Debanking and its Implications for Aotearoa New Zealand's Web3 Ecosystem

WEB3NZ 2023

A compilation of case studies and research representing a collective effort to build a deeper understanding of the impact of debanking on New Zealand based-Web3 companies and it's significance in the global context.

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Background

Aotearoa New Zealand has a small but innovative ecosystem of "Web3" entrepreneurs and companies active in developing and offering products and services related to digital assets (cryptocurrencies), digital identity, blockchain platforms, grassroots bitcoin solutions, decentralised internet technologies, non-fungible tokens (NFTs) and Decentralised Autonomous Organisations (DAOs).

The Web3 sector represents an opportunity for economic and sustainable growth for New Zealand, with many of the technologies underpinning Web3 expected to experience significant uptake in the next decade.

While Web3 has the potential to streamline delivery of digital services, it also allows users more control of their data and introduces new corporate and organisational governance models that serve to empower users and shareholders alike.

What is Web3?

Web3 is a foundational layer that will increasingly influence how we use the internet. Unlike the SaaS businesses of the Web 2.0 model, Web 3.0 typically involves products that use decentralised internet technologies.

This includes products and services that prioritise empowering the user over platform monetisation, embrace anonymity and pseudonymity over the sale of and mining of personal data, and reduce single points of failure.

Components of Web3 include (self-sovereign) digital identity, digital assets, decentralised autonomous organisations (DAOs), decentralised finance (DeFi) and specific applications such as non fungible tokens (NFTs).

Some Web3 companies are literally being "debanked", unable to operate a bank account with a New Zealand bank. Others have resorted to workarounds to gain access to banking services, leaving them in a fragile situation where access to banking services could disappear entirely, at short notice.

Web3NZ has received numerous anecdotal reports of debanking or limitations placed on access to banking services in the last six months including:

- Digital asset exchanges operating in New Zealand and facilitating local customers to buy and sell digital assets, have reported being contacted by their bank to discuss possible red flag activity including additional questions about the nature of their business. In order to avoid being debanked, some have begun using the exchange's intermediary bank as a workaround to losing their local banking access.

- Some Web3 companies have reported using building societies rather than the major banks as they have close, often community-based, relationships. Ultimately, these financial service providers also have their own core banking service provider whose expectations and requirements must be met.

- Binance, the company behind the world's largest digital asset exchange, has not been able to access banking services in New Zealand at all.

- Having been refused services by every major New Zealand bank, DeFi provider Debut is now working on developing its own bank.

The purpose of this report is to help build an understanding of the current state of banking services in New Zealand, the posture towards enabling or inhibiting progress in the Web3 ecosystem, and to examine the impact this has on Web3, bitcoin and decentralised internet companies. The report also looks at New Zealand's ability to innovate and be a global leader in this sector.

Further insights into the prevalence of debanking in the New Zealand Web3 industry are included below in our survey of the Web3NZ community, and our case study series.

The Reasons for Debanking

Debanking typically involves the closure of bank accounts or denial of access to financial services, which can have significant implications for those affected.

The issue of debanking arises when certain individuals or businesses are perceived as high-risk or controversial by financial institutions. Some common reasons for debanking include:

[2] https://www.makingdebutbank.co.nz

- **High-risk industries:** Businesses operating in industries considered risky or prone to financial fraud, such as digital asset exchanges, online gambling, or certain legal cannabis businesses, may face debanking due to regulatory concerns or compliance issues.

- **Social or political reasons:** Individuals or organisations involved in controversial or politically sensitive activities might face debanking due to perceived reputational risks or regulatory pressures.

- **Lack of financial history:** Individuals or small businesses without a significant financial history or credit score may struggle to maintain banking relationships, leading to debanking.

- **Suspicious activities:** If financial institutions detect suspicious or potentially illegal activities associated with an account, they may choose to debank the account holder to mitigate potential risks.

- **Compliance and regulatory requirements:** Banks and financial institutions are subject to various regulations and compliance measures to prevent money laundering, terrorist financing, and other financial crimes. If an account holder is unable to meet these requirements, it can lead to debanking.

The issue with debanking lies in the potential negative impact it can have on those affected. When individuals or businesses are debanked, they may face challenges in accessing essential financial services, making payments, or even conducting legitimate business operations. It can lead to financial exclusion and hinder economic growth, particularly for businesses in those industries deemed to be high risk.

Critics argue that debanking can also be discriminatory, disproportionately affecting certain groups or businesses that might already face societal or systemic biases. Furthermore, it can hinder innovation and competition in the financial industry, limiting options for customers seeking alternative solutions.

Efforts are being made around the world to address debanking concerns through improved regulations, enhanced transparency, and the exploration of alternative financial services options to ensure a fair and inclusive financial system. However, the issue remains complex and multifaceted.

What is the Impact on the Web3 Industry?

The Web3 industry has faced various challenges related to debanking. Many banks and financial institutions have been cautious and sceptical about providing services to digital asset-related businesses and individuals. This is due to the perceived and legitimate risks and regulatory uncertainties associated with the digital asset space.

