Senator Andrew Bragg

Chair
Senate Select Committee on Australia as a Technology and Financial Centre
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email: fintech.sen@aph.gov.au

Dear Senator Bragg,

I would like to hereby provide you with an individual submission in response to the 3rd Issues Paper of the Senate Select Committee Inquiry on Australia as a Technology and Financial Centre.

The submission addresses three of the key issues raised in the Issues Paper especially in relation to debanking of Australian FinTechs, the policy environment for neobanks for Australia and positioning Australia as a competitive technology and financial centre and suggests a number of strategic and regulatory interventions grounded on the promotion of cross-border initiatives, collaboration and integration for turning the region into a global Fintech powerhouse and for the future success of Australia.

I trust that the submission can be useful and support the drafting of the final report on this issue of national importance.

In the meantime, I remain at your disposal for any further information or clarifications.

Yours sincerely,

Dr. Dimitrios Salampasis

Exec.Ed(Harvard, Columbia), PhD (LUT), MEI$_{Prof}$(UniLux), MPA, BPA(UniPanteion)
Director, Master of Financial Technologies and Lecturer, FinTech Innovation and Entrepreneurship
School of Business, Technology and Entrepreneurship, Swinburne University of Technology
Visiting Professor, FinTech, University of Quebec at Rimouski, Canada
FinTech and Blockchain Fellow, Singapore University of Social Sciences
Visiting Professor, School of Management Fribourg, Switzerland

Senate Select Committee
Australia as a Technology and Financial Centre

Submission

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122

Table of Contents

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122

Senate Select Committee
Australia as a Technology and Financial Centre

Submission[1]

Debanking

Introduction

In light of the changes and shifts in the competitive and business dynamics globally, together with the exponential rise of regulatory scrutiny, provisions and requirements, the notions of compliance and risk have been drastically changed. In the same token, the aftermath of the 2008 Global Financial Crisis, the emergence of FinTech-enabled business models and particularly the Decentralized Finance landscape are reconceptualising the understanding of risk behaviour, patterns and financial services provision. In this context, the overall operational landscape both within banking institutions and non-banking financial institutions has been experiencing substantial changes.

Increasing volume of fines and scrutiny

Banking and non-banking institutions globally receive enormous pressure from national and international regulators to be in compliance, especially in relation to AML/CTF requirements. Latest published data[2] show that in 2020 the aggregated bank fines amount for € 12.01 billion. Australia ranks 2nd in the world in relation to penalties with € 829.30m in fines. Additional data[3] show in 2020 fines totalled $10.6 billion, rising 27% compared to 2019. A study by Fenergo[4] reveals that since 2008 financial institutions globally have been issued $36 billion in fines[5]. The World Economic Forum has estimated that since 2007, $46.6 billion in enforcement actions have been levied to financial institutions and individuals for non-compliance with AML and sanctions violations[6].

Figure 1: Total value of fines by type in 2020 (Source: Fenergo)

[1] I wish to cordially thank my students Kim Harrison and Vattey Seveyvoan, students in the Master of Financial Technologies, Swinburne University of Technology for their help and support in putting together this submission.
[2] Record-Breaking Fines on Banks for KYC/AML Non-Compliance (link)
[3] Fenergo Global Research Report on Financial Institution and Individual Enforcement Actions in 2020 (link)
[4] The Irish Times Fines issued to banks globally could surpass $8.4bn this year (link)
[5] CISION PR Newswire AML, KYC and Sanctions Fines for Global Financial Institutions Top $36 Billion Since Financial Crisis (link)
[6] Fenergo (link)

> *The use of financial intelligence provided by banks might lead one to conclude that the AML regime has achieved some success. But continued success depends upon banks' continuing involvement in markets where money laundering and other financial crimes occur. The current enforcement-heavy approach of the government, however, often discourages banks from this kind of involvement…This punitive approach to enforcement has made banks risk averse, causing them to close accounts and exit relationships that would otherwise be profitable, provide financial intelligence for law enforcement, or serve a social good. To protect themselves from penalties and in response to the high cost of compliance, banks are de-risking*[7].

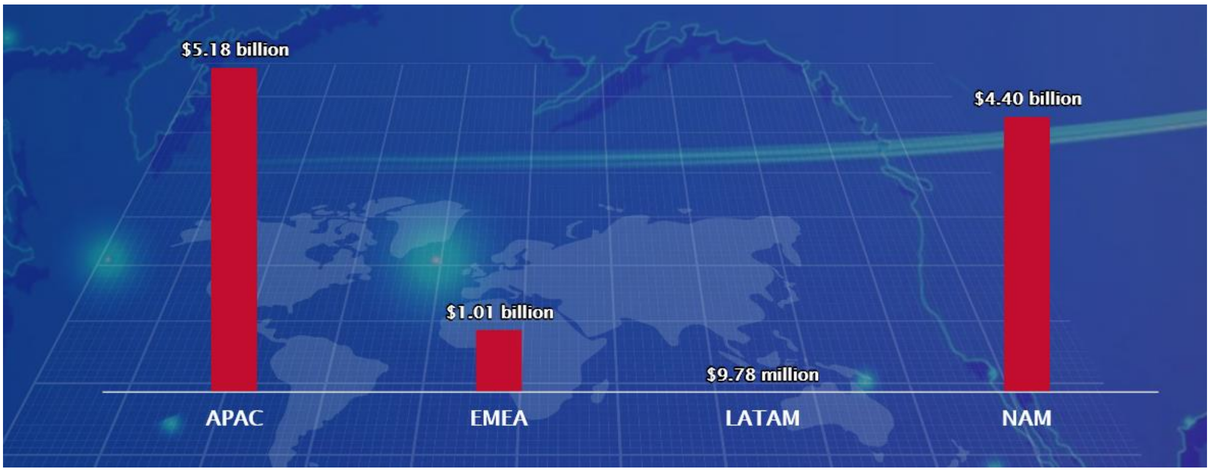

Figure 2: Total value of fines by region in 2020 (Source: Fenergo)

