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S1 00:00 Hello, and welcome to another episode of the Moxie podcast. This is episode 29 recorded on Tuesday the 1st of September 2015. A special thanks to Alcatel-Lucent and its NG Connect programme, who's sponsorship helps to make this podcast possible. This is the companion web show to the moxie sessions, an internet economy discussion group, held once a month in Auckland New Zealand. Our aim is to bring together a group of talented people and expert commentators from across the country to talk about how New Zealand can take advantage of the internet and technology to improve its social and economic performance. I'm Andrew Patterson with you here in Auckland, I'll introduce our guest panel shortly. But first let me outline our topic for this session, how is the internet transforming the finance sector, and are today's global banking giants set to become tomorrow's dinosaurs? And more importantly, how is this revolution creating business opportunities for New Zealand?

S1 00:58 The recent introduction of the financial markets conduct act, created in collaboration with the finance sector has opened the door to some of the worlds most innovative finance businesses. No longer is lending and borrowing exclusively the domain of banks. To discuss this in more detail I'm joined today by our panel of experts, firstly Josh Daniell, cofounder of a crowd funding platform a Snowball Effect. Welcome Josh. And also Fran Strajinar from a Brave New Coin, one of the worlds leading providers of Cryptocurrency market information and a specialist in data research. Welcome to you both

S2 01:37 Thank you.

S1 01:40 Josh, to you first, how have websites like Snowball Effect really changed the game for those seeking funding to execute on their ideas?

S2 01:50 Well it's early days, we've been going for 12 months in New Zealand, but I think what this has the potential to do is really bring together the fragmented parts of the equity capital markets as they apply to early stage companies. So what we've got at the moment is a huge amount of capital which is locked up in term deposits and property, and it's not very liquid. There's no easy way to mobilise that capital and get it flowing into productive assets like early stage growth companies. So what these websites have the potential to do is mobilise the equity capital markets or early stage companies. And that's the real potential of this space.

S1 02:30 And how is New Zealand fairing when we benchmark ourselves against other countries, obviously who have delved into this area?

S2 02:39 First year's been excellent. It's actually been the best first year of equity crowd funding around the world if you look at it on a per capita basis. The sort of metrics that we look at there is the amount of funds raised, and the success rate for companies raising funds, and the average size of those raises. So the first year has been excellent. There's been a little over 13 million raised, at least on our platform

where I know the data better, the average raise size has been just over a million dollars.

- S1 03:11 Has there been a particular type of business or a type of participant in this market to this point?
- S2 03:21 If we look at the company side first, it's predominantly been early stage high growth companies. They typically are post-revenue so there is some sales traction, and this is typically growth capital rather than very early stage seed capital. On the investor side of the market we see a broad range. We see professional investors, we see people that just want to put a portion of their portfolio into this high-risk, high-reward asset class, they often are professionals. And we see people that are fans of the product. So some people come along because they like drones or beer or whatever the offering is at that time. So we're seeing quite a broad range. It's predominantly guys, but a very broad age range, and a broad range of motivations.
- S1 04:08 Interesting, Fran turning to you, if everything else is changing in finance it seems logical that currencies should change to. You're aiming to be the Bloomberg of digital currencies, but why have we seen a greater acceptance and appetite for alternative finance raising options but that hasn't necessarily translated into a wide spread acceptance of cryptocurrencies?
- S3 04:33 Lack of regulation. So for any markets to know what the rules are, we need clear and coherent regulations. And this is the only industry that I've been involved in, where I've ever seen where the participants are screaming out to be regulated or just want the rules to get on with business. [Unfortunately?] is a little bit of a grey area still, which is why we've seen a lot more traction in the likes of Europe, North America, and parts of Asia.
- S1 05:02 Interesting isn't it to think [chuckles]-- I can't think of many examples where an industry or a sector is crying out to be regulated, but the regulators won't seem to pay it a lot of attention. What's going to be the game changer or the catalyst to change that, do you think?
- S3 05:17 Well I have to stress that this is about as complex a topic as you can get for regulators, because we often see politicians deciding on bridges to be built and their not engineers and we end up with bridges in wrong places, metaphorically speaking of course. So it's a little bit wearisome to think that people without the skill sets to make these decisions are going to put together regulations and we're going to end up with something as horrendous as we've seen coming out of the State of New York, where businesses are actually leaving in mass.
- S3 05:51 Just to take a quick step back, never before have we had such a complex type of money, a money that can be programmable, and still has all the properties, [fundability?] of normal currencies. But because of the technical attributes of digital currencies, it needs to be considered both as a currency and a piece of software as this level of complexity that makes for bad decision making. But we are seeing a little bit of traction in the right direction through several countries. And the countries that embrace it with coherent legislation are going to stand to rake in billions from hubs of what effectively is becoming the future of money, and we're seeing that coming out of Singapore, Hong Kong, and surprisingly the United Kingdom at this point.
- S1 06:54 So those are the three countries that are leading the charge in this area?

