community with mentoring, networking and high visibility;
- Government and regulatory support for the Fintech sector specifically, and technology start-ups generally; and
- business backing for a Fintech hub, with high levels of collaboration and a strong culture of knowledge-sharing and entrepreneurship.

In addition, there are six key areas that warrant further attention:

1. Vision & strategy

- Fintech start-up activity tends to occur in large metropolitan areas.
- Establish a coherent and supportive entrepreneurial vision and strategy for Fintech at a city level (Sydney).
- Consider Fintech in a broader global financial services context and particularly Asia as an export opportunity.

2. Commitment

- It is important for government (and regulatory agencies) to publicly state their commitment to supporting the development of the Fintech sector.
- Maximising the opportunity will take strong commitment from government and industry.

3. Alignment

- To accelerate the development of the Fintech sector, alignment and coordination of activity and investment is required (government, regulators, start-ups, industry, academia, etc.).
- Explore adjacent opportunities and benefits across sectors, e.g. financial services, ICT, professional services.

4. Accessibility

- Critical to any start-up is access to funds and expertise.
- Beyond this there is also a need for access to regulators, government and data.
- Government providing a single point of contact for start-ups to remove bureaucracy.
- Sydney needs a clear point of entry for Fintech where various stakeholders can come together.

5. Collaboration

- A ‘centre of gravity’ or physical focal point needs to be established.
- Fintech requires established financial services organisations and new ventures to come together.
- Problems need to be shared and safe environments created to truly foster innovation.

6. Promotion

- Financial services and Fintech both need a champion and voice at local and global levels.
- This needs to be at both an industry level and also at a political level.
- Promotion can be used as an effective tool to attract capital, investment and the best talent (locally, regionally and globally).

Recommendations

We advocate the following actions to help Sydney maximise each of these conditions and build a pipeline of Fintech business ventures.

1. **State Government to continue working with partners in the private sector and the Committee for Sydney on the development of a comprehensive Fintech vision and strategy for Sydney, providing a focal point for the alignment of effort across the public and private sector and articulating a clear commitment to the Fintech sector**

Rationale

- Provides an aligned vision and goals for the development of the Fintech sector, as part of the State Government's support for financial services
- Articulates the importance of and commitment to Fintech as a sector
- Establishes the critical pathway and actions for success

2. **Explore the establishment of a not-for-profit Fintech hub in the heart of the city that co-locates technology start-ups, venture capital and established financial services firms**

Rationale

- Creates a critical mass and local 'centre of gravity' for Fintech in Sydney
- Provides low cost services, e.g. working space and expertise for start-ups
- Provides access to low cost capital for start-ups, as well as a pipeline of opportunities for venture capital and established financial services firms
- Drives collaboration between start-ups, established financial services firms, as well as regulatory agencies

3. **Government (local, state and Commonwealth) to promote Sydney as the leading Fintech centre in the ASPAC region and establish a series of events in the city, regionally and globally, to showcase Fintech in Sydney, in line with our leading financial services position**

Rationale

- Establishes a platform to promote Fintech in Sydney and globally
- Raises awareness for Fintech start-ups to export their capability offshore
- Attracts funding and venture capital to Sydney
- Attracts entrepreneurial talent to Sydney

4. **Form an independent Fintech focussed industry association, based in Sydney, to give the sector a strong voice and champion**

Rationale

- Helps to prioritise the needs of the sector (liaising with Government and regulatory agencies) and provides a representative voice for the Sydney Fintech community
- Promotes Sydney as the 'centre of gravity' for Fintech in Australia and regionally
- Drives collaboration between financial services firms and Fintech start-ups

5. **Work with the Federal Government and regulatory agencies, to enhance the current regulatory, tax and business incentives available to the start-up community, as well as introduce measures to target foreign entrepreneurs, attracting them to Sydney**

Rationale

- Provides a regulatory and tax framework that supports innovation
- Helps to broaden the entrepreneurial culture base
- Attracts funding and venture capital to Sydney
- Attracts entrepreneurial talent to Sydney

6. **Engage the university sector and leverage research institutes, such as the Centre for International Finance and Regulation (CIFR) to research key Fintech themes and explore business opportunities for commercialisation**

Rationale

- Develops ideas and business opportunities for commercialisation
- Connects the university sector, the Fintech start-up community and business
- Leverages existing infrastructure, such as CIFR

Conclusion

When it comes to investing in Fintech today, Sydney is underperforming.

It must act proactively to defend, maintain and enhance its leadership position within the financial services industry and strengthen its Fintech offerings.

This can best be done in a coordinated, committed manner by both government and industry.

Ultimately, a truly aligned and collaborative environment for entrepreneurial activity and innovation – for both new Fintech start-ups and established financial institutions – must be established.

Only then can the enabling conditions be created to support as many options as possible.

For Sydney to perform beyond expectations and become a major Fintech hub within the Asia Pacific, that journey must start now.

The Committee for Sydney

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This document is a summary of the Unlocking the potential: The Fintech opportunity for Sydney report. The full report can be downloaded from www.sydney.org.au