Figure 3: Enforcement actions by the most punitive regulators within the APAC region in 2020 (Source: Fenergo)

Definition of debanking

Debanking or denial of banking services refers to the behaviour adopted by banking and non-banking financial institutions, which have the ability to refuse service, restrict or even shut down a customer's account and customer relationship, in general (individual, business or country) resulting in loss of access to the regulated global financial system[8]. This behaviour is 'informed' by the discretionary and calculated risk perceived by banking and non-banking financial institutions take, in order to avoid being in breach of national and international

[7] Levin, Sharon Cohen. 2016. "AML Sanctions Reform: A Safe Harbor Proposal." Banking Perspective, Quarter 3.
[8] World Bank De-risking in the Financial Sector (link)

compliance requirements, especially AML/CTF, imposed by national and international regulators. Moreover, such behaviour can also be driven by the fact that an individual or organization may be associated or being located in a high-risk jurisdiction that is on a 'blacklist' due to high risk for money laundering, financing terrorism or inability to comply with international standards. Additional drivers of debanking can include increased capital requirements, profitability, prudential requirements, reputational risk and geopolitical situations. By doing so banking and non-banking financial institutions aim at minimizing the risk of being penalised with large regulatory fines due to potential violations, "ensuring that there is rigorous adherence to all written policies and procedures"[9]. Money laundering as a practice poses a general societal risk, since it is conceptualized and contextualized as an externality problem supporting illegal channels of the economy with direct negative effects to the legitimacy of the financial sector and the society as a whole[10,11]. The emergence of globalization, together with, the technologically-enabled ways of transactional and trading relationships have given rise to numerous complex and difficult to unravel money-laundering schemes[12].

The US, UK and Australia have been actively experiencing phenomena of debanking especially in relation to the emergence of the FinTech sector.

The World Bank[13] is conceptualizing the phenomenon of debanking (derisking) as the situation when

> *Global financial institutions are increasingly terminating or restricting business relationships with remittance companies and smaller local banks in certain regions of the world*

The Financial Action Task Force[14] is defining debanking as

> *The phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach*

It can be argued that the perceived reputational risk for banking and non-banking financial institutions may be also fuelled by ideological or political controversies, rather than a case-by-case determination of the risk associated with each respective customer[15]. In addition, it could be argued that debanking also stems from the unwillingness of banking and non-banking financial institutions to conduct proper and in-depth due diligence because it does not worth the risk or because they do not have the right infrastructural capacity and internal means to support that. This particular situation results in the dichotomy between perceived and assessed risk and how certain industries, customer segments and jurisdictions are deemed as risky

---

9 The Clearing House. 2017. A New Paradigm: Redesigning the U.S. AML/CFT framework to protect national security and aid law enforcement. The Clearing House, February. (link)

10 Masciandaro, D. (1999) Money Laundering: the Economics of Regulation. *European Journal of Law and Economics*, Vol. 7, No. 2, pp. 225-240

11 Rose, K. J. (2019) "Regulating the Externality of Money Laundering - Halfway There", Copenhagen Business School, CBS LAW Research Paper No. 19-12 (link)

12 Rose, K.J., 2019. De-Risking or Re-Contracting the Way around Money Laundering Risks. Copenhagen Business School, CBS LAW Research Paper, (19-37).

13 The World Bank: De-risking in the Financial Sector (link)

14 FATF clarifies risk-based approach: case-by-case, not wholesale de-risking (link)

15 Barron's Debanking Hurts Everyone (link)

without solid foundations and grounds. In a similar manner, debanking is being driven by a number of key factors that are mainly related to compliance requirements, business and operational costs and regulatory burden.

Based on the abovementioned analysis, the following key characteristics (effects)[16] can be attributed to debanking: a) closure of bank accounts (or even refusal to open) related to certain individuals or firms, limiting at the same time financial integration, b) withdrawal (or even restriction) of banking services from money transfer organizations (including other types of remittance facilities) affecting primarily poorer countries that depend heavily on such capital flows, while impacting endeavours towards poverty reduction and sustainable development and c) severance of correspondent banking relationships that can result in systemic effects and inefficiencies within the international payments system.

In 2020 remittance flows to low-and-middle-income countries reached $540 billion. This is a 1.6% reduction compared to the $548 billion seen in 2019[17]. In relation to debanking, a number of jurisdictions have been deploying e-onboarding mechanisms so as to ensure compliance with KYC/AML requirements. Moreover, regulators are considering a risk-based rather than a rules-based approach to small-value remittances.

State of the art: current landscape

Debanking is directly associated to aspects of humanitarian issues, increased financial exclusion and inability of relevant stakeholders to equally access provision of financial services[18]. Debanking can result into the inability of individuals, businesses (in principle charities and humanitarian organizations) or even countries (especially underdeveloped, emerging and developing economies) to have access to financial services provisions, considering them as liabilities for banking and non-banking financial services institutions[19]. This inability is usually driven by geographical and location peculiarities, citizenship, international sanctions and refugee-status attributes, among others. Recent incidents[20,21] of debanking have also been associated with reasons of ethnicity, racism and censorship, grounded on the monopolistic behaviours by banking and non-banking financial institutions. Such perceived linkages can cause for banking and non-banking institutions substantial reputational damage and deficit. The decision to debank an entity is usually arbitrary and the entity itself does not have the ability to dispute[22].

