Response to Third Issues Paper, Senate Select Committee on Australia as a Technology and Financial Centre

Stakeholder response by Wise

Date: 30 June 2021
Company: Wise (formerly TransferWise)

Wise (formerly known as TransferWise) welcomes the opportunity to provide feedback on the Third Issues Paper for the Senate Select Committee on Australia as a Technology and Financial Centre.

Wise is a global technology company, building the best way to move money around the world. With the Wise account people and businesses can hold 54 currencies, move money between countries and spend money abroad. Huge companies and banks use Wise technology too; an entirely new cross-border payments network that will one day power money without borders for everyone, everywhere. However you use the platform, Wise is on a mission to make your life easier and save you money.

Co-founded by Taavet Hinrikus and Kristo Käärmann, Wise launched in 2011 under its original name TransferWise. It is one of the world's fastest growing tech companies having raised over $1 billion in primary and secondary transactions from world leading investors.

10 million people and businesses use Wise, which processes over £5 billion in cross-border transactions every month, saving customers over £1 billion a year.

Our submission is into two of the areas that the Third Issues Paper raised, specifically debanking and the policy environment for neobanks.

Debanking

I. Introduction

Wise develops and maintains banking relationships in order to serve its customers globally. However, in the past 4 to 5 years Wise has had difficulty accessing payment services through Australian banks. Often, discussions have been terminated by the relevant bank after initial meetings without any further assessments made. This has resulted in Wise having to use international banks operating in Australia rather than a preferred local bank.

A. Banking at Wise

Wise uses the four following commercial banking services:

i) business bank accounts (transactional accounts used to make payments in local currency);

ii) virtual accounts (a range of unique account identifiers linked to the primary bank account, allowing for enhanced reconciliation of receipts);

iii) FX services (trading excess liquidity in one currency to cover a shortfall in another);

iv) liquidity requirements (a regulatory obligation to keep customer funds in high quality liquid assets, usually cash at an authorised deposit-taking institution (ADI).

Local business bank accounts. Our business model currently engages a network of local business bank accounts to make payments using domestic payment rails.

These accounts are vital to providing our service. Wise believes limiting the access of startup and scale-up companies to local business bank accounts can have an anti-competitive effect even if the intent is not anti-competitive.

Additionally, Wise always seeks back-up partners as they are essential for us to provide our customers reliable, fast and cheap payments. For example, if one partner has a technical issue, we can use the other partner. Our banking team works continuously to secure the necessary banking partners, but this is becoming increasingly hard to secure and maintain due to the trend of de-risking. Being able to choose between partner banks is also important to sustain a competitive market and drive down prices for consumers.

Access to the NPP. If Wise were to become a direct non-bank member of the New Payments Platform then we would be able to offer our services **faster**, **cheaper** and **more reliably** than at present.

Direct Access is a major element of our strategy to avoid business continuity risks as well as improve price and customer outcomes and we are exploring our options to becoming a member of the NPP with direct access rights however we acknowledge that this option is not open to smaller firms who are in the startup phase.

B. Processes and practical effects of debanking

Access to banking services. Wise's experience in Australia has seen us engage in conversations with relevant domestic banks that rarely advance beyond preliminaries. At each bank, discussions were terminated early by the relevant bank and the reasons for non-provision of service were broadly in the same vein. That is, concerns about "compliance".

In countries where Wise isn't engaged directly with the central bank we are obliged to use the services of established banks. This leads to the potential for disruption to our product that can significantly impact those sending money to family back home, forcing those customers to use traditional banking products for their cross-border payments, which are often less transparent, slower and more costly. This can negatively impact financial inclusion, reduce competition and reduce consumer choice.

C. Impact of debanking on the market

Debanking has implications for the entire market. It leads to ineffective mitigation of money laundering and terrorism financing (AML/CTF). Like our product, we operate with a high degree of transparency with our banking partners. Transparency helps to build trust but strong communication is also essential in tackling the inherent risk of money laundering and fraud.

If banks close their doors and are not willing to have an open dialogue about trends, controls and solutions, they're not contributing to the effective prevention of AML/CTF. De-risking also contributes to restricting access to provision of business bank accounts. Restricted market access for a subset of consumers is a market failure. This drives ineffective competition between PSPs and incumbents, and may also lead to the concentration of risk.

D. Conclusions

The lodestar of de-risking practice should be bespoke risk-based approaches and the assessment of new customer relationships and due diligence requirements that are made on a case-by-case basis of the level of risk identified.

Blanket debanking, which has been occurring in Australia, has been increasing AML/CTF risks and gives rise to serious questions about the misuse of market power by the traditional financial institutions. The loss to the consumer through the increased costs associated with debanking along with the barrier that this phenomenon poses to innovation in the payments space is considerable.

Policy Environment for Neobanks

I. Introduction

Wise welcomes the Select Committee's interest in the policy environment for neobanks. While Wise is not a neobank there are certain elements of the regulatory frameworks for neobanks which overlap with the service provision that Wise gives to its customers.

A. PPF Framework

Wise believes that there is a need to expedite the changes to the PPF Framework along the lines explored in the Council of Financial Regulators review into Retail Payments Regulation. Specifically around the concept of Stored Value Facilities as outlined in the Review by the Council of Financial Regulators Review into Stored Value Facilities in Australia.

We note that the potential for reform in the area as outlined by Senator the Hon. Jane Hume, Minister for Financial Services and Financial Technology and we appreciate her interest in this area.

Specifically changes in the regulation of Stored Value Facilities and other payments products should be graduated and relate to the risk for consumers rather than be set at arbitrary levels.

We welcome the announcement from the Minister that a new framework will be developed by ASIC, APRA and Treasury and that this will be done in consultation with industry and consumer stakeholders.

B. Conclusion

We look forward to the release of the revised framework as soon as possible and noting that this has already been delayed significantly we suggest that any further delay would be not only a frustration to fintechs and neobanks but also present a risk to the implementation of the revised framework.

Sincerely,

Jack Pinczewski

APAC Government Relations Manager