Australia’s global RegTech hub poised for growth

A perspective on supporting the local RegTech sector to scale
Boston Consulting Group

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The RegTech Association

The RegTech Association was founded in 2017 in Australia as a non-profit organisation that focuses on what is needed to support the growth of the global sector and to accelerate RegTech adoption across all regulated industry verticals. Our vision is to be a global centre of excellence by facilitating the building of higher performing, ethical and compliant businesses through RegTech innovation and investment.
About this report

This report has been developed in partnership with BCG Expand FinTech Control Tower, a subsidiary of the Boston Consulting Group, and The RegTech Association. It draws on findings from BCG Expand’s FinTech Control Tower global report into the RegTech landscape, which has considered:

- A taxonomy of RegTech segments.
- Global growth trends in RegTech and related equity funding.
- RegTechs’ responses to COVID-19 and how they continue to adapt to support regulators, businesses and consumers.

The Australian edition of this report, Australia’s global RegTech hub poised for growth, applies a local lens to the RegTech sector. It is informed by interviews with local RegTech executives, a survey of The RegTech Association members, and perspectives from The RegTech Association, the peak industry body headquartered in Australia.
Summary

RegTech, short for Regulatory Technology, is the application of emerging technology to improve the way businesses manage regulatory compliance.

Australia’s RegTech sector is the third largest in the world behind the US and the UK.

However, this strong position is under threat as investment in local RegTech has declined by 50% since 2018 while RegTech investment around the world has hit record levels. Today, only 1% of the global investment in RegTech is in Australian companies.

There are opportunities for both the public and private sectors to support Australia’s RegTechs by jointly driving demand for RegTech solutions, creating new funding pools, enhancing regulatory frameworks to support innovation, and promoting RegTech to build the industry’s profile and talent pipeline.

This support would help local RegTechs to scale, creating jobs, supporting the export of Australian solutions into overseas markets, and improving the efficiency and effectiveness of regulatory compliance and oversight to benefit consumers, companies and regulators.

Source: BCG FinTech Control Tower
The RegTech landscape

In financial services and other industries, Australian organisations face a sizeable regulatory and compliance burden from the breadth of laws and regulations they must comply with, the pace with which new regulations are being developed, and an increased focus on enforcement. Organisations struggle to manage this complexity with manual oversight or bespoke technology builds. In this context, Australian RegTech firms have evolved to offer technologically advanced solutions from analysing regulatory requirements, to monitoring compliance, to meeting ever-expanding reporting needs. At scale, RegTechs have the potential to fundamentally transform the efficiency and effectiveness of compliance and oversight for the benefit of customers, companies and regulators.

RegTech solutions underpin many day-to-day interactions that make doing business simpler and safer, without being apparent to most consumers. For example, creating secure portals to safely share information with a bank or telco. Improving the speed and accuracy with which fraud is detected. Using artificial intelligence to better train customer service representatives. Ensuring financial advice meets required standards. These needs, plus hundreds more, are being radically improved through the work of RegTechs.

RegTechs gained early momentum servicing financial institutions, and initially supported compliance functions on a narrow range of problems. Today, the sector is expanding to other regulated industries such as the public sector, telco and energy, with solutions covering a wide range of needs not just in compliance but also in supporting in digital transformation. In fact, over 80% of Australian investment in RegTechs has a cross-sector focus, reflecting the universality of the challenges RegTechs are seeking to address. This diversification has solidified the relevance and importance of RegTechs, but at the same time made it harder for outsiders to navigate the landscape.

The RegTech Association and BCG FinTech Control Tower, with input from RegTech companies and Associations in Australia and around the world, are seeking to create a standard RegTech taxonomy (Exhibit 1). This taxonomy is intended to facilitate understanding of the sector and make it easier for RegTechs to engage with different stakeholders – investors, customers, policy makers and regulators.