Here are some ways in which debanking has affected the digital asset industry:

- **Exchange access:** Digital asset exchanges have experienced difficulties in obtaining and maintaining banking relationships. Banks may be reluctant to provide services to exchanges due to concerns about compliance, potential money laundering risks, and the volatile nature of digital assets.
- **Business accounts:** Companies involved in digital asset-related activities, such as blockchain startups or companies accepting digital asset payments, have faced challenges in securing business accounts or had their existing accounts closed or restricted by banks.
- **Customer accounts:** Retail investors involved with digital assets have also faced issues with banks closing or limiting their accounts if they are found to be involved in significant trading activities. This can create inconvenience and financial instability for those affected.
- **Regulatory uncertainty:** The regulatory landscape for digital assets has been evolving rapidly, and different countries have taken varying approaches to regulate or restrict digital asset-related activities. Banks may choose to distance themselves from the digital asset industry in general until there is more clarity on regulations, fearing potential legal and compliance risks.
- **Cross-border transactions:** International transfers involving digital assets have sometimes been subject to increased scrutiny by banks, leading to delays or rejections of transactions.
- **Card payments:** Debanking has also impacted digital asset debit card providers, as they rely on partnerships with traditional banks to process transactions. Banks' reluctance to work with such providers has limited the availability of digital asset debit card services.

A string of high-profile collapses of commercial entities in the digital asset space has shaken confidence in the entire sector and only exacerbated the issues listed above as banks, regulators, and consumers reduce their risk appetite.

“The instinct to shut down the Web3 revolution for short-lived failures conforming with institutional norms across banking, traditional corporate governance, regulations and political inclinations should be dismissed,”[3] Dante Disparte, Chief Strategy Officer and Head of Global Policy at Circle, which issues the USDC stable coin, points out.

“Following that inclination would put us on the wrong side of history and ignores the deeply democratic tendencies of Web3, as well as the fact that amid otherwise anaemic or sclerotic growth in traditional sectors, Web3 is powering trillions in economic activity and we are only nearing the starting line,” Disparte adds.

[3] https://www.weforum.org/agenda/2022/05/what-is-web3-why-care-future/

Debanking Around The World.

Debanking has been widely reported as a growing problem around the world. Here is a summary of recent developments in key markets:

United States

Some commentators maintain that there's effectively a partial "shadow ban" on digital asset activities with the Federal Reserve and US financial regulators cautioning banks about doing business with digital asset-related organisations.

It follows the collapse this year of three digital asset-friendly banks, Silicon Valley Bank, Silvergate Capital, and Signature Bank, as well as the demise of the digital asset exchange FTX in 2022 and the digital asset firms Voyager, Blockfi and Celsius.

The US Securities and Exchange Commission (SEC) has long maintained that the majority of digital assets should be treated as securities rather than commodities and therefore fall under the purview of the Commission, just as publicly-listed stocks do. A flurry of lawsuits taken by the SEC against digital asset exchanges make the central argument that exchanges are operating as unregistered entities and therefore are illegal exchanges.

In April 2022, the SEC filed numerous changes against Binance[4], the world's largest digital asset exchange, as well as its Founder and Chief Executive, Changpeng Zhao. It accuses both of misleading investors and operating an exchange illegally. Coinbase, another large global exchange, is also the subject of legal action by the SEC.

In January 2023, the U.S. Federal Reserve denied Custodia Bank's application for membership and access to a master account, with the Fed's board determining that Custodia's "novel business model and proposed focus on crypto-assets presented significant safety and soundness risks".

"Custodia's risk management framework was insufficient to address concerns regarding the heightened risks associated with its proposed crypto activities, including its ability to mitigate money laundering and terrorism financing risks,"[5] the Fed added.

4 https://www.npr.org/2023/08/13/1188231308/binance-lawsuits-cz-crypto-sec-coinbase-bitcoin
5 https://www.federalreserve.gov/newsevents/pressreleases/orders20230127a.htm

In July 2023, Ripple, the blockchain-based digital payment network, received a court ruling in its long-running dispute with the SEC, which found that the company's XRP token was not considered a security. The SEC has signalled its intention to appeal the ruling.

Operation 'Choke Point 2.0'

Nic Carter, co-founder of Castle Islands Ventures, a digital asset-focused venture capital firm, has dubbed the US Government's actions against the digital asset industry as "Operation Chokepoint 2.0". The name is derived from an earlier campaign by the Department of Justice (DoJ) to clamp down on "high risk activities'' in categories including payday loans, online gambling, pornography, and tobacco sales between 2013 and 2017.

Banks were allegedly pressured by the DoJ to cut off banking services to individuals and companies operating these activities. It wasn't an official policy guided by legislation, but unofficial guidance that critics argued violated 4th Amendment rights.

A Wall Street Journal investigation in 2014 found that the DoJ, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, pressured banks to stop doing business with certain industries as a fraud prevention measure. The recent unofficial moves against digital asset companies is similarly seen as a coordinated effort to choke an entire industry.

"While other countries are putting in place laws and regulations, in the U.S. unelected officials are making major policy decisions about whether or not America should have a crypto industry," Katie Haun, CEO and founder of Haun Ventures, a director of Coinbase, and former federal prosecutor wrote in the Wall Street Journal in March 2023 .

"These efforts are misguided, reckless and potentially unconstitutional. Most importantly, they put America on the dangerous path of closing off the banking system to those disfavoured by a particular administration."

Crypto industry leaders have been calling for regulation of their industry to avoid such measures crippling their ability to operate. In 2023, significant steps have been taken toward that outcome.

In July 2023, two key congressional committees, the Financial Services Committee, and the Agricultural Committee, advanced a bipartisan Bill aiming to develop a regulatory framework for digital assets.

The Financial Innovation and Technology for the 21st Century Act would set up a process to determine whether a digital asset is a security or a commodity, which would guide whether regulations from the SEC or the Commodity Futures Trading Commission (CFTC) would apply to it.