- S3 07:01 I'd say venture capital money and number of Bitcoin or block chain companies is definitely concentrated heavily in the US, particularly in Silicon Valley and the State of New York. In terms of regulation, those companies might be seeded or mature, but they might often move to friendlier places where the rules are clearer, and grow into the next stages in the likes of Hong Kong, or Singapore, UK. So I'd very much like to see some regulation in New Zealand that acknowledges that Bitcoin is both a currency and a protocol, set the rules quite clearly, and we would stand to benefit greatly from the innovation that comes out of that.
- S1 07:53 Indeed. We'll come back to it shortly, but just for those unfamiliar with the terminology, just explain Bitcoin versus block chain.
- S3 08:03 Okay, so they go hand-in-hand and it's important to note that you can't have one without the other. So think of Bitcoin as the first application from the invention of the technology block chain. Now if you want me to go further into what is Bitcoin, fundamentally it solves a mathematical problem called the [Basil Theme?] Generals problem, which is a problem with trust. When we use any form of value and transfer it in today's world, we are forced to use some form of intermediary. So we have to trust our bank, we have to trust our governments to back the currencies that they print. We have to place trust into third parties.
- S3 08:46 With block chain technology it works on a distributed network where every single participant has a full copy of every transaction that's ever occurred and therefore is able to continually reconcile to check and make sure that there's enough available balance before a transaction goes out. So in other words, you don't need to trust anybody to prove that there's no double spending or money's being printed out of thin air etcetera. Now if you extrapolate that away from currencies and into other applications, that's where the block chain technology, the ledger underlining it becomes really really interesting and highly disruptive in countless markets.
- S1 09:30 All right. We'll come back to that. Josh, Fran mentioned trust there. Obviously trust is a relatively a pretty important concept in your business as well too, isn't it?
- S2 09:42 That's exactly right. The platforms have a role to play here in terms of trying to weed out people that are attempting to do something fraudulent when raising money from the public. But they can only go so far. A platform can only invest so much time into due diligence or vetting, and then it's really up to investors. I guess we are still playing in a very regulated space if any of the people making an offer make a false or misleading or unsubstantiated statement, they're still on the line personally. So it is a serious thing to go out there and raise funds from the public, and there's a lot of liability that can stick if you do something like that. But at the end of the day, yes there is, there has to be trust in what people are saying, and there has to be that cool-headed information going out into the market.
- S1 10:33 So what--
- S3 10:34 I'm just going to quickly interject to say that not all things need to be decentralised. In Josh's case the framework of KYC, AML, the financial markets authority, all of those things exist to allow for consumer protection and investor protection, and the system does work. We hear a lot of decentralise all the things as they're saying in Bitcoin, and it's not necessary to put everything on the block chain. In fact, we want to see some of those existing world rules extrapolate onto block chain technology. As I said, we'd like some regulation. I think there's a symbiotic relationship there between regulation, consumer protection, and decentralised applications.