Debanking is a global phenomenon that has not been tackled and can cause unprecedented damage and barriers to entry for individuals, organizations and even countries. Currently, with the rise of financial technologies, the FinTech industry and the emergence of cryptocurrencies[23] and the cryptocurrency assets market, there have been numerous circumstances of debanking

[16] For a more detailed and comprehensive analysis see Haley, J.A., 2018. De-risking of correspondent banking relationships: threats, challenges and opportunities. Wilson Centre Canada Institute (link)

[17] For a more detailed analysis please see the Resilience: COVID-19 Crisis Through A Migration Lens. Migration and Development Brief 34, May 2021 (link)

[18] Durner, T. and Shetret, L., 2015. Understanding bank de-risking and its effects on financial inclusion: An exploratory study. Global Centre on Cooperative Security Oxfam International (link)

[19] Cohen, M. and Yim, S., 1996. Debanking: A Strategic Option for Foreign Banks in the US. Int'l Fin. L. Rev., 15, p.13.

[20] Arab Journalist Pete D'Abrosca Slams Wells Fargo For Debanking Him Days Before Juneteenth (link)

[21] How a little-known anti-terrorism law can keep you from putting your own money in a bank (link)

[22] Durner, T. and Shetret, L., 2015. Understanding bank de-risking and its effects on financial inclusion: An exploratory study. Oxfam (link)

[23] AUSTRAC throws regulatory lifeline to "de-banked" bitcoin operators (link)

worldwide[24]. Debanking has also been associated with threats to national security by means of leveraging on unregulated (alternative) banking channels for transacting and transferring funds associated with terrorism[25] and in general businesses operating within the informal economy. In the same token, debanking can also pave the way for more financial crime[26]. This phenomenon is gradually attract the attention of regulators and policy-makers in an endeavour to provide harmonized regulatory provisions that would minimize cases of debanking, while infusing a more novel way of capturing and conceptualizing risk evaluations.

Future trends and recommended approaches

A key debate revolving around debanking is the dichotomy between risk management and risk avoidance narratives that banking and non-banking institutions adopt in terms of defining, handling, assessing and solving ML/TF situations[27]. This can result in a 'one-size-fit-for-all' rather than principle-based approaches adding at the same time to regulatory and compliance burden. Banking and non-banking financial institutions in order to apply a risk-based approach put together internal and proprietary AML/CTF policies resulting in potential misinterpretations and judgemental decisions-making.

In the US, the "Fair Access to Financial Services" rule, which is derived from the Dodd-Frank Act and it has been proposed by the Office of the Comptroller of Currency (OCC) aims at not allowing banks to deny provision of financial services on the grounds of risk evaluations based on categories (e.g. industry or business type), encouraging banks at the same time to base their decision solely on financial criteria. The US Anti-Money Laundering Act of 2020) provides a detailed suite of reforms to anti-money laundering laws in the United States and the Bank Secrecy Act[28], along with, provisions towards the mitigation of the impacts of debanking (de-risking).

The phenomenon of debanking is quite complex and multifaceted, posing both risks and challenges, but at the same time allowing ample room for innovative and creative regulation. It is a shared problem that requires integrated coordination. The International Monetary and Finance Committee[29] notes that

> *We support the IMF's work with other international organizations to address the decline in correspondent banking relationships and preserve access to financial services. This would include intensifying AML/CFT and supervisory capacity development support in respondent banks' jurisdictions, clarifying regulatory expectations, and promoting industry solutions; promoting greater financial inclusion; and helping countries strengthen their institutions to tackle illicit financial flows*

[24] Breaking Up With the Banks: Stories From Bitcoin's Debanked Community (link)

[25] Banks 'de-risking': a threat to national security? (link)

[26] Debanking and the Law of Unintended Consequences (link)

[27] The European Banking Authority (EBA) has run a call for input so as to understand the drivers, the reasons and the impact of de-risking aspiring to lead a coordinated AML/CTF approach towards certain sectors, customers and high-risk markets (link). In March 2021 EBA published three regulatory instruments that can support addressing de-risking practices; 2021 Opinion on ML/TF risks, revised ML/TF Risk Factors Guidelines and a public consultation on changes to existing Guidelines on risk-based AML/CTF supervision (link)

[28] Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews (link)

[29] Communiqué of the Thirty-Fourth Meeting of the International Monetary and Financial Committee (IMFC) (link)

Addressing the phenomenon of debanking requires an effective strategy, which is branched into the strengthening of international and national regulatory standards[30], along with, harmonization of approaches and adoption of best practices towards the understanding, the governance and management of risk associated with a particular stakeholder. Adopting a proactive approach towards a regulatory regime that will provide enhanced frameworks of controlling, monitoring and sanctioning for trust and financial inclusion. Regulatory and supervisory frameworks need to enable data-driven risk models utilising both structured and unstructured data and by means of AI/ML processing and analysis to generate both key insights but also constant monitoring of transactions, risk and risk mitigation mechanisms. Effective information sharing platforms to reduce or even eliminate information asymmetries within an environment that fosters the effective utilization of data-processing technology[31]. The potential utilization of data-driven and smart-led technologies across different parts of the KYC and settlement value chain could contribute to the diminishing of de-risking phenomena[32,33]. This adoption will reduce the cost of compliance and provide a coordinated decision-making regime in accordance to AML/CTF requirements[34]. Therefore consistency between national and international requirements is key in terms of ensuring reform measures are applied and implemented within jurisdictions.

An additional attribute to be considered is the redefinition and repurposing of the de-risking culture within banking and non-banking financial institutions and how risk can be reframed in such a way that enables banking and non-banking financial institutions to choose and decide on their risk appetite and attitude towards derisking practices, which are not based on assumptions or ideological grounds but on solid data-driven risk models and risk-based approach reasoning.

The general rise of compliance costs, together with, the increasing risk of fines and penalties do not provide much incentive for innovation; on the contrary they do have a substantial impact both on the profitability of the banking and non-banking financial institution, positing at the same time, potential reputational damage. Trust within financial services is of paramount importance, therefore, possible reputational risk is an element that financial institutions are not willing to take. In this context, it is important to provide incentives and motivation for innovation and mobilization of key practices and tools that are in compliance with both national and international standards, while supporting financial institutions in the process of digital transformation.