Exhibit 1 | The RegTech taxonomy

RegTech defined as technology solutions that facilitate effective regulation or regulatory compliance as a primary value proposition

Source: BCG FinTech Control Tower
Australia: An emerging global RegTech hub

The 2008 financial crisis led to a stronger focus on risk management and regulatory compliance in financial markets around the world, which in turn initiated a period of strong growth for RegTechs. In Australia, growth was more gradual until a push from regulators and policy makers in 2016, closely followed by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry from 2017 to 2019 that gave it new momentum.

In addition, Australia’s position was supported by the establishment of The RegTech Association as an independent, non-profit body to educate and mobilise policy makers, regulators, regulated entities and RegTech companies. This has created a foundation for collaboration and created momentum to support and deploy solutions.

Exhibit 2 | Australia has emerged as a RegTech hub with 80 firms headquartered in the country

There are ~600 RegTechs globally...

...and 80 are based in Australia, making it one of the largest RegTech hubs in the world

<table>
<thead>
<tr>
<th>No. of RegTechs</th>
<th>United States</th>
<th>United Kingdom</th>
<th>Australia</th>
<th>Canada</th>
<th>Singapore</th>
<th>Ireland</th>
<th>Switzerland</th>
<th>Israel</th>
<th>Luxembourg</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>598</td>
<td>174</td>
<td>109</td>
<td>80</td>
<td>26</td>
<td>21</td>
<td>20</td>
<td>16</td>
<td>16</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>122 (20%)</td>
<td>272 (45%)</td>
<td>204 (34%)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1. RegTechs categorised by HQ location 2. Cumulative total as of end 2020 H1
Source: BCG FinTech Control Tower

Today, Australia is the world’s third largest RegTech hub, behind the US and the UK (Exhibit 2). Since 2015, growth in Australia (15% CAGR) has significantly outpaced global growth (6% CAGR). This is despite a relative lack of investment funding locally, with Australian RegTechs attracting only 1% of global investment in the sector (Exhibit 3). Around 70% of local RegTechs are bootstrapped, with no equity raised from traditional sources or bank debt.1

Exhibit 3 | Australian RegTechs have attracted only ~1% of equity funding

RegTechs have raised ~USD $6B globally…

…of which only ~1% has gone to Australian RegTechs

1. RegTechs categorised by HQ location
2. Cumulative total as of end 2020 H1
Source: BCG FinTech Control Tower

7th rank in terms of equity funding into Australian RegTechs; funding levels significantly lower than the top 5 nations
Investment lags innovation

Funding for RegTechs has reached record highs around the world in the past five years, driven by a sharp increase in US$100+ million ‘mega rounds’, that indicate a maturing market for RegTech capital investment.

Australia, however, has gone against the trend. Australia’s fall in RegTech funding (Exhibit 4) is in line with Australian investment in innovation overall. In 2020, Australia was ranked #23 on the Global Innovation Index, down from #20 in 2018. As a result, growth and innovation in Australia’s RegTech industry has outstripped funding. The local market is small, typically risk averse, and often lacks an understanding of RegTech solutions. Low levels of local funding opportunities risk leaving Australia’s RegTech companies at a disadvantage.

Case study: Global RegTech funding mega rounds

The last two years have seen examples of RegTech players being funded through ‘mega-rounds’, where total funding exceeds US$100 million. These funding rounds often attract multiple types of investors, including venture capital, private equity funds and banks. Examples of these funding rounds are highlighted below.

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**OneTrust**, a US based RegTech specialising in data compliance management, received US$410 million across two funding rounds in 2019 and 2020, from Coatue Management and Insight Partners.

**BioCatch**, an Israeli RegTech that provides behavioural biometrics solutions, received US$145 million in April 2020 from several firms including American Express, Bain Capital, CreditEase and OurCrowd.

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Exhibit 4 | Since 2008, global RegTech equity funding has drastically outpaced funding for Australian firms

RegTech founders are typically industry practitioners experienced in compliance and regulation, confident that technology can provide a better way to do things. The RegTech Association research indicates that 71% of member organisations consider themselves beyond ‘early stage’ organisations, extending into the small-medium enterprise stage. Despite this, the funding mix in Australia skews towards early stage seed and angel investments. This contrasts with trends globally, where the funding mix is more balanced across early stage funding and subsequent series A to D (Exhibit 5).