Republican members of the Financial Services Committee in April wrote in April 2023 to the heads of US banking regulatory agencies asking for information about alleged debanking efforts against digital asset firms.

[6] https://www.coindesk.com/policy/2023/09/08/sec-counters-ripple-in-effort-to-appeal-groundbreaking-xrp-ruling
[7] https://www.wsj.com/articles/BL-LB-48176
[8] https://www.wsj.com/articles/us-regulators-choke-point-for-crypto-blockchain-occ-framework-backdoor-fdic-banks-warning-8b426152
[9] https://www.federalreserve.gov/newsevents/pressreleases/orders20230127a.html

The support of Democrats on those two committees for the proposed legislation is a rare show of bipartisan support for efforts to regulate the digital asset space.

But any Bill requires the support of both houses of Congress to become law and also requires the signature of the President. Several other proposed Bills and legislative amendments are also progressing through Congress covering everything from stablecoins to anti-money laundering efforts.

United Kingdom

The issue of debanking achieved mainstream attention in July 2023, but not in relation to digital asset firms. The decision by NatWest subsidiary Coutts to cancel the bank account of controversial rightwing politician and Brexit supporter, Nigel Farage[10], put the issue on newspaper front pages.

NatWest's Chief Executive Officer Dame Alison Rose resigned in July 2023 after admitting she had told a BBC business journalist that Coutts had made a "commercial decision" to debank Farage. Peter Flavel, chief executive of Coutts, also resigned over the affair.

A review by the Coutts Wealth Reputational Risk Committee had decided that Farage's views "did not align with [the bank's] purpose and values"[11]. Farage subsequently received an apology from NatWest and an offer of alternative banking services via the banking giant.

The Guardian reported in the wake of the Farage affair that around 1,000 bank accounts are cancelling across the UK every business day.

"When people or organisations have their bank accounts closed, they often receive little or no explanation as to why this has happened, though the banks sometimes say it is due to concerns over financial crime such as money laundering and fraud," The Guardian reported.

Months before her departure from NatWest, Dame Alison told a House of Commons committee that "we have taken a pretty hard line as a bank on crypto".[12]

"We're blocking retail and wealth customers from transferring into crypto assets because of the volatility and the stability of the platform," she added.

UK digital assets companies have also reported difficulties in accessing banking services in the UK. But the problem is widely considered to be less pronounced than in the US.

The UK Government consulted widely earlier in the year on bringing digital assets within the scope of the Financial Services and Markets Act, including introducing an authorisation regime for digital assets companies, regulating stablecoins and setting up a market abuse regime to protect digital asset investors.

UK digital asset operators will also have to comply with the UK Financial Conduct Authority's

10 https://www.reuters.com/world/uk/farage-makes-fresh-allegations-against-uks-coutts-over-account-closures-2023-07-19/
11 https://www.theguardian.com/news/2023/jul/20/farage-affair-is-a-monumental-pr-disaster-for-exclusive-bank-coutts
12 https://www.coindesk.com/policy/2023/02/07/uk-banks-blocking-crypto-access-given-fraud-volatility-lawmakers-told/

Travel Rule, which requires them to collect data on digital asset transfers. This has the aim of preventing movement of digital assets for illegal activities, such as money laundering and terrorist financing.

The legislative changes in motion in the UK have generally been well-received by the digital asset industry.

European Union

Debanking has proven to be a significant issue for European companies working in the digital assets space.

However, the EU's proactive approach to regulating digital assets could see it become the largest region with the most comprehensive rules to regulate digital assets.

The Markets in Crypto-assets Regulation (MiCA) regulates digital asset issuance and service provision in the EU. MiCA spans activities ranging from offering asset-referenced tokens (ARTs) and electronic money tokens (EMTs) to trading, as well as issuing such tokens. The 27-country block now requires that firms wanting to issue, trade, and store digital assets, tokenised assets, and stablecoins, and obtain a licence to do so.

"Recent events have confirmed the urgent need for imposing rules which will better protect Europeans who have invested in these assets, and prevent the misuse of the crypto industry for the purposes of money laundering and financing of terrorism,"[13] Elisabeth Svantesson, finance minister for Sweden, which currently holds the EU presidency, said in May 2023 as the European Council approved the European Parliament's legislation.

MiCA came into force on June 29, 2023, but most of the regulations will only apply after 12 to 18 months. The provisions relating to stablecoins will go into effect on June 30, 2024, while the requirements for digital asset service providers will take effect on December 30, 2024.

The stated aim of the regulation of the digital asset sector is to enable investors to safely engage in ownership and trade of digital assets based on distributed ledger technology (DLT). But the EU also wants to promote innovation and development in the sector by following the principle of "fair treatment" for digital asset issuers. European digital asset firms welcomed the certainty the new regulations provide.

While the ground is being prepared for MiCA to take full effect, in June 2023 EU lawmakers in June also came to agreement on rules that could make it easier for bank lenders to hold stablecoins and tokenised assets. Previously, EU politicians had pushed for stronger regulations to discourage unbacked digital assets from being held by banks[14].

13 https://apnews.com/article/cryptocurrency-rules-europe-digital-assets-c31679868357c342be6e03624c38539f
14 https://www.coindesk.com/policy/2023/05/23/eu-banks-could-access-stablecoins-more-easily-under-leaked-plans/

Australia

Australia currently takes a similar approach to New Zealand when it comes to digital assets, regulating them under the country's financial services regulatory regime.