- S1 11:29 And therefore if we think of the two spheres that you are both working in-- Josh, you're working in a highly regulated environment, Fran you have very limited regulation, and yet your two businesses have quite an interesting link around this idea of the future of finance. I just want to pick up on a comment from the Moxie session itself that New Zealand has done nothing very innovative since the introduction of EFTPOS, is that something that you both agree with? Josh, to you first.
- S2 12:05 I think it was a nice sound bite, but I think we've done plenty of innovative things since then. Looking more closely at the space that we're in, New Zealand really took the bulls by the horn in creating purpose-built regulations for equity crowd funding. One of the first countries in the world to do it. The oldest market in the world is the UK, they've been doing it a bit over four years. We had the luck of purpose-building regulation. A lot of other countries are in the state of trying to mishmash the regulation to make it work. So they're creating exemptions and other work arounds to enable this to happen. And when the New Zealand regulators looked at this, they could have taken a more conservative view.
- S2 12:49 And one of the key examples there is they could have imposed investor caps, so this is the amount that investors can invest in a particular offer, or the amount they can invest into this asset class over a particular year. And that's the route that Australia looks to be going down. So we thought this was going to choke the market before it had a chance to get on its feet, and it really was a bit of a brave move by the regulators in New Zealand. We know that other countries are watching what happens in New Zealand in the equity crowd funding market, and they seek our feedback on what the critical success factors have been. So in our space there certainly has been some innovation.
- S1 13:34 And from your perspective it's working reasonably well, early days albeit?
- S2 13:39 Really happy with how the first year has gone. It's just the start, there's a long way to go. But in terms of how the market has responded, it's been excellent. We're seeing good quality companies express interest, and we're seeing sophisticated investors use this channel. And we think that's really one of the critical success factors to accelerating the growth of this market, is getting buy-in from smart investors. So we want to be working on the same deals as angel groups and other professional investors. And if we do that then it will bring in the other investors too, so it'll free up the wider equity capital markets. So we're really focussed on that and working on deals that professional investors are already working on to accelerate the growth of the market. And in the first year we've been able to do that faster than we expected actually. So really happy with the first twelve months.
- S1 14:33 So Fran, from your perspective, and you mentioned in your previous answer that there are opportunities for government and regulators to step up a little bit in New Zealand. What specifically would you like to see happen in the next two to three years?
- S3 14:51 Just to quickly address the previous question, if you don't mind. In terms of innovation, I'm really glad to see what's going on with crypto-- sorry with crowd funding. But really we're talking about the peer-to-peer economy that's come out of that. So like in the crowd funding space, we've seen the free up of capital to allow for better flows and investors to be able to afford to get into deals they normally couldn't. I'd like to see the same thing roll out to block chain technology and Bitcoin. First off we need clear legislation that doesn't label Bitcoin as a commodity or a good,

so that we don't get the double tax issue which Australia [rules?], and the ATO is realising how much of a horrendous effect and how many companies and jobs have migrated overseas, and they're now actually looking to reverse that ruling.

S3 15:47

So in New Zealand I'd like to see Bitcoin treated as just a regular currency, or another type of currency, if you will. Just that would go miles in terms of understanding what the tax rules are and therefore just making it simply okay to do business. You understand that there's a lot of block chain companies out there, and you can't separate the block chain from the currency, so if we've got some rules around the currency, the block chain companies they might not have anything to do with the currency component will at least feel like they have the rules and know how to deal with certain issues to proceed with continuing to hire in New Zealand, and grow and expand.

S3 16:35

Our entire business model has been largely ignored in New Zealand and just simply gone overseas and been global from day one. And it's worked a charm because we just need to follow where the market is. Off to New York next month to go talk to Bloomberg, Thomas Reuters market and all those big data providers about licensing our data to them. That's the sort of markets that we're after, but I know there's a number of companies in New Zealand that are looking at doing some form of value APP service and what's called the low hanging fruits. So that's remittance for one, the billions that slush around the world for families sending money back home, the global average in terms of fees on that is about 10%. And this is the easiest area where block chain technology could disrupt these outdated business models. I mean I'll be [shorting?] Western Union stocks when the time is right because they're completely unnecessary.

S1 17:39

Do you think one of the biggest issues though, facing Bitcoin, is just this whole credibility issue. Until that is resolved then it's very difficult for the wider public to really think of adopting. It's easier to understand crowd funding than it is Bitcoin, isn't it?

S3 17:59

Well I think that we're on par in terms of unknown scariness at one point, but you're right in the sense that it was easier to pick up and understand what crowd funding is. [?] had great success in the US with the likes of Kickstarter. That's the problem with consensus networks. To build consensus that this thing is okay-- I'll put it this way, two years ago the mainstream media was all about silk road, and buying drugs online, and dubious activities with this dubious cryptocurrency and magical internet money, and now everyday I'm finding something on Google Street Journal, or Bloomberg talking about how Santander or UBS or Barkley's is opening up a new accelerator or a new lab, or doing a new pilot programme for their own interbank remittance.

