

Submission by



to

**The Finance and Expenditure Committee
Inquiry into Banking Competition**

25 September 2024

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BLOCKCHAIN NZ SUBMISSION TO THE FINANCE AND EXPENDITURE COMMITTEE INQUIRY INTO BANKING COMPETITION

25 September 2024

BlockchainNZ thanks the Finance and Expenditure Committee for the opportunity to make this submission.

ABOUT BLOCKCHAIN NZ

BlockchainNZ is an association of organisations and individuals formed to support and grow the blockchain and crypto community in New Zealand. We represent this rapidly emerging business sector and those engaged in the wider global financial services, IT, and public sector communities. We are part of the NZ Tech Alliance, and our vision is to help make New Zealand a global hub for blockchain innovation.

EXECUTIVE SUMMARY

We note the terms of reference of the Inquiry and make this submission in relation to the following items:

- Any restrictions on overseas investment/new entrants, including fintechs.
- Any outstanding constraints on the use of technology and open banking.
- The role of bank regulators (FMA, MBIE, RBNZ) and whether the regulatory environment can be simplified.
- The role of prudential regulation and any impacts on risk allocation, smaller banks, and non-bank deposit takers (NBDTs).
- Whether the RBNZ's focus on "financial stability" impedes the development of competitiveness, particularly amongst NBDTs and existing / potential fintechs.

Our submission highlights the challenges faced by New Zealand's emerging Web3 sector in accessing essential banking services. Based on a comprehensive report by [Web3NZ](https://www.callaghaninnovation.govt.nz/assets/documents/Debanking-and-its-implications-for-Aotearoa-New-Zealands-Web3-Ecosystem.pdf)¹, it outlines the impact of "debanking" on innovation, economic growth, and New Zealand's competitiveness in the global digital economy. We outline what best practice should look like, and we make a series of recommendations for the Committee's consideration.

¹ <https://www.callaghaninnovation.govt.nz/assets/documents/Debanking-and-its-implications-for-Aotearoa-New-Zealands-Web3-Ecosystem.pdf>

KEY POINTS

Debanking of Web3 companies

Many Web3 companies in New Zealand, including cryptocurrency exchanges and blockchain startups, are experiencing difficulties in obtaining or maintaining bank accounts. This "debanking" trend is hindering the growth of an innovative sector with significant economic potential.

Impact on innovation and competitiveness

The lack of access to banking services is stifling innovation in the fintech and Web3 sectors. It creates barriers for startups, limiting their ability to operate efficiently, and potentially drives talent and businesses offshore to more accommodating jurisdictions. It also creates a lack of clarity in the market, where personal relationships can determine whether a Web3 company can access accounts with our major banks.

Regulatory uncertainty

The absence of clear regulations specific to digital assets and Web3 technologies is contributing to banks' risk-averse approach. This regulatory gap is creating uncertainty for both banks and Web3 companies. As other countries enact regulation specific to digital assets and cryptocurrencies, this puts New Zealand increasingly out of step with best practice.

Economic implications

Debanking poses a risk to New Zealand's ability to compete in the fast-moving and disruptive Web3 industry. It may result in missed opportunities for innovation in the fintech sector and reduce choice and competition for consumers of financial services. While New Zealand has created highly successful Web3 companies including Futureverse, Immersve, and VeVe, building critical mass in this promising sector will be difficult under current conditions.

International context

Other jurisdictions, such as the European Union with its Markets in Crypto-assets Regulation (MiCA), are creating regulatory frameworks that provide clarity for investors, startups, and banks. Without similar initiatives, New Zealand risks falling behind.

WHAT BEST PRACTICE SHOULD LOOK LIKE

Any changes to the regulatory status quo or existing industry practices should be carefully considered. They should aim to promote:

1. **Innovation support.** The banking sector should facilitate rather than hinder innovation in emerging technologies and business models.
2. **Fair access.** Access to banking services should be based on compliance with regulations and legitimate business practices, not on preconceived notions about specific industries.
3. **Regulatory clarity.** Clear and specific regulations for Web3 and digital assets are essential to provide certainty for both banks and innovative companies.
4. **Competitive advantage.** New Zealand should strive to create an environment that attracts and retains Web3 talent and businesses to maintain a competitive edge in the global digital economy.
5. **Balanced approach.** Regulations and banking practices should balance the need for financial system stability with the imperative to foster innovation and economic growth.

RECOMMENDATIONS

1. **Develop a regulatory framework.** Create a comprehensive regulatory regime for digital assets and Web3 technologies, providing clarity and certainty for both the banking sector and Web3 companies.
2. **Ensure access to banking services.** Consider legislation that ensures the right to access banking services for legally compliant individuals and organisations, unless there are compelling legal reasons to withhold them.
3. **Promote innovation and competition.** Encourage more banks and neobanks to participate in the New Zealand market, fostering competition and potentially increasing options for Web3 companies.
4. **Establish a Web3 compliance pathway.** Support the implementation of a Web3 Compliance Pathway, as proposed by Web3NZ, to develop best practice compliance assessments involving legal experts, regulators, and banks. Web3NZ has already begun work on a pilot Web3 Compliance Pathway, along with government agencies and industry.
5. **Enhance monitoring and dialogue.** Encourage ongoing monitoring and dialogue between the Reserve Bank, commercial banks, and the Web3 sector to address emerging issues and foster understanding.

CONCLUSION

Addressing the challenges of debanking in the Web3 sector is crucial for New Zealand's future economic prosperity and its position in the global digital economy. By implementing clear regulations, ensuring fair access to banking services, and fostering innovation, New Zealand can create an environment where both traditional financial institutions and emerging Web3 companies can thrive, contributing to a robust and diverse economy.

BlockchainNZ thanks the Committee for the opportunity to contribute to this Inquiry. We are happy to engage further to discuss our submission (in person if required) and to provide any further assistance that might be helpful.

Yours sincerely,

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