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Fintechs boom packs a punch

Digital disruption

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Digital disruption is continuing to fragment the world of investing, offering more places to stash savings in the hope of a decent return.

Australians have spent significantly more time at home over the past two years, prompting many to venture online to find an investment vehicle.

The drive for many ESG-conscious investors is the ability to take control of whether their money is being used for good in the world, says Stuart Holdsworth, chief executive of Financial Simplicity.

Many investors want to handle the investment decision themselves, and research their options. The growing number of investment tools hitting the market has empowered them. Many of these tools are aimed at everyday Australians investing smaller amounts, as opposed to institutional investors, says Holdsworth.

"There's a honey pot of investment options and information out there that investors can read about online and work out where they want to invest. The options are endless."

Holdsworth says the heightened digital disruption experienced in the past two years looks set to be the new norm.

The fintech space boomed during the pandemic, with $1.5 billion in fintech investment across a range of sub-sectors.

There are 718 currently active fintechs jostling for elbow room on the Australian landscape. And there's more growth on the horizon, according to KPMG's research into the sector.

"The fintech sector continues to mature and rebound in Australia – investments are taking place across a range of sub-sectors and from a broad set of investor groups," says Dan Teper, head of fintech at KPMG Australia.

"As well as the increase in overall investment in 2021, we also saw a significant shift in deal volume, with 134 deals recorded across the year, compared to 84 in 2020 and 72 in 2019."

This indicates that investment continues in start-ups and significant mergers and acquisitions activity for mature players.

"We expect this momentum to continue and predict that 2022 will be a record year for fintech investment in Australia," says Teper.

Financial technology companies are increasingly strong players in the investment space. For example, Stockspot model portfolios returned between 3.5 per cent and 10.2 per cent after fees last year, while its sustainable portfolios returned between 6.8 per cent and 15.1 per cent.

Hyperion Asset Management, which has been around 26 years, manages about $11 billion for industry and public funds as well as private investors.

Chief investment officer Mark Arnold is

only too aware that AI and software are constantly improving, disrupting the investment space. "It's going to have a huge impact on society and business over time," he says.

"The disruption has definitely made it a more complicated environment to navigate, and it's difficult to know what the future is likely to look like."

> ■ **What we haven't achieved yet is for technology to sufficiently take humans on a journey.**
> Stuart Holdsworth, Financial Simplicity

BetaShares launched as a fund manager 11 years ago.

"Disruption is a part of life. Technology changes every industry around us, from retail to media," says BetaShares chief executive Alex Vynokur.

"Investments is no different, and it's democratising access to investing.

"Technology has bought a number of new investors into the market over recent years. ETFs are commonly a product for early adopters, who are often SMSF investors who have now really permeated the broader market."

A growing number of financial advisers and brokers are also reaching for digital tools. The good news is that the proliferation in digital tools has put downward pressure on fees.

"We have a number of brokers who are significantly reducing the transaction costs and reducing the friction in the investment ecosystem," he says.

KPMG's report confirms that cryptocurrencies and blockchain are likely to remain hot areas of investment this year.

Nearly one in four Australians (23 per cent) now owns cryptocurrency, up from 18 per cent in September 2021, research conducted by Finder shows.

It suggests that investors have spent more than $50.9 million in fees trading crypto. The standard fee for buying bitcoin is about 0.6 per cent, though some exchanges charge as much as 3 per cent per transaction.

Property technology, known as proptech, has exploded over the past two years amid the booming property market. There are more than 600 proptech businesses in Australia alone, and the industry continues to grow rapidly.

Agricultural technology, known as agtech, is predicted to become the nation's next $100 billion industry by 2030. The sector is fast becoming a vital part of the economy, and a growing source of income and investment.

But the proliferation of digital tools is also adding to a more complex environment to investors. Holdsworth believes investors are confused at times, as technology adds to the number of choices out there.

"We're only at the beginning, too. There will be lots more new digital ways of investing in the years to come," he says.

There are complications that come with the changes, too. Removing humans from the investing equation has unintended consequences, he says.

"Technology can remove humans from the process, but the fact is that people need humans to help navigate the journey of investing. What we haven't achieved yet is for technology to sufficiently take humans on a journey and give them the emotional support and confidence to invest," Holdsworth says.

And what can't be ignored is the fact that fintech operations don't always last. Last month, a start-up aimed at self-employed Australians fell on its sword after four years.

Superannuation fund GigSuper appointed administrators on December 10 amid growing concerns it would run out of cash. AFR

"Disruption is a part of life. Technology changes every industry around us, from retail to media," says BetaShares chief executive Alex Vynokur, above. Below, Mark Arnold says AI and software are constantly improving.