Interviews with RegTech founders suggest that one challenge to local funding is the lengthy sales cycle; it can often take up to two years to sell a software-as-a-service solution into a major Australian corporate. These timelines can put off second round investors who typically look at revenues as driver of their investment decision.

Australian RegTechs say that reduced access to subsequent equity funding rounds can constrain product innovation and their ability to scale. Some turn to opportunities in international markets where they can attract foreign capital and, perversely, increase their attractiveness to Australian customers because many local companies place greater trust in solutions that have been tested in other markets, despite Australia’s reputation as a global RegTech hub. Australian RegTechs hope that the consumer trend towards ‘buying local’ amplified by COVID-19 will extend to their software-as-a-service solutions.

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Exhibit 5 | Equity funding in Australia remains primarily early stage compared to a more balanced mix in other markets

Type of Regtech equity funding, globally

<table>
<thead>
<tr>
<th>Type of Regtech equity funding, Australia</th>
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<tbody>
<tr>
<td>2015</td>
</tr>
<tr>
<td>Seed/Angel</td>
</tr>
<tr>
<td>31%</td>
</tr>
<tr>
<td>5%</td>
</tr>
<tr>
<td>19%</td>
</tr>
<tr>
<td>6%</td>
</tr>
</tbody>
</table>

1. Data period from 2000 to 2020YTD
Source: BCG FinTech Control Tower
Navigating COVID-19

Like most businesses, local RegTechs have experienced disruption during the COVID-19 pandemic (Exhibit 6). Almost half have moved to a hybrid working environment and 25% have reduced headcount. However, the biggest challenge has been an immediate reduction in revenue, driven by:

- A slowing of export opportunities for almost a third of the companies surveyed, as a result of travel restrictions and the postponement of trade events.
- The disruption to regular business operations and procurement processes of existing and potential RegTech clients.

Exhibit 6 | Almost half of Australian RegTechs have seen a short-term impact on revenue as a result of COVID-19, but limited impact on operations and fund raising

<table>
<thead>
<tr>
<th>Business Operation</th>
<th>Fund Raising</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly Negative</td>
<td>Highly Negative</td>
<td>Highly Negative</td>
</tr>
<tr>
<td>Negative</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>No Impact</td>
<td>No Impact</td>
<td>No Impact</td>
</tr>
<tr>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Highly Positive</td>
<td>Highly Positive</td>
<td>Highly Positive</td>
</tr>
</tbody>
</table>

- 7% have adopted hybrid work environment; 45% will maintain and 14% are increasing
- 25% have reduced headcount, 45% will maintain and 14% are increasing
- 16% RegTechs are reporting a retraction of potential capital
- 50% receiving Job Keeper; 40% received nothing at all
- 30% have export opportunities slowed; 7% have export opportunities ceased

Nonetheless, Australian RegTechs remain positive about future growth and continue to seek growth capital to fund product development, talent acquisition and market expansion.

On balance, COVID-19 should support the continued growth in RegTech. The pandemic has accelerated a shift towards remote working and digital interactions, which in turn increases cybersecurity, fraud and financial crime risks. There is a growing focus within Federal and State Governments on RegTech in terms of its potential to efficiently and effectively solve regulatory and compliance challenges, and to be a signature export for Australia. This, combined with regulatory pressure for all regulated entities across a range of industries to adopt RegTech, will create a strong platform for RegTechs to excel.

1. Responses from two surveys of RegTech Association members conducted by the RegTech Association (RegTech Industry Pandemic Impacts, July 2020) and BCG FinTech Control Tower, 2020.
Source: The RegTech Association; BCG FinTech Control Tower
Closing the funding gap

Helping local RegTechs scale is critical to ensuring they have access to a thriving global RegTech market; global spending on RegTech products and services is estimated to increase to US $127 billion in 2024. This report proposes four pillars to the solution to help close the funding gap for local RegTechs (Exhibit 7).