Australia is regarded as a "relatively neutral and stable jurisdiction for blockchain and digital asset businesses, which has caused the product landscape to expand significantly in recent years"[15].

However debanking has been flagged by the Australian Council of Financial Regulators as a serious issue facing the fintech sector in Australia.

"Developing policy options to address de-banking and its drivers is challenging, with no widely acknowledged solutions that respect the principle that banks are commercial enterprises and must manage their own risks and resources," the Council pointed out in its 2022 paper Potential Policy Responses to De-banking in Australia[16].

"However, Government, regulators and the banking industry should all play a role in addressing any blanket debanking of specific industries or sectors," it added.

But 2023 has certainly seen a number of restrictions based on digital asset exchanges operating in Australia when it comes to banking. The Commonwealth Bank announced in June 2023 that it would introduce 24-hour holds, declines and limits on outbound payments to digital asset exchanges.

"From today, CBA will decline or hold for 24 hours[1] certain payments to cryptocurrency exchanges. In coming months the Bank will also introduce $10,000 limits in a calendar month where the Bank can identify the customer payments are to exchanges for cryptocurrency purchases," the bank informed customers[17].

In May 2023, Binance Australia in May said it was stopping Australia dollar deposits and withdrawals by customers after a third-party payment service provider withdrew its service. Binance informed customers that they now need to use credit or debit cards, Binance's peer-to-peer network, or third-party payment to buy digital assets[18].

The moves led Blockchain Australia to respond to the banking limits by requesting that the "good actors in our space who uphold best practices"[19] be recognised - by banks and consumers alike.

Michael Bacina, Chair of Blockchain Australia said: "Banking is an essential service to nearly every Australian business in our increasingly digitised economy, and there is an outsized impact on all customers of a business when payment restrictions or debanking takes place. In many cases it can be fatal for the business."[20]

Australia is in the process of introducing legislation governing standards for the digital asset industry.

15 https://www.globallegalinsights.com/practice-areas/blockchain-laws-and-regulations/australia

16 https://www.cfr.gov.au/publications/policy-statements-and-other-reports/2022/potential-policy-responses-to-de-banking-in-australia/pdf/potential-policy-responses-to-de-banking-in-australia.pdf

17 https://www.commbank.com.au/articles/newsroom/2023/06/changes-on-payments-to-crytocurrency-exchanges.html

18 https://www.binance.com/en-AU/blog/all/how-to-buy-crypto-with-binance-australia-7770032836887698455

19 https://www.linkedin.com/feed/update/urn:li:activity:7074563947495895040/

20 https://blockchainaustralia.org/response-to-banking-limits-on-crypto-payments/

The Digital Assets (Market Regulation) Bill 2023, aims to "protect consumers and promote investors" by installing three licensing permits around exchanges, custody, and stablecoin issuance.

The regime would be overseen by the Australian Securities & Investments Commission (ASIC), which will have monitoring and investigation powers, with civil and criminal penalties to deter misconduct.

When it comes to digital assets exchanges, the Bill outlines provisions including:
- Minimum capital requirements to provide a buffer in downturn scenarios
- Participant conduct regulation
- Appropriate governance of activity monitoring and procedures
- Segregation of customer funds
- Cybersecurity requirements
- Disclosure obligations for participants and government agencies
- Record-keeping and reporting requirements

Singapore

Singapore has introduced regulatory frameworks governing digital assets and individuals and companies that utilise them.

However, the island nation has not been immune from the debanking issue, with Web3 companies there reporting lengthy due diligence periods when applying for bank accounts, and with some unable to secure banking services with local providers at all.

In July 2023, The problem saw the Monetary Authority of Singapore in July publish a set of guidelines for banks considering dealing with clients who deal in digital assets, as well as individuals investing in digital assets.[21]

Loretta Yuen, head of the legal and compliance team at the Oversea-Chinese Banking Corporation (OCBC) described the guidelines as "one of the most in-depth of any jurisdiction in the world" .

"These practices recognise that banks are regulated essential services that should provide more transparency to the community, requiring them to document reasons for rejection or de-banking, share those reasons with clients, and establish a mandatory bank dispute-resolution process, rather than the current situation of unilateral rejection or de-banking," Adrian Chng, founder and chief executive of digital asset and fintech fund manager Fintonia Group, also told the Straits Times.

The guidelines were created by ACIP, a public-private partnership established in August 2022 that includes representatives from eight banks, MAS, the Commercial Affairs Department and audit firm Ernst & Young.

Meanwhile, in August 2022 Singapore in August announced a $150 million innovation fund over three years as a continuation of its Financial Sector Technology and Innovation Scheme. "MAS recognises the importance of partnering with the industry to support innovative FinTech solutions arising from emerging technologies such as Web 3.0," the Monetary Authority noted.

21 https://abs.org.sg/docs/library/acip-best-practices-for-the-management-of-ml-tf-and-pf-risks-from-customer-relationships-with-a-nexus-to-digital-assets_100723-(publish).pdf
22 https://www.straitstimes.com/business/mas-shares-recommendations-for-banks-dealing-with-crypto-related-clients
23 https://www.straitstimes.com/business/new-guidelines-on-banking-digital-asset-clients-in-singapore-only-a-baby-step
24 https://www.mas.gov.sg/news/media-releases/2023/mas-commits-up-to-s$150-million-for-technology-and-innovation-in-financial-sector

Aotearoa New Zealand's **Web3 Community.**

A snapshot from the Web3 Ecosystem

Average Salary	Typical no. of employees	Revenue for 70% of firms
$147,768	1 - 10	<$1m

In seeking feedback on the debanking issue we drew on the online surveys of the Web3NZ Community.

