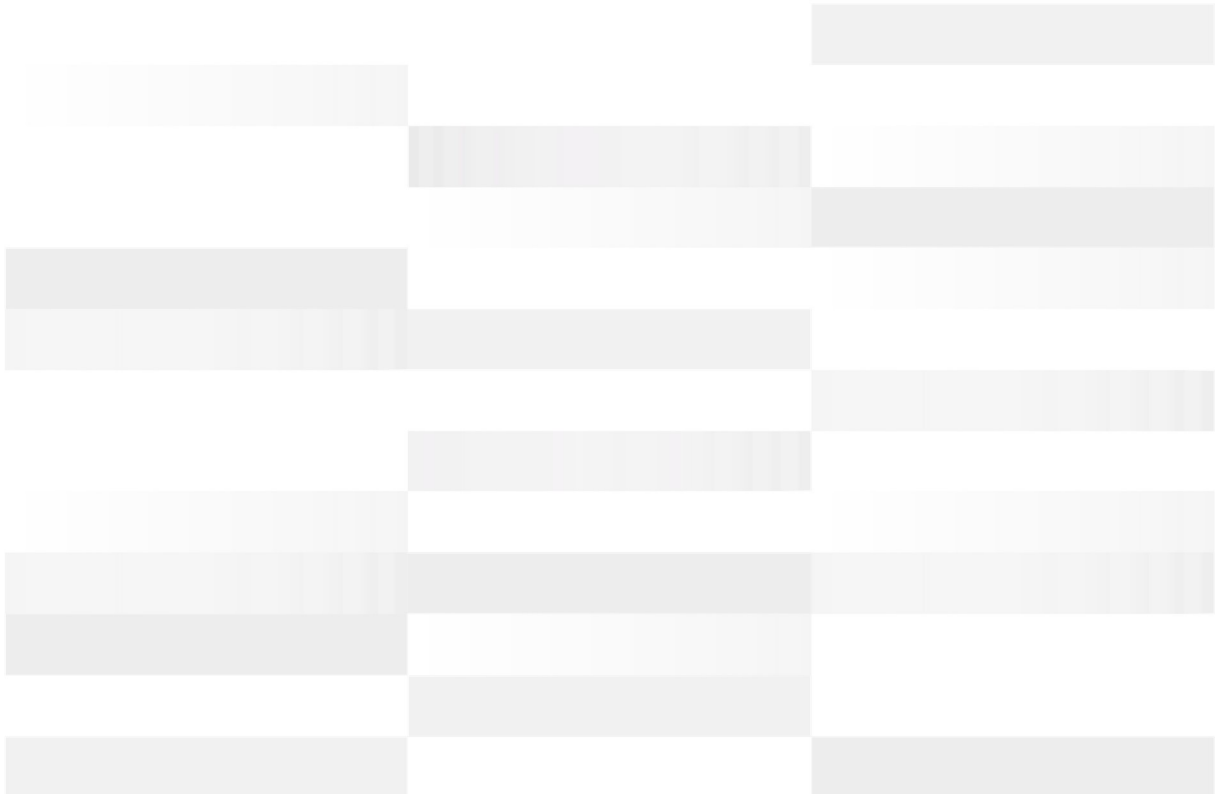




Australian Government

Government Response: Potential Policy Responses to De-banking in Australia

June 2023



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Foreword

De-banking is not only an Australian challenge, but one that affects many jurisdictions globally. Any proposed solution to the problem must balance support for business, whilst appropriately managing financial crime and other risks.

De-banking occurs when a bank declines to offer or withdraws banking services to a customer and is driven by a number of inter-related causes, including Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) laws, sanctions compliance, profitability and reputational risk considerations.

In August 2022, the Council of Financial Regulators (CFR) provided the Government with advice on potential policy responses to de-banking. The advice was commissioned in response to the recommendations in the final report of the Senate Select Committee on Australia as a Technology and Financial Centre. In October 2022, the CFR published their advice to Government making four recommendations.

There are many anecdotal examples of de-banking occurring in Australia, however, the clear lack of data on de-banking practices makes it challenging to design effective policy responses. The Government acknowledges the importance of insightful data to monitor any potential policy responses to de-banking.

The Government recognises the seriousness of de-banking and understands that inaction on the issue will stifle competition and innovation in the financial services sector and may drive businesses underground and to operate exclusively in cash.