S3 18:53

So the perception unfortunately in New Zealand is far behind the rest of the world. It only takes diving a little bit into what this technology is to realise how far it's come, and that it's actually quite trustworthy. In fact, there's no need to trust it at all. You just simply choose to participate or not. It's now the worlds biggest computer network, bigger than all the super computers combined in terms of processing power. And that's what gives that a good solid network effect and the trust to participate in the system. What we do need is rules to enforce around the currency component, so if operators come to market and offer some kind of remittance or payment layers on top of this technology, that they're honest operators and they don't run away with people's money.

- S3 19:45 You still have to place trust in third party providers that are offering some value add using this technology, and [?] the number of scams in Bitcoin. So I do think the public perception is changing quickly, but I think that New Zealand has entered into some form of lethargy or complacency with the massive saturation in EFTPOS, and we have the highest concentration of EFTPOS in the world. It's a system that works, why question it, low fees etcetera. And for the currency component, we've seen no need to investigate something as out there as cryptographic mobile payments.
- S1 20:27 Do you have an idea of the size of the cryptocurrency market within New Zealand? And also, I guess which country leads the world in this area in terms of the size of its local adoption of the currency?
- S3 20:41 Well there's several different ways to measure this and this is part of the research that we do. From a trading a perspective to just look at the liquidity in Bitcoin, surprisingly China leads the way. You can't buy a single thing in Bitcoin in China. The people's bank of China have actually band the institutional use or bank use of Bitcoin, doesn't mean that individual or businesses can't use it, trade it etcetera. But they make up about 85% of the liquidity on any given day. The US and Europe are leading the way in terms of merchant adoption or Bitcoin as a currency. So we're looking at something along the lines of 150000 retailers between United States, Canada, and throughout Europe. This is largely thanks to large food party operators that are offering merchant service solutions like Bitpay and Coinbase.
- S3 21:37 From a venture capitalist point of view, we're seeing more money flow into the space globally than we did in the internet years with inflation adjusted from 20 years ago. So in the last 18 months we've seen over a billion dollars put into what's [?] as the infrastructure of the industry. So that's onramps, offramps, the mining equipment that secures the networks integrity, the first killer APPs that are coming out to market. And we really won't see the crux of that for another 6 to 18 months, but the first major announcements are coming September onwards this year with fully block chain powered stock exchanges, and this is where things get interesting for Josh with the likes of NAVDAC sponsoring-- what's it called? Noble Markets which effectively allows for unlisted companies to sell their stocks for a secondary market before they properly IPO. I would very much like to see something along those lines, a secondary block chain market come to New Zealand so that the investors of companies on platforms like Snowball Effect can have a market place to exit when they want to.
- S1 22:59 So just on that point Josh, is that something you are working towards?
- S2 23:05 Yeah absolutely. It took us a long time to settle on a secondary market design that we think will work. But where we've settled is a market that operates in short trading periods. So the company will release a trading report which includes some historical trading data as well as some forward looking projections, and people can trade in a short period up to four weeks off the back of that information. And what we're trying to do there is really concentrate buyers and sellers into the market at one point in time. And it also means that for the company they don't have ongoing compliance obligations. So there's sort of a one point in time, whenever they want to run a trading period, they release information to allow people to trade.
- S2 23:46 Because the two big problems for early stage companies is how do you find a buyer first of all. There's no central place like TradeMe where people will meet, and the second thing is agreeing on a value. And with listed companies and their continuous disclosure, it's easier to form a view on value and also with the trading data that's

published on a secondary market like that. But with more infrequent trading and no continuous disclosure it's harder to come to a view on value. So those are the two big problems that need to be solved and they need to be done so very efficiently because people don't want to be taking massive discounts in the form of fees or liquidity discounts and so on to enable them to trade. So we really are keen to get a secondary market operating. What we're waiting for is really demand from investors.