The Australian AML/CTF regime is grounded on the AML/CTF Act 2006[35] and the Financial Transaction Reports Act 1988 (FTR Act)[36] and it is considered as quite robust. The Australian

[30] An interesting project to watch is the pilot program deployed by the Caribbean Development Bank, which aims at strengthening the implementation and compliance to international standards, along with, substantially increasing the technical capacity and expertise of banks and credit unions in order to conduct proper and concise customer due diligence. For more information please refer to the Discussion Paper: Strategic Solution to De-Risking (link)

[31] A potential vehicle for enabling the de-risking of the ecosystem for banking and insurance is the utilization and leveraging of public cloud that will bring more agility, innovation and digital transformation (link)

[32] Economic Commission for Latin America and the Caribbean: Prospects for Blockchain-based settlement frameworks as a resolution to the threat of de-risking to Caribbean financial systems (link)

[33] Campbell-Verduyn, M., Rodima-Taylor, D. and Huetten, M., 2021. Technology, small states and the legitimacy of digital development: combatting de-risking through Blockchain-based re-risking? *Journal of International Relations and Development*, 24(2), pp.455-482.

[34] The RBNZ and RBA are working with Pacific Island nations to develop a regional KYC facility, to support businesses in meeting their compliance obligations.

[35] Anti-Money Laundering and Counter-Terrorism Financing Act 2006, Australian Government (link)

[36] Financial Transaction Reports Act 1998, Australian Government (link)

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122

Transaction Reports and Analysis Centre (AUSTRAC) is responsible for implementing the regime, while at the same time serving as the national financial intelligence unit and the AML/CTF regulator for the country. What is very important is for regulators to provide assistance to banking and non-banking financial institutions so as to recalibrate risk assessment models and redevelop risk mitigation strategies on a case-by-case rather than wholesale debanking.

Following upon the abovementioned analysis hereby are a number of key recommendations that can be taken into consideration for further calibration of regulatory reforms and addressing the phenomenon of debanking. These recommendations are not meant to be exhaustive but aim at contributing to the need for further and detailed interventions in policies and procedures.

- Establishment of a regulatory passport that will be in alignment to national and international AML/CTF standards and can be updated using live information and transactional data.
- Further clarity on AML/CTF requirements with clear, concise and concrete rules and/or principles-based guidance.
- The relevant regulatory bodies to step up their efforts assuming leadership roles in terms of coordination and synchronization of the ecosystem stakeholders, together with, international organizations incl. United Nations and World Bank and international regulators.
- Update of risk assessment methodologies, frameworks and tools, while integrating financial inclusion data and approaches.
- Propose and promote effective suite of legislative and regulatory reforms in relation to data-led and smart-driven technologies as enablers of financial inclusion balancing at the same time key AML/CTF provisions, requirements and vulnerabilities.
- Revision of onboarding requirements and collection of the right and correct information leveraging on the power of technological advancements.
- Adoption and formulation of tiered-risk model assumptions and assessment tools in relation to KYC policies and procedures that allow for better identification, mitigation and management of risk, rather than adopting a 'one-size-fit-for-all' approach.
- Adequate upskilling and reskilling of staff and provision of resources to support risk governance and management processes. At the same time create environments conducive to innovation and experimentation related to novel ways of handling compliance and regulatory requirements and transactions monitoring.

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122

Australia Neobank Policy Environment

Compared to other countries, neobanks in Australia operate under a complex regulatory framework. Major regulatory bodies include the Treasury, APRA, ASIC, ACCC, AUSTRAC, and RBA, dictating legislative vehicles, such as, the Banking Act, prudential standards, consumer data and privacy, registration, and disclosure obligations, as shown in Table 1. This section of the submission will examine recent policies such as the Restricted ADI and Consumer Data Right (CDR) that neobank operates under with the potential to enhance competition.

Regulatory Bodies	**Regulations/Legislation**
RBA	Payment Systems Act 1998
ACCC	Consumer Data Right (CDR)
ASIC	Australian Credit License (ACL) Australian Financial Services License (AFSL)
APRA	Australian Deposit-Taking Institution (ADI) license Capital Adequacy Requirement Banking Act 1959 (Cth) Banking Executive Accountability Regime (BEAR)
AUSTRAC	Anti-Money Laundering Regulation (AML) Counter-Terrorism Financing (CTF) Know Your Customer Regulation (KYC)

Table 1: Main Regulation Impose on Neobank in Australia

Restricted ADI

Since Xinja exited the market and 86 400 was acquired by NAB, APRA has reviewed the process of ADI license application. The reformed policies outline that applicants must have an income-generating asset or product along with a new capital requirement policy.

Advantages of Restricted ADI

These new policies were made to ensure that a neobank's business model is sustainable in the long run by generating revenue (lending business model to generate revenue) and self-sustain operations without burning through investor's capital like Xinja[37]. Judo has successfully established a revenue-generating business model by solely focusing on SME lending[38]. Judo is now the third-largest bank lender within the business sector with a lending pipeline of $2.5 billion only behind CBA and Macquarie Bank.

Moreover, these policies ensure that the market evaluates quality over quantity of new challengers. The few who passed the requirement are more likely to have a solid business model and disrupt the financial service sector fostering innovation and promotion of better and stronger competition[39].

[37] Beyond its control: neobank given a year's grace (link)

[38] Judo Bank bags $174 million, as it becomes third-fastest growing SME lender in Australia (link)

[39] UAE's new capital rule could trigger further bank M&A in 'overbanked' market (link)

Disadvantages of ADI

The downside of restricted ADI is the increase in the barriers to entry to newcomers as they must now invest more time and capital into meeting the new conditions. According to Luke Bunbury Volt co-founder, it is “incredibly challenging” to raise capital as a neobank and APRA new requirement will end opportunities or deter new players from entering the market[40]. If FinTechs struggle to obtain an ADI license, they are more likely to form a partnership with major banks to borrow or reutilize a license. But forming alliances with incumbents (like NAB and 86 400) undermines competition and could defeat the purpose of being a challenger player within the ecosystem.