Exhibit 7 | Both public and private entities have a role to play to support funding and promote the growth of RegTechs within and beyond Australia

<table>
<thead>
<tr>
<th>1. Drive demand for RegTech services</th>
<th>2. Facilitate access to funding</th>
<th>3. Game changing moves by regulators and policy makers</th>
<th>4. Promote RegTech to build profile and talent pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help financial and other institutions to understand the benefits of RegTechs through:</td>
<td>Create specialised patient capital funding pools from Private Equity or Superannuation funds to invest in RegTechs.</td>
<td>Develop an industry-wide roadmap that articulates aspirations for RegTech.</td>
<td>Develop and promote interactive programs to solve regulatory challenges with leading edge technology.</td>
</tr>
<tr>
<td>Coordinating industry wide forums and benchmarks.</td>
<td>Divert a proportion of penalties and fines into funding RegTechs.</td>
<td>Enhance regulatory and policy framework to encourage innovation.</td>
<td>Form partnerships with universities and start-ups to build interest in the industry as a career choice.</td>
</tr>
<tr>
<td>Creating marketplaces for participants to engage in problem solving together.</td>
<td>Establish grant programs for immediate access to funds.</td>
<td>Take a supportive regulatory stance as firms test and learn while partnering with RegTechs.</td>
<td></td>
</tr>
<tr>
<td>Support certification to maintain standards.</td>
<td>Become clients of RegTechs.</td>
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</table>

1. Based on feedback collected through primary research with RegTech Association members
Source: BCG FinTech Control Tower

4 Juniper Research (2019), Opportunities for AI in RegTech, UK.
Drive demand for RegTech services

Government and regulatory bodies can act as stewards for the industry by:

- Increasing understanding of RegTech solutions and their benefits. Industry forums can educate potential users about types of RegTechs and what they offer. Industry-wide benchmarking of risk and compliance spend can make RegTech’s contribution to efficiency and effectiveness of risk and compliance activities visible.
- Influencing purchasing decisions, such as through RegTech certification programs that help to maintain and endorse high levels of professionalism in the industry.
- Bringing market participants together to collaborate on problem solving.
- Becoming clients, since many RegTech solutions are relevant for regulators and other public sector organisations.

CASE STUDY

Creating a cross-border FinTech/RegTech marketplace

The Monetary Authority of Singapore (MAS), in partnership with the ASEAN Bankers Association and International Finance Corporation, jointly established the API Exchange (APIX), a cross-border open marketplace enabling financial institutions and FinTechs to collaborate in testing and integrating solutions via the Cloud. To date, 51 financial institutions have partnered with 328 FinTechs through the platform to launch FinTech software within those institutions. Tookitaki and Merkle Science are examples of Singapore headquartered RegTechs on the APIX platform that successfully raised funding in 2019.

CASE STUDY

Partnering with government departments

The Israel Innovation Authority has a comprehensive program aimed at incubating technology start-ups, where grant funding is provided along with the offer to partner with government entities or selected corporates during the development phase. This allows firms access to government or corporate facilities and data to undertake their trials and develop proofs of concept. In addition, the Authority provided US$130 million in direct grant funding to 340 projects in 2019.

The Israel Innovation Authority has supported a number of RegTechs since their inception. One example is NICE Actimize that has benefited from the transfer of technology from the best of Israel’s research institutions for the development of breakthrough products.
Establish new funding pools with long-term perspectives

An influx of long-term or ‘patient capital’ can foster sustainable investment in RegTechs. Governments, superannuation funds and private equity funds could all play a role as providers of capital – as well as being potential clients of the RegTechs that they finance. Australia is familiar with patient capital through investment in life sciences and medical research, although it remains an immature market relative to other places like the UK. There is also an option for governments to consider reinvesting funds gathered from regulatory fines and penalties into funds that invest in RegTech solutions to solve compliance issues. Finally, establishing grant programs with clear, robust entry criteria would provide high quality RegTech firms immediate access to funds needed to scale.

**CASE STUDY**
**Government and institutional joint-investment**

British Patient Capital was established in 2018 in response to government reviews into the challenges businesses face in accessing capital. The fund has GBP 2.5 billion to invest over a ten-year horizon, making it the largest domestic investor in venture and venture growth capital in the UK. The fund also partners with other patient capital investors and aims to unlock a further GBP 5 billion in institutional investment.