Download Raw Data

What is Web3NZ?

Web3NZ is a community forum with 250 members and is powered by its supporting partner Callaghan Innovation, a New Zealand crown entity established by the Callaghan Innovation Act 2012.

This initiative has been designed from day one to be installed back into the community and for the community to become circular in its requests and contribution. It is not intended to be owned by Callaghan Innovation in the future, although the organisation has helped establish and kick start its development.

In seeking feedback on the debanking issue we drew on online surveys of the Web3NZ community.

Business Overview

The majority of the surveyed companies are small in size, with 87% having less than 10 employees, and the rest mainly fall within the 20-50 employee range. A significant portion of these companies (70%) have an estimated annual revenue of less than $1 million, with the remaining companies distributed across various higher revenue brackets. In terms of outsourcing, a little over half (54.2%) of the respondents indicated that they outsource roles within their company, including legal, accounting, Know Your Customer (KYC), development and international contracting.

With regard to the type of clients they serve, the majority (64%) provide services to both customers and other businesses. A smaller percentage solely focus on customers (20%) or other businesses (8%). This data paints a picture of a predominantly small-scale business environment in New Zealand, with diverse approaches to outsourcing and a broad spectrum of client engagement.

A High-Earning Sector

In respect to salary, a significant portion earns over $200,000, constituting 43.8%, while 21.9% earn less than $50,000. The remaining respondents fall within various ranges in between. This information offers valuable insights into the professional background, experience, and compensation trends among those surveyed in New Zealand.

An average sector salary, using the lower band figure as a salary equates to $115,179 per person. Using a mid-band figure (and capping the over $200,000 band at $300,000) puts the average sector salary at $147,768. This compares to the TIN200 average wage of $88,005 in 2021.

Challenges Identified:

- **Funding and capital raising:** Financial hurdles are a significant obstacle, reported by 38.1% of respondents, especially for startups and small businesses.

- **Founder's limited skillset:** A specific challenge for individual founders needing collaboration and mentorship, not represented by a specific percentage.

- **Regulatory and banking issues:** These include compliance challenges and complexities in banking relationships with digital asset-related businesses in New Zealand, with 28.6% citing regulatory issues and 33.3% citing banking issues.

- **Perception and adoption barriers:** This section includes negative perceptions associated with digital assets hindering public trust, resistance or slow uptake among users, and more cautious attitudes reflected by uncertain return of investment at 9.5%, unproven technology at 19%, and lack of compelling applications at 19%.

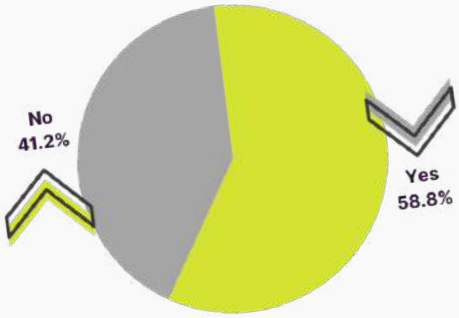
Development and Industry Dynamics

Challenges here include implementation problems, potential security threats, and non-prioritisation of blockchain, with specific barriers also encompassing concerns over sensitive information (9.5%), an uncertain investment environment, and local banking challenges in New Zealand.

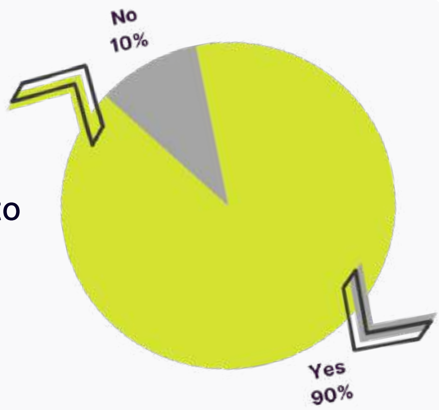
These challenges highlight the multifaceted barriers to Web3 adoption within Aotearoa New Zealand, encompassing organisational, regulatory, perceptual, and industry-specific issues. The understanding of these challenges underscores the need for targeted strategies to foster technological progress and innovation.

How Debanking is Impacting New Zealand Web3 Startups

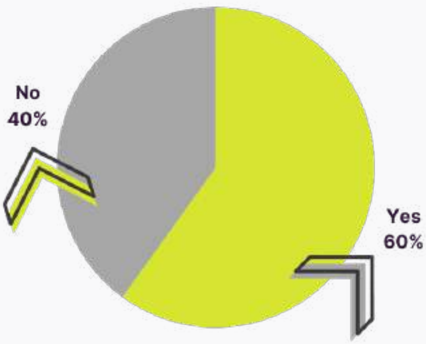
Comments from the Survey - views from the Web3NZ Community



Have you ever **experienced challenges in maintaining local banking access** due to concerns raised by your bank regarding your business activities?