While increasing capital and competition is necessary to ensure stability in the financial system, sometimes it can be counterintuitive. This can be seen happening in the UAE where the increase in capital requirements has put pressure on small banks and starting a trend of M&A by the big banks to expand their market dominance. This may be an example where too much competition makes a sector overcrowded (overbanked) and during economic downturns, small players end up being acquired by incumbents. Therefore, policies to protect small players such as neobanks during times of crisis is also important to maintain a balanced level of competition within the banking sector.

CDR and Open Banking Initiative

Neobanks and FinTech companies were chosen to partake in the open banking regime to trail the data-sharing regime where the big four banks are sharing data[41]. From 1 November 2021, major banks will allow customers to share their data with accredited data recipients[42]. But to receive access to a big bank’s financial data, these participants must meet the CDR accreditation guidelines and become accredited data recipients.

Advantages of Open Banking and CDR

The ACCC has received 40 applications but only 10 were successful and those are 86 400, Frollo Australian, Identitii, Procure Build, Quicka, Regional Australia Bank, Verifier Australia, Wildcard Money, Intuit Australia, and Moneytree. This is a great opportunity for neobanks, if a consumer switches over from the big bank to a neobank, given they can choose to share their financial data with the new player. This would allow neobanks to receive data on the consumer and tailor their banking services accordingly in order to improve their customer experiences.

Furthermore, neobanks like 86 400 have already been experimenting with price comparison services for energy. They launched a free energy switching program where their customers can compare electricity price, find better deals and switch energy providers[43]. This is a great example of how neobanks could leverage CDR to innovate on new products or services in order to stay ahead of incumbents, while improving customer experience.

In the long run, CDR presents various opportunities especially within the increasing competition and closing the gap between FinTech companies, neobanks and incumbents[44]. Access to consumer data, allows developers and neobanks to realise time and cost benefit. Instead of investing in different projects to attract consumers and gather data over time, CDR

[40] Neobank founders warn APRA red tape will shut down growth pipeline (link)
[41] ACCC Reveals Australia’s First Open Banking Data Recipients (link)
[42] Consumer Data Right (CDR) (link)
[43] Bigger role for open banking set to put banks under more pressure (link)
[44] Consumer Data Right Draft Accreditation Guidelines (link)

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122

allows for data to be shared in a quick and cost-saving manner, which is a great benefit for smaller players where capital must be carefully managed.

Disadvantages of Open Banking and CDR

Compared to the UK, Singapore and Japan where the open banking regime has matured, Australia has yet to fully establish a robust data sharing ecosystem. This is because barriers, such as, regulations and COVID 19 are hindering the growth. The current process of achieving the CDR guideline to become a valid data recipient is complex and challenging for small to medium enterprises, see Figure 2.

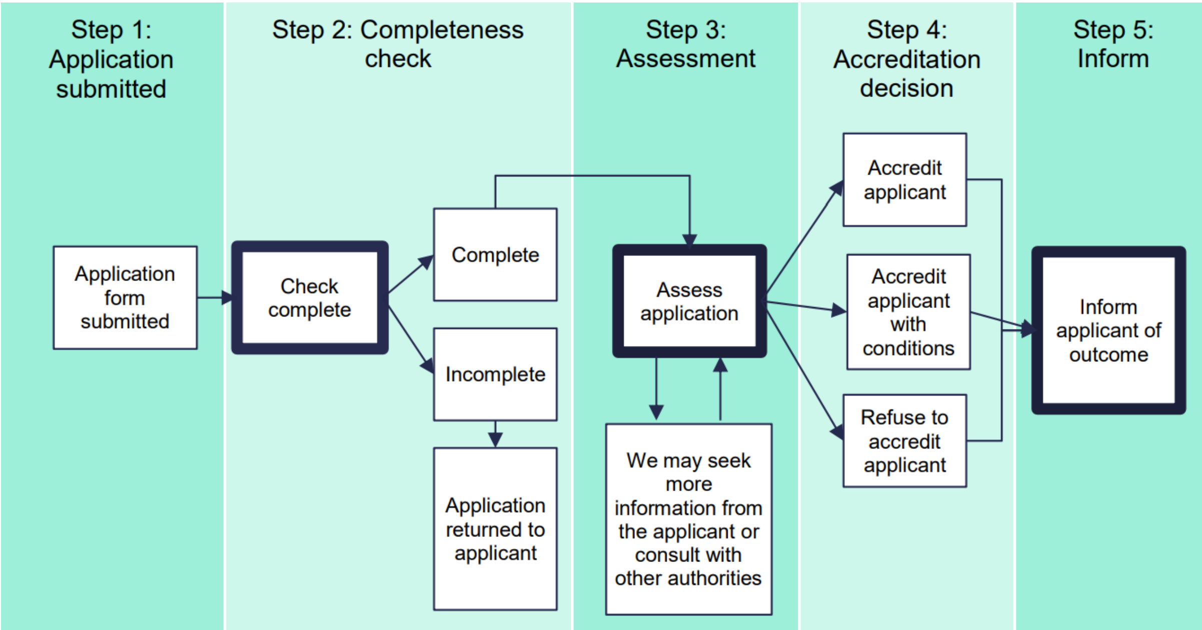

Figure 2: Accreditation Process[45]

The exist of Moneytree KK (parent company of Moneytree) back in January 2021, illustrates that CDR guidelines demand significant financial, compliance and human resource investment, which can be hard to achieve for the small to medium-sized enterprise. Moreover, after achieving the accreditation, maintaining the accreditation compliance is also costly and challenging. These obligations include the supplementary guidelines on information security and insurance obligations. This adds additional cost and complexity for neobanks operating within a highly regulated banking sector.

