



RESERVE BANK OF AUSTRALIA

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Senator Andrew Bragg
Chair
Senate Select Committee on Australia as a Technology and Financial Centre
Parliament House
CANBERRA ACT 2600

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Dear Senator Bragg

COUNCIL OF FINANCIAL REGULATORS WORK ON DE-BANKING

Thank you for inviting the Council of Financial Regulators (CFR) to provide information to the Committee on its work on de-banking.

In light of concerns raised by the industry, and given the potential effects of de-banking on competition and innovation in financial services, the CFR established a working group to explore the underlying causes of de-banking and examine possible policy responses in June 2021. Members of this group are APRA, ASIC, the Reserve Bank, the Treasury, the ACCC, AUSTRAC and the Department of Home Affairs. The focus of the group's work is payments and other financial services providers, including international money transfer (IMT) and financial technology (fintech) firms. This scope is broader than the taskforce established following the ACCC's Foreign Currency Conversion Services Inquiry, which was focused on IMT. We understand that the work of that taskforce (which is not directly linked to the CFR) was paused in 2020 due to the prioritisation of COVID-related work.

The CFR working group is in its early stages and it will be some time before conclusions are reached. However information from Treasury's engagement with fintechs, banks and regulators on de-banking provides useful background to the issue. It highlights that a range of factors may drive decisions about whether to bank a firm. However, the fine balance between banks' AML/CTF risks and compliance costs on one hand, and their returns from servicing small fintech and IMT firms on the other, appears to be key. Banks' risk appetites may also have been affected by recent substantial penalties for AML/CTF breaches, highlighting that the policy objective of preventing money laundering and terrorist financing may at times conflict with that of promoting the provision of competitive and efficient financial services. Issues of uncertainty about AML/CTF compliance obligations and transparency of de-banking decisions have also been raised. So far, the regulators have seen no evidence that de-banking is occurring as a competitive strategy.

The CFR working group will continue to explore these issues and potential policy options that could address or mitigate them. At this time a deadline for completion of this work has not been set.

Yours sincerely

cc: Wayne Byres, Chair APRA
Steven Kennedy, Secretary to the Australian Treasury
Joseph Longo, Chair ASIC