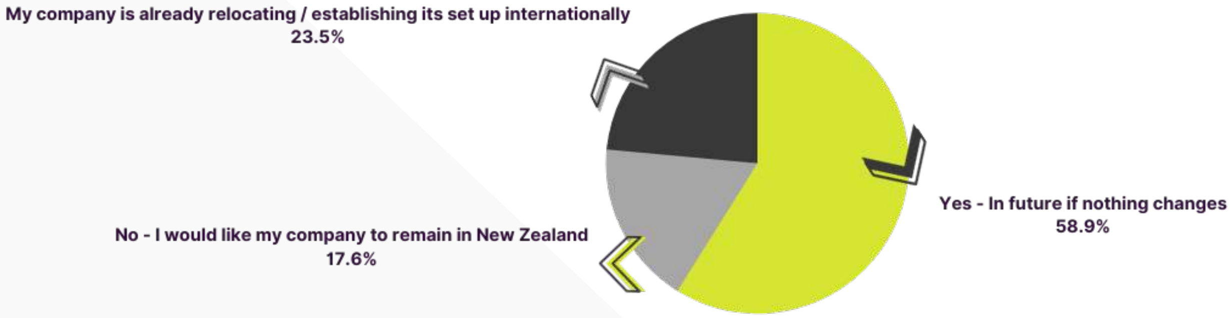


Have your **business operations and finances** been impacted by the lack of access to banking services?



Have you had to **alter your company's staffing or employment structure** due to the lack of banking service access?

Would you contemplate relocating or establishing your business in offshore or international jurisdictions to address regulatory constraints and limited access to banking services in the Web3 space?



Views from the Web3NZ Community

Comments from the survey

"Allow companies that have rigid and thorough AML/CFT compliance policies and programmes, and good working relationships with the DIA in NZ to have access to all banking services that a normal business in NZ does."

"Legislative change [is needed] to have critical institutions, such as banks, not be able to discriminate based on their lack of compliance tools."

"Web3 businesses (especially retail DeFi) need NZ banking rails to operate. Government intervention and/or legislative change are crucial to change the behaviour adopted by local banks. NZ Web3 industry can only flourish with essential business support, i.e. bank account and transactional services."

"There should be a special registration for Web3 business for transparency."

"I think the government could require banks to onboard startup companies, or could allow startup companies to register for some kind of cut down basic banking services - essentially just accounts."

The challenge is that banks consider crypto to be a systemic threat to their business model so will not change position on banking access unless forced by government or public. They pull the 'anti-scam' card, ie too many scams are related to crypto, which shuts up government. They haven't had public/media attacks so are not fearful."

"In my opinion, it's evident that those representing the state use "consumer protection" as a pretext to continue litigation/legislation that retains their control and restricts the freedom of banking. The current discourse from the RBNZ concerning their CBDC initiative is further evidence that they desire more control over civil finance and is frankly disconcerting."

Implications for Web3 Activity

There's ample evidence from New Zealand and around the world that banks have been limiting access to their services by digital asset companies, in some cases withdrawing services offered to existing customers.

The Reserve Bank of New Zealand has recognised the seriousness of de-banking and the impact it could have on innovation and competition in the financial services sector.

While digital asset exchanges are at the sharp end of debanking measures, any company with blockchain-based products and services that rely on digital tokens or assets to facilitate payments, could, in the current environment, struggle to secure banking services.

It is hard to quantify the impact of this on startup activity, and productivity in the fintech space. But the implication is clear - debanking creates uncertainty for companies currently operating in the crypto space as they attempt to preserve their existing access to banking services.

As Fintech Australia noted in its submission on debanking to Australia's Parliament:

"New and innovative businesses are unable to start and grow in Australia, due to de-banking acting as a steep barrier to entry. If we continue to allow de-banking to occur, we may see that companies could choose to do business in foreign jurisdictions, taking jobs and innovation with them."

Fledgling New Zealand Web3 companies have already indicated that they are looking to other jurisdictions to base their operations, in part due to better access to banking services.

If the existing trend towards banking continues we can expect:

- Limited innovation in Web3 ventures that have a digital asset component, reducing our ability to compete in a fast-moving and disruptive industry sector.

- Existing Web3 companies operating here, such as digital asset exchanges, face barriers to uptake of their services, and additional compliance costs that reduce their competitiveness against international exchanges. Debanking can cause reputational damage to Web3 companies that have banking services removed due to a general risk aversion to services they are providing, rather than any non-compliance with industry regulations or legislation.

- Missed opportunities for innovation in the fintech sector that could offer a greater choice and competition for consumers of financial services.

Web3NZ's Recommendations

Getting the Balance Right

It is our opinion that there needs to be a better way forward that respects the autonomy of the country's banks to operate prudent risk assessment policies, while creating a business environment that encourages innovation and economic development in the Web3 ecosystem.

With that aim in mind, Web3NZ has developed seven recommendations for actions that should be undertaken now or in the near future to offer greater security to the banking sector as well as the companies seeking to access their banking services.

1. Web3 Compliance Pathway:

Callaghan Innovation, Web3NZ and BlockchainNZ plan to implement a Web3 Compliance Pathway that will develop a best practice compliance assessment by a panel of legal experts and regulators, and feature the involvement of New Zealand banks. The aim is to break down silos around legal and compliance assessments, so banks have more confidence that they understand the risk profile of Web3 companies. The compliance pathway is expected to involve regular, ongoing assessment of the company's adherence to the certification requirements.

2. Bank-friendly Web3 Infrastructure:

Encourage banks to Work with third-party providers and the banks to implement an infrastructure that sits on top of traditional banking services and meets the banks' security and compliance requirements. The aim is for the banks to confidently bank more Web3 companies. Examples of Web3 infrastructure providers include Fireblocks and FrankieOne.

3. Encourage More Competition:

More banks and neobanks (a type of direct bank that operates exclusively using online banking) should be encouraged to participate in the New Zealand market.