Even after going through all the complex procedures of acquiring accreditation, access to consumer data is mostly financial data from the big banks. If the open banking regime were to expand quickly to other industries like energy, telecommunication as planned, this would make the trouble all worthwhile. Meanwhile, many companies urge regulators to drive greater provider participation especially among FinTechs, neobanks and innovators by making the requirements more achievable for non-banks, otherwise, incumbents will remain unchallenged and their dominance within the data-sharing ecosystem will be perpetuated[46].

---

[45] Consumer Data Right Draft Accreditation Guidelines (link)

[46] Open banking can flourish with CDR amendments (link)

CDR and Open Banking Outlook for Australia and the Neobanking sector

Following upon the abovementioned analysis hereby are a number of key recommendations that can be taken into consideration for further calibration of open banking and the adoption of a regulatory regime that is friendlier to neobanks. These recommendations are not meant to be exhaustive but aim at contributing to the need for further and detailed interventions in policies and procedures.

The cornerstone behind the concept of open banking is grounded on a customer-driven foundation providing consumers with the opportunity to share their financial data with service providers of their choice. This approach derives from the paradigm that financial data belongs to the consumer and not the financial institution (GDPR and PSD2) allowing consumers to "exercise" their respective data portability right whenever they deem appropriate so as to compare services and switch providers. Therefore, this technically means that banks are no longer the sole proprietors of data (product, customer, transaction) and are not considered any longer as the "guardians of financial data". Open banking aims at democratizing the custodianship of financial data beyond incumbent banking institutions breaking down barriers and allowing for healthier Fintech-driven competition, innovation, transient advantage and consumer benefits.

Every single discussion on open banking revolves around customer centricity and the need to open competition by providing 3rd party providers (TPPs) access to valuable data that can be aggregated in different and innovative business models aiming at providing new, curated, customized, personalized and value-adding products and services to consumers. The vault of priceless data is now open and by means of different data science tools that can be translated into tech-driven business models.

In this context, a paradox needs to be observed and acknowledged. The key stakeholder that is positioned in the heart of the open banking regime and that is the consumer remains at the same time the weakest and most vulnerable link and this something that all the associated stakeholders have really underestimated. And the reason is: lack of awareness and mainly lack of understanding on the power of customer/financial data and exposure to risk (both individual and systemic). Putting the consumer "firmly back in the driver's seat" in control and sole proprietor of customer/financial data is appealing but at the same time terrifying. 53% of Australians don't understand enough about open banking and the benefits of sharing financial data with 3rd party providers[47].

Technological breakthroughs develop at an exponential growth rate providing every single day new applications, new mechanisms and tools and primarily new ways of collecting, storing, managing, mobilizing and translating any kind of data into insights often probably too fast and without always the support of legal frameworks, ethical guidelines and harmonized standards.

Taking a step further, even beyond consumers, financial services professionals, data scientists and all the associated stakeholders cannot guarantee that they are fully aware of the true power of consumer data. The relentless scouting of financial data can have very serious consequences if no proper and diligent attention is paid opening the Pandora Box.

The true implementation of open banking requires the signing of a new data-sharing contract, positioned within an open banking data sharing ecosystem since this emerging regime redefines

[47] New customer data legislation paves way for open banking in Australia (link)

the foundational concepts of trust and consent. The new narratives of protocol-driven and API-driven (Application Programming Interfaces) trust and data-driven consent aim on the one hand to bring transparency and protect the financial services marketplace, however on the other hand, putting this control back into the hands of the consumers can also be quite dangerous, especially when this key stakeholder is not educated and informed about the mighty powers data can have making customers vulnerable and excluded against this new open banking reality.

The aspirations of open banking are high since this new era can lead to a more sustainable financial industry driven by transparency, fairness and ease. However the true implementation of open banking needs to move beyond technological terms, competition and economic growth, customer experience initiatives and over-optimism. It requires the true and real positioning of the consumer in the heart of the open banking architecture and make the consumer an equal stakeholder of a safe financial services ecosystem.

In order for consumers to be able to control their data and direct their banking providers to share information to FinTechs and other 3rd party providers (TPPs), substantial educational and training interventions are required. These interventions remain a critical component of the Australian Open Banking regime and need to go beyond core data management focusing primarily on shifting the mindset and generating a new culture of trust and consent driven by data and ethics.

The Australian financial services industry and all the associated stakeholders must put the right educational frameworks in place so as not only to raise awareness but act as a catalyst of developing educated, financially literate, responsible, well-informed, protected and diligent consumers on the real and unlimited powers of their data. Universities and informed research have a well-respected and pivotal role to play towards that direction in terms of preparing all ecosystem stakeholders to meet their respective open banking obligations.

If the open banking regime can be stretch to other industries outside banking, such as, utilises and telecommunication, it will serve a great potential to go global and create an international data sharing ecosystem[48]. This will not only present opportunities for neobanks and FinTech companies but Australia as a country will be positioned as an innovation and data powerhouse among other countries like Singapore and UK.

But for Australia to benefit from this global data regime, it must first establish a mature open banking regime domestically, then expand to include other industries like telecommunication, utilities so as to lay a foundation for the cross-border trade in data. Although it has yet to exist, when it does, Australia will be very well-positioned to benefit from this great opportunity. Singapore is already looking into data portability law, while the UK is trying to review and expand its open banking law. Australia should establish a new regulatory body that can solely oversee CDR, instead of being supervised by various bodies. This arrangement will allow for a more consistent common standard for managing consumer consent, data recipients and data sharers.