Our response highlights the Government's commitment to taking action on de-banking, and our intentions to balance support for affected businesses, while also acknowledging banks are commercial enterprises and must manage their own risks and resources.

In response to CFR's advice, the Government:

- Agrees to the *data collection* recommendation;
- Supports the *transparency and fairness measures* recommendation in principle;
- Supports the *guidance by major banks* recommendation in principle; and
- Notes the *capability uplift* recommendation.

The Government will now work closely and iteratively with regulators, banks and the affected sectors to ensure that the implementation of the agreed upon recommendations is effective and achievable.

The Hon Dr Jim Chalmers MP
Treasurer

Response to recommendations

Recommendation	Government response
<p>Recommendation 1: Data collection</p> <p>That voluntary data collection on de-banking be undertaken by the four major banks, following which, consideration will be given to a formal phase of data collection, subject to appropriate resourcing for relevant agencies.</p>	<p>The Government agrees to this recommendation.</p> <p>While noting the challenges associated with data collection, the Government views data collection to be a fundamental aspect of the response to de-banking. The data will enable monitoring of the extent and nature of de-banking and help inform any future policy formulation and monitoring.</p> <p>Treasury will work with APRA and the four major banks to design and scope the voluntary data collection to ensure the data collected is useful and the process is iterative.</p>
<p>Recommendation 2: Transparency and fairness measures</p> <p>That all banks implement five related measures to improve transparency and fairness in relation to de-banking. These measures would apply to all instances of de-banking.</p> <p>The five measures proposed are:</p> <p>Measure 1: That banks document reasons for de-banking a customer;</p> <p>Measure 2: That banks provide a customer with reasons for being de-banked;</p> <p>Measure 3: That banks ensure a de-banked customer who is an individual or small business has access to their Internal Dispute Resolution procedures;</p> <p>Measure 4: That banks provide a minimum of 30 days’ notice before closing existing core banking services of a customer. This account closure notice should also inform the customer that they may access the bank’s Internal Dispute Resolution procedures; and</p> <p>Measure 5: That banks self-certify adherence to measures 1–4.</p>	<p>The Government supports this recommendation in principle.</p> <p>The Government views these measures to be important to addressing some of the main frustrations experienced by affected businesses.</p> <p>Treasury will work with banks and AUSTRAC to ensure the measures in this recommendation are implemented to the greatest extent possible.</p>

Recommendation	Government response
<p>Recommendation 3: Guidance by specified banks</p> <p>That the four major banks be advised of the Government’s expectations that they publish guidance applicable to the digital currency exchanges (DCE), FinTech and remittance sectors concerning their risk tolerance and their requirements to bank these sectors.</p>	<p>The Government supports this recommendation in principle.</p> <p>The Government expects banks to communicate their requirements to both existing and potential customers clearly and proactively prior to refusing or withdrawing banking services. The Government also encourages the major banks to publish information on their requirements and risk tolerance of the DCE, FinTech and remittance sectors.</p>
<p>Recommendation 4: Capability uplift</p> <p>That consideration be given by Government to funding targeted education, outreach and guidance to the FinTech, DCE and remittance sectors. If the Government is interested in pursuing capability uplift, the Participating Agencies can advise on implementation options.</p>	<p>The Government notes this recommendation.</p> <p>The Government supports the objectives of this recommendation and recognises the potential that capability uplift may have.</p> <p>Since early 2021, AUSTRAC has conducted a range of education and guidance activities with the remittance, DCE and FinTech sectors. This includes engagement and capacity building activities such as the regular provision of induction webinars and workshops, publishing guidance products and conducting targeted education campaigns. AUSTRAC has also enhanced its registration processes for these sectors, increasing the emphasis on probity and assessing technical capacity to comply with AML/CTF obligations. AUSTRAC also conducts ongoing compliance campaigns to build regulated entities’ understanding and assess their level of compliance with AML/CTF obligations.</p> <p>The Government continually reviews Australia’s AML/CTF regime in line with Financial Action Task Force international standards to ensure that it remains fit for purpose and effective. Funding of targeted education, outreach and guidance to the FinTech, DCE and remittance sectors may be considered by the Government as part of any future initiatives.</p> <p>In addition, the Government has announced its intention to license payment providers and DCEs as part of its modernisation of Australia’s financial system. Licensing these entities is also expected to uplift the capability of these sectors over time.</p>