4. Banking as a Human Right:

Introduce or amend existing legislation to enshrine in law a business or individual's right to banking services unless a compelling, legally-based case can be made for refusing or withdrawing services. This would serve the purpose of treating access to banking services as a basic human right for every New Zealand citizen[25], but also ensure legally compliant companies can participate in the digital economy without unfounded fear of business interruption due to debanking.

5. Develop a regulatory regime for digital assets:

Mirror the moves of other countries in creating regulation that specifically accommodates the requirements of Web3, digital assets and cryptocurrencies. A number of survey respondents noted that while New Zealand's laws provide room to operate in this space, expenditure on compliance and legal fees places a significant burden on startups and businesses. To attract new players and investment in this space we need to ensure that New Zealand is a country that welcomes innovation.

6. Guidelines for Web3 companies:

As part of the Web3 Compliance Pathway, participating banks should develop clear guidelines and accompanying case studies outlining their compliance requirements and decision-making processes. The guidelines developed by Singapore's AML/CFT Industry Partnership (ACIP)[26] are a good reference point. Internal and opaque decision making processes within a bank should not be the primary determinant for whether a fintech is to be debanked.

7. Ongoing Monitoring

Web3NZ and BlockchainNZ annually consult the country's major banks and their own members to identify issues relating to debanking and compliance of Web3 companies, so that new issues can be documented and addressed quickly at an industry level if necessary.

25 https://www.stuff.co.nz/business/money/131687307/a-bank-account-should-be-a-human-right--westpac

26 https://abs.org.sg/docs/library/acip-best-practices-for-the-management-of-ml-tf-and-pf-risks-from-customer-relationships-with-a-nexus-to-digital-assets_100723-(publish).pdf

Conclusion

The issue of debanking is affecting Web3 companies all over the world and stems from a growing risk-aversion towards digital asset-based ventures. Alleged anti-competitive activity on the part of the banking industry is also considered to be a factor limiting access to banking services by companies seeking to disrupt existing financial services.

Our survey of the Web3NZ community suggests the problem is a real one for the fledgling Web3 community in New Zealand, creating instability for companies working in this sector and spurring a significant proportion of them to consider relocating offshore if remedies to the debanking issue are not put in place.

A number of industry initiatives, such as the development of a Web3 Activator programme focusing on risk and compliance assessments could give confidence to the banking sector and help alleviate parts of the problem. However, for Aotearoa New Zealand to thrive as a hotbed of development in this emerging area of technology, dedicated regulation may be required, coupled with legislation enshrining the rights of individuals and businesses to participate in the economy by accessing banking services.

The reality in 2023 is that regardless of whether you use wire transfer, a fintech like PayPal, credit card etc, both ends of a financial transaction require a bank account to complete successfully. Without access to banking services New Zealand Web3 companies remain unable to progress, innovate or develop their solutions and will look to other jurisdictions such as the UAE, Singapore or Hong Kong who are adopting an accommodative stance towards emerging software businesses.

EASYCRYPTO

"The cost that we shouldn't have to bear as a business is losing customers because the bank tells them that we're a scam." - *Janine Grainger, CEO and Co Founder, Easy Crypto*

Key Takeaways

- The country's largest digital asset broker is just 'one bank account' away from being unable to process bank transactions for digital asset traders.
- Easy Crypto works closely with bank compliance teams to prevent scams and fraudulent transactions.
- Janine Grainger, believes legislative change that requires provision of banking services as a fundamental right can improve the situation.

A Precarious Existence for Crypto Exchanges

They are the on-and-off ramps of the crypto world, online exchanges that allow users to buy, sell and trade digital assets on a global basis.

But the country's largest crypto exchange, Easy Crypto, which has processed nearly $2 billion in transactions since its founding in 2018, has been able to open just one account with a New Zealand bank and regularly sees customers' transactions rejected by our large banks.

That's despite Easy Crypto maintaining close contact with all of New Zealand's major banks and repeated requests to open new accounts to facilitate its business, which has now expanded to Australia, South Africa and Brazil.

The fact that Easy Crypto is a non-custodial exchange, meaning it doesn't hold digital tokens and cash on behalf of customers, has at least allowed Easy Crypto to find a banking partner in KiwiBank.

"That's made it easier for us because there isn't that honeypot risk," says Janine Grainger.

"But we've only got the one bank account and that puts our business in a precarious situation because all it requires is a change of policy at the bank and we could be shut down overnight. It's hugely scary," says Grainger.

Easy Crypto, says Grainger, is fully compliant with AML (anti-money laundering) regulations overseen by the Department of Internal Affairs and claims that less than 1% of the volume of transitions on its network are identified as fraudulent. Its team is in constant contact with New Zealand banks on scam detection and fraud-prevention measures.

But Grainger says a risk-averse approach to banking so-called virtual asset service providers (VASPs) is limiting the Web3 sector's ability to grow, and could push more Kiwis to trade on international exchanges or via peer-to-peer methods, beyond the reach of New Zealand laws as a result.

"The banks are dictating very conservative policy and it's rolling through New Zealand," says Grainger, who herself worked as a corporate strategy manager for Westpac in 2017 to 2018, before leaving to start Easy Crypto.

"We regularly get the response, sorry, our compliance teams are backlogged at the moment."

The limited banking options restrict Easy Crypto's ability to access competitive foreign exchange rates because only a handful of providers are willing to work with exchanges.