[48] An immeasurable opportunity: Why FinTechs want an international CDR (link)

Australia as a Technology and Financial Centre

Importance of a structured FinTech ecosystem

A healthy FinTech ecosystem is important in order to stimulate technological innovation and make economies and existing financial markets more efficient. This results in a more improved product and customer experience. FinTech Ecosystems generally consists of governments, financial institutions, regulators, policy makers, universities and entrepreneurs (including incubator and accelerator programs). The main players whose interactions enhance the ecosystem include entrepreneurs, incumbents, regulators, governments, capital providers and service providers. This section of the submission will review how Australia can create a thriving FinTech ecosystem that attracts talented and ambitious people and start-ups to become a centre of creative thinking, innovation, and business activity.

The four design elements considered to create a successful FinTech landscape include access to capital, government and regulatory support, financial expertise, and business environment/access to markets[49]. These elements will be reviewed in the context of existing, successful FinTech ecosystems[50] to see where Australia can take elements and apply them or modify them to improve their impact on the Australian FinTech ecosystem.

Access to Capital

United Kingdom

United Kingdom provides tax incentives to seed-stage investors. You can invest up to £1 million per annum in a UK seed enterprise investment scheme company, and get 50% tax credit back, and pay no capital gains tax, however you must hold the investment for three years. There is also the enterprise investment scheme, which is a later stage investment of up to £3 million a year gets a 30% tax break. It is much more of an incentive than anything available in Australia, where the tax incentive would be somewhere between 10 and 20 per cent. The UK has also created a government-owned business bank, founded in 2012 with £1 billion in funding to support small and emerging companies. It has since launched funds targeted at specific technology areas like AI[51].

Singapore

Sovereign wealth funds are investing heavily in FinTech and there are very favourable tax incentives for foreign venture capital offices to set up in Singapore[52].

European Union

Sovereign wealth funds are mandated to invest domestically in early-stage tech businesses. Setting up dedicated FinTech investment offices (i.e. Enterprise Ireland) in FinTech city hubs to showcase the talent of FinTechs in Ireland, leading to more investments in FinTechs in Ireland.

---

[49] Developing a FinTech Ecosystem in the GCC (link)

[50] The choice of the international FinTech hub is being informed by the latest rankings and specific information attributed to the ad hoc jurisdictions.

[51] Australian Financial Review 'It's paltry': Why Australia is years behind in FinTech (link)

[52] Singapore FinTech Landscape 2020 And Beyond (link)

Lithuania

The Central Bank of Lithuania has a strategical priority to welcome and be open to FinTechs. There are also far more reasonable operating costs for FinTechs to operate in Lithuania, making it an attractive option for businesses[53].

Australia

Lacking regarding access to capital for investments, for example, Future Fund allocates to 14 external funds, which are all overseas, and not one of them invests in the Australian early-stage start-up ecosystem. ESVCLPs (Early Stage Venture Capital Limited Partnerships) now can only invest in tech companies, but the conditions are blurred to invest in FinTech which is a barrier.

Government/Regulatory Support

United Kingdom

Favourable tax incentives as noted above, along with a government owned business bank. FinTech bridges including one with Australia that fosters innovation and expansion for the UK FinTech market.

Lithuania

Progressive regulation, with a focus on progress and helping FinTechs enter the market smoothly[54]. A regulatory sandbox environment where FinTechs can test their new products, as well as a 'newcomer' programme that enables potential new entrants to quickly meet and consult with the regulator and apply remotely for a banking licence. The application process for these new payments and e-money licences has been streamlined to take just three to six months. In Australia the timeframe is 3-18 months.

Singapore

Government-linked funds support the FinTech ecosystem and early stage start-ups. Favourable tax environment for international venture capital firms to set up office. The regulatory sandbox facilitates faster market testing of innovative financial services. Innovation initiatives supported by Singapore's public sector including funding to support 50% of set up costs for start-ups, set up innovation labs, start-up founder programmes with capital grants. In 2019, Singapore was recognised as the second easiest place in the world to do business for reasons such as ease of business establishment, foreign equity ownership, tax frameworks, and contract enforcement, including IP protection. Singapore has established FinTech bridges with many different hubs, including the Bank for International Settlements Innovation Hub, which is the only one in Australasia that aims at developing solutions to benefit the financial system[55]. Currently, one of the main objectives of the hub is the development of Central Bank Digital Currencies positioning Singapore at the leader and orchestrator of CBDCs innovation in the region[56].

[53] Fintech Lithuania: How a tiny country began punching above its weight (link)

[54] Findexable-Global-Fintech-Rankings-2020 (link)

[55] Monetary Authority of Singapore New BIS Innovation Hub Centre in Singapore to develop solutions to benefit the financial system (link)

[56] Forbes Magazine BIS Innovation Hub Sets The Pace For Central Banking Digital Innovation (link)

Hong Kong

Government supports incumbents with policy and funds to digitize legacy technology systems[57].

European Union

In Ireland, there is also a highly competitive corporation tax rate of 12.5% and a large double taxation treaty networking promoting the ease of doing business in Ireland[58]. Ireland's International Financial Services Strategy launched by the government in 2015 sets specific employment levels for the FinTech and Financial Services Industry (i.e. from 35,000 to 45,000 people employed in the industry by 2020)[59].

Financial Expertise and Tech Talent

United Kingdom

Bridging the gap between academic and commercial expertise by creating a program that funds PhD students with £80,000 annually to work directly with start-ups.

Lithuania

Creation of readily deployable specialists in the country's labour market to assist start-ups and FinTechs.

Singapore

Tech Pass: a targeted programme to attract founders, leaders and tech experts in established or fast-growing tech companies to contribute to the development of Singapore's tech ecosystems and upskilling of its tech workforce. Government initiatives to upskill workforces in tech and coding, with government subsidies for training.

Israel

Largest R&D funding per capita to enable university to create tech talent. Israel has a successful STEM education system and its mandatory military service provides early training in sophisticated technologies. Companies like Google have cited its tech talent pool as the major drawcard of setting up in Israel[60].