**CASE STUDY**
**Government-backed venture capital investment**

Enterprise Ireland is the largest seed capital investor in Ireland, and directly invests in approximately 70 enterprises each year. The organisation has built up an active portfolio of close to 1,300 investments. To help these firms succeed, Enterprise Ireland offers a range of support based on development stage of the organisation, including internationalisation, product development, hiring key talent and other productivity efforts. Enterprise Ireland operates as a venture capital fund, self-sustaining through exits of start-ups it has invested in. RegTechs that have benefited from Enterprise Ireland support include:

- **Vizor Software**, that was selected by APRA in 2019 to deliver a new Data Collection Solution that will be used across the financial sector to meet data reporting requirements.

- **Know Your Customer**, that received investment of €250k from Enterprise Ireland in 2018 to support growth in key Asian markets such as mainland China, Hong Kong and Singapore.

- **AQMetrics**, which raised US$3.25 million in 2016 from Enterprise Ireland alongside Frontline Ventures and Bluff Point Associates to help expand into the US.
MAS has developed a Financial Services Industry Transformation Roadmap, stating the Authority’s intentions with respect to innovation and technology, and the actions it will take to foster its development. These include collaborating with institutions to create industry utilities, expanding cross-border cooperation, and harnessing technology to simplify the regulatory compliance burden on firms.

CASE STUDY

Developing an industry transformation roadmap

MAS has established a Financial Sector Technology and Innovation (FSTI) Proof-of-Concept (POC) grant scheme. The FSTI POC grant provides funding support for experimentation, development and dissemination of nascent innovative technologies in the financial services sector. RegTech APIAX was awarded a FSTI POC grant in 2020.

In conjunction with this roadmap, MAS has established a Financial Sector Technology and Innovation (FSTI) Proof-of-Concept (POC) grant scheme. The FSTI POC grant provides funding support for experimentation, development and dissemination of nascent innovative technologies in the financial services sector. RegTech APIAX was awarded a FSTI POC grant in 2020.

Change policy and regulation to encourage innovation and the role of RegTechs

Governments can enhance regulatory frameworks with policies specifically aimed at encouraging innovation and take a supportive regulatory stance as firms ‘test and learn’ through partnering with RegTechs.
Promote RegTech to build the industry’s profile and talent pipeline

Governments, regulators and educational institutions can build pathways for technology talent and industry practitioners to join RegTech firms. Firstly, the profile of the industry can be increased by launching and marketing competitions to solve regulatory challenges using technology. Secondly, incorporating RegTech into relevant curriculum can help to drive greater awareness and interest in the sector as a long-term career prospect for young talent.

Locally, the Australian Securities and Investment Commission (ASIC) runs a quarterly RegTech Liaison Forum and the Australian Transaction Reports and Analysis Centre (AUSTRAC) runs a regular combination of one-on-one and programmed sessions for RegTechs and regulated entities. These provide a chance for industry and regulators to discuss the developments and opportunities within the regulatory technology space. The RegTech Association also collaborates with regulators and other organisation to enhance understanding of the industry and showcase RegTech solutions; its events have attracted thousands of participants so far this year.

Collectively, these actions would help Australian RegTechs to scale – creating local jobs, supporting the export of Australian solutions into overseas markets, and improving the efficiency and effectiveness of regulatory compliance and oversight to create benefits for consumers, companies and regulators. Ultimately, the real promise of RegTech is to strengthen the resilience of Australian financial and regulatory systems.

CASE STUDY

Tech sprints and ‘hackathons’

The Saudi G20 Presidency, coupled with the Bank of International Settlements, launched a ‘tech sprint’ in April 2020 inviting global innovators to develop solutions to financial regulatory and supervisory challenges (RegTech and SupTech).

Each competition will be judged by an international expert panel. The winners will receive cash prizes and be showcased at global FinTech events. The tech sprint has received 128 submissions from 35 countries.
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