- S2 24:37 We talked to the companies that have gone through crowd funding so far and their just not getting investors banging on their door wanting liquidity. And that's great because it means that investors have gone in with the expectation that this is a longer term investment and they've brought in on the story that the company has told about the longer term liquidity pathways. But there will come a time no doubt where investors say, "You know there's been three years, four years, five years and I think it would be good if you can provide us with some liquidity, and look at the options around and if this one fits then let's go for it."
- S2 25:14 So we'll obviously keep monitoring that, but there's no point going down that path if people aren't wanting to trade yet. But we think it will be a good thing because we think it will introduce a whole lot more investors into the market that simply just wouldn't buy into these kinds of assets if they couldn't see a way to trade in the short-term. Because most of these companies are aiming for an exit or a listing, or they're aiming to grow to a point where they can start paying dividends. But usually those three options will be a way off. So the short-term trading or personal trading of shares is really the only short-term option. So we're really interested in getting that market up and running.
- S1 25:51 What about the ability for platforms like yours to link globally, or is regulation always going to impede that from happening?
- S2 26:03 Regulation is really difficult in the financial markets to do international work. The two big barriers for us is first of all securities law of other countries, and second AML or Anti Money Laundering Law. So we can accept investments from other countries but they will need to comply with all the law that applies to them when accepting an offer of securities, and we'll also need to do a more stringent AML check on that investor before onboarding them. The same really goes when looking at sharing offers on other platforms. It can be done but it is quite a bit of cost involved to make it happen at the moment.
- S2 26:45 I think we will start to see a consolidation of the law as it applies to securities over time. But I think that's a long way off. And you see countries like the US which have extraterritorial jurisdiction for their securities law and I think it would take a long time for that type of law to move into something that works for a more global society. So I do think it will happen, but we're certainly not going to wait for that to happen. We need to build our market in New Zealand for the next decade before anything's likely to happen.
- S1 27:24 All right, so just in the remaining minutes, I wondered if I could get each of you to paint a vision for your respective area, where you think it's going to move to and maybe give us a sense of what we are moving towards. Fran, perhaps if you could kick us off from a cryptocurrency point of view. What's your vision say in five years time, by 2020, where will we be at?
- S3 27:52 Well firstly with the concept of being able to programme money I think we're going to see a disruption with the rise of the internet of things, we're going to see machines

being able to pay each, so websites can buy more server space or they can rent drone time to do aerial surveillance for particular form or function. We're going to see the rise of mesh networks, so instead of signing on to a contract with Telecom for your cellphone you could walk down the street and hop from one router to the next paying them a very small part of Bitcoin for the data packets that you use as you go, seamlessly handing over. These technologies have come along at the same time as the rise of cryptocurrencies. But what cryptocurrencies allow for is that payment on layer-- money over internet layer if you will, which gives it a much more interesting application for larger use cases.

S3 28:57

So I see global remittance being cut down in terms of average costs from 10% to hopefully around 3%. I see mobile payments from the likes of Apple and Google actually exploring block chain technology, you won't even know you're using block chain technology, it'll still be branded Apple Pay. And I see countless applications for smart contracts, or smart money, programmable money being used in areas like shipping. As soon as your freight shows up to port in a certain country, the next third of your payments for that consignment is automatically paid, activated by real world events. So I see a lot of automation in money and payments.

S1 29:44

Yeah, that's great vision and one which many people would love to see. I mean the frustration of having to pay for relatively small amounts every time something happens just becomes irritating. If that could be automated that would certainly make a lot of people's lives a lot easier. Josh, from your perspective, in five years time obviously the idea of crowd funding will be I'm thinking a very mainstream thought.

S2 30:15

That's right. If we look at the UK which is the oldest market, over 40% of angel investors used the platforms in 2014 and over 30% of the seed funding into UK companies went through those platforms. So in just over four years it's moved pretty quickly into the main stream. And by 2020 in New Zealand we'd love to see this as an efficient online funding channel. So more than just funding of early stage high-growth business but also being able to fund opportunities in Agri and property and other types of assets where the funding can be made more efficient. So that's the company side of the market.

S2 30:59

On the investors side of the market by 2020, we'd love to see this as the way that people invest into high-risk high-reward assets. And a bit like private equity has done over the last 10-15 years where it's moved from a very alternative form of investment into just another part of someone's diversified portfolio. Where we want to see equity crowd funding is the channel that people discover and invest into high-risk high-reward assets. And it's an efficient channel, they get consistent quality information and they can select from a wide range of interesting opportunities. So if we can hit those targets on both sides of the market by 2020, we'll be where we want to be.

S1 31:44

Thank you both for joining us. I've been speaking to Josh Daniell, cofounder of equity crowd funding platform, Snowball Effect and Fran Strajnar from a Brave New Coin, one of the worlds leading providers of Cryptocurrency market information. This has been episode 29 of the Moxie podcast, part of the companion web shows for the Moxie sessions, an internet economy discussion group held once a month in Auckland New Zealand. I'm Andrew Patterson, thanks for joining us, we're back with another Moxie session soon. All the best.