European Union

Ireland established the 'Silicon Docks' area in Dublin that is the base for large FinTech headquarters and data centres in Europe, including Google, Amazon and Microsoft. A large number of tech companies were attracted by Dublin's favourable corporate tax rate, temperature (Microsoft saved up to 17 million euros in air conditioning costs by basing itself in Dublin) and quality of living. This has increased the amount of tech talent and the ability for tech companies to acquire experienced, talented staff easily from other tech companies in the area[61]. Another comparable example of this concept is Silicon Valley in the USA.

---

57 Eddie Yue: Next phase of Hong Kong's FinTech journey-'Fintech 2025' (link)

58 Be part of Ireland's Growing Fintech Industry (link)

59 Ireland FinTech Landscape (link)

60 KPMG Value of FinTech (link)

61 Silicon Docks & Global Tech's Growing Footprint in the Greater Dublin Area (link)

Business environments/Access to markets

United Kingdom

Laws in the United Kingdom have required incumbent banks to refer to customers they reject for finance to FinTech start-ups willing to price the risk. The United Kingdom also has implemented its Open Banking system[62].

Australia

Wi-Fi speed is not in the top 20 worldwide, however open banking and CDR are important and innovative features of Australia's financial ecosystem.

Lithuania

Has the fastest Wi-Fi in the world. It also has established numerous innovator hubs and accelerator programs.

European Union

Lithuania, Luxemburg, Malta: easier to establish FinTech companies and easier to transact across borders due to harmonised rules. In Scotland, businesses are often located within universities. This allows them to be laboratories, sandboxes, incubators and accelerators of innovation and entrepreneurship. In Ireland the Central Bank of Ireland (CBI) has launched its own innovation hub to allow firms to engage with CBI in addition to an industry engagement programme.

Singapore

Cross-border alliances to support innovation and expansion, ensuring that the FinTech sector is vibrant. Creation of FinTech events to develop FinTech Network and Ecosystem (Singapore FinTech Festival). Public and private sector funding to set up co-working spaces for start-ups and FinTechs.

Moving forward for Australia

Following upon the abovementioned analysis hereby are a number of key recommendations that can be taken into consideration for recalibrating the Australian FinTech ecosystem that will position Australia as a global FinTech hub. These recommendations are not meant to be exhaustive but aim at contributing to the need for further and detailed interventions in policies and procedures.

Access to Capital

Like Singapore and the United Kingdom, Australia needs to directly invest in start-ups as a priority. Including mandating policy for Future Fund and other sovereign run bodies to invest certain amounts into the Australian Start-up Ecosystem. ESVCLP policy must simplify procedures for investing in FinTech and increase tax incentives for investors to invest in early stage businesses. Expand promotion and marketing programs and any national government investment offices within FinTech hubs.

---

[62] Could Australia be a serious FinTech innovator (link)

Financial Expertise and Tech Talent

Encourage and provide incentives for local FinTech talent to go on overseas secondments to gain experience in leading FinTech hubs and foster a sense of innovation, networking, and entrepreneurial spirit to bring back. Offer scholarship programmes and request graduates to work overseas full-time for extended periods in relevant sectors, e.g. technology, FinTech.

Provide specific grants and funding for postgraduate, including PhD students to develop skills in FinTech and Tech related fields and research, along with, supporting and sponsoring undergraduate, post-graduate and executive education (including short courses/micro-credentialing) upskilling programmes dedicated to FinTech, financial technologies innovation and data-related fields offered by a number of universities (e.g. Swinburne University[63], UNSW[64]).

Additional advertising and promotion of the Global Talent Visa Program. Provision of referral incentives for thoroughly vetted and recruited FinTech experts who stay in Australia for a specified time and return to home country.

Creation of a prominent FinTech area, much like Silicon Docks in Dublin or Silicon Valley in USA that attracts leading FinTech investment and talent.

Government/Regulatory

It needs to become a priority for the government to create a central, government-backed investment agency to support the FinTech ecosystem and early stage start-ups, such as those that exist in thriving FinTech ecosystems (Ireland, Singapore, Hong Kong).

As well as an investment agency, another government led and backed organisation that operates transparently with membership from different industries and with different advocacy standpoints, which provide policy and engagement with the sector for addressing the needs of start-ups and scaling companies in terms of the four design elements of the FinTech ecosystem.

Specific focus on decreasing processing timeframes for banking licences from 18 to 6 months. This will create an innovation-friendly regulatory environment. Increase and simplify tax incentives for early stage investors in Australian FinTechs along with engaging with foreign owned investment funds to address any barriers to investing in Australian FinTech.

Access to markets

Since Australia is geographically isolated from other regions, there is an increased need to look at the FinTech landscape from an international collaboration approach, including ensuring the FinTech bridges, which can be useful for Australian companies that wish to expand. 40% of FinTechs surveyed[65] cited a need for the creation of government launchpads in other markets, or government assistance to access existing launchpads as current initiatives were not effective[66]. Review of FinTech bridge programs with industry to identify any roadblocks and challenges in efficiency and utilising them to expand beyond Australia.

Investment in increasing Wi-Fi speed and access to be competitive with the top 20 leading FinTech countries.

---

[63] Master of Financial Technologies (link)

[64] Master of Financial Technologies Online (link)

[65] 2019 EY FinTech Australia Census

[66] UK FinTech Moving Mountains and Moving Mainstream (link)

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122

Ultimately what Australia needs is a coordinating body that will be able to be the trusted and trustworthy face and point of reference of Australian FinTech in the world, synchronise and manage all the stakeholders of the ecosystem, recalibrate policy-making and provide the much-needed leadership, engagement, research and through leadership, which will bring Australia to the next era of FinTech innovation and entrepreneurship and make it a globally-recognisable and respected FinTech hub.

| Level 11, BA Building | Mail H23, John Street | Hawthorn VIC 3122