While customers of Easy Crypto are able to pay for tokens and receive payment following sales directly to a New Zealand bank account, legitimate transactions are regularly held up by banks, according to Grainger. 1

"If the customer makes a transaction, often they'll get a phone call from the bank within a couple of minutes, and it's a support person saying this looks like a scam, Easy Crypto is a scam," says Grainger.

She puts that down to poor education among bank customer service representatives.

"The cost that we shouldn't have to bear as a business is losing customers because the bank tells them that we're a scam."

While Easy Crypto continues to engage with all of the major New Zealand banks, Grainger says access to banking services hasn't improved since 2018 and shows signs of worsening since the collapse of US-based exchange FTX and other high-profile failures in the crypto sector.

But Grainger says an important part of the digital economy is being unfairly tarred with the same brush in New Zealand.

"Anyone looking to set up a Web3 business faces challenges to get banked - even if they are not directly interacting with crypto assets. There is a whole new industry being built globally, and New Zealand could have a good competitive advantage in this space. Being at the forefront of digital innovation would give massive economic benefit to NZ Inc, and in an area that doesn't have much carbon footprint. But banking is a huge part of harnessing the opportunity," she says.

The solution, according to Easy Crypto, is regulatory reform that ensures the right to access banking services for individuals and organisations in New Zealand - unless there are good legal reasons for withholding them.

"What I believe needs to happen at a government level, is a recognition that banking should be a fundamental right that needs to be offered to all persons," she says.

She compares the current situation to a bus company only being willing to run services at peak times and on the most profitable routes.

"For the service to work it needs to be universal. The banks should have to provide access to everyone unless they can provide a case to the Banking Ombudsman or another regulatory authority, outlining why the individual or entity shouldn't be onboarded."

www.easycrypto.com

DISCREET

*"**I would say the biggest risk to our company right now is banks not accepting transactions." -** Frederik Markor, Director at Discreet*

Key Takeaways

- Frederik Markor is building Discreet, an innovative blockchain startup from his base in New Zealand, but a lack of access to suitable banking services makes it hard to recruit and pay highly-skilled staff.
- Discreet has developed an offshore company structure in the hope of allowing local platform development to proceed.
- Discreet may look to base more of its operations overseas where banking services are more accessible.

Going Global from NZ has Challenges for Blockchain Startup

Frederik Markor would love to spearhead the growth of his blockchain-based startup Discreet from his home in New Zealand.

The Danish-born former CEO of Coin Nordic co-founded Discreet as a digital asset platform with an associated cryptocurrency, Discreet Coin. Discreet is pitched as a totally decentralised digital asset platform that's considerably faster and more secure than any other digital asset project. It has attracted US$1 million in pre-seed investment offering at a rate of 0.5 USD per DIST (the ticker of the Discreet coin).

Markor is keen to base more of Discreet's software development in New Zealand, employing local cryptographers, software developers, and other specialist staff to develop the Discreet platform. But Discreet has run into difficulties in its attempts to obtain a local bank account to run its local operations.

"From what I've gathered so far, for any bank to accept us here, we need to function just like a regular software development company," says Markor.

That poses no major problem except for one thing — due to the nature of his business, Markor needs to transfer digital assets raised in the offering and set aside for business costs, to a New Zealand bank account to pay staff and cover local expenses.

Offshore company structure

To lessen the risk for New Zealand banks, Discreet has developed plans for a company structure that sees its platform assets held in a foundation in the Cayman Islands, with the crypto-related operations of the business residing as a separate entity in the British Virgin Islands.

Still, as soon as crypto payments head New Zealand’s way, it's likely they could be rejected or reversed by bank compliance officers.

“A bank will still inquire about where these funds from the British Virgin Islands company came from and then we're back to the source of funds being crypto,” says Markor.

It’s a frustrating catch-22 for an entrepreneur who has chosen an industry where seed funding is regularly raised through the issue of digital tokens to investors.

“I would say the biggest risk to our company right now is banks not accepting transactions. Even if we lay out all of the necessary KYC (know your customer) details, they still don’t want to accept the funds because it's seen as too risky of an environment for them,” he says. New Zealand banks all seem to view any cryptocurrency or blockchain-related projects through the same sceptical lens.

Problems relating to accessing banking services are common in other countries as well. Markor estimates that he called nearly 400 banks around Europe in 2019 while trying to find banking partners for Coin Nordic, a successful digital asset exchange startup he later sold.

More Certainty in Europe

Naturally, Markor is inclined to base Discreet’s operations wherever it is easier to secure banking services. Discreet still has an official presence in Europe, for example, and Markor is considering the Netherlands, Estonia, and Singapore as potential locations to base development activities. All of these countries offer more favourable options for companies innovating in the cryptocurrency or blockchain space.

“The introduction of the European Union’s regulation on Markets in Crypto-Assets Regulation (MiCA), introduced earlier this year, is making Europe a more attractive location to base any crypto-related ventures,” says Markor.

MiCA puts in place a comprehensive framework for issuers and service providers dealing in crypto products, with the aim of protecting investors. The new rules cover issuers of utility tokens, asset referenced tokens, and so-called ‘stablecoins’. MiCA also covers service providers such as trading venues and the wallets where crypto-assets are held.

“This regulatory framework aims to protect investors, preserve financial stability, while allowing innovation and fostering the attractiveness of the crypto-asset sector,” the Council of the European Union claims.

Markor says it is early days for MiCA but that the framework has created much-needed clarity for investors, startups, and the banks being asked to facilitate transactions for both.

“If a good framework were introduced it may allow the banks to feel safe and potentially encourage banks to take on these sorts of clients. It would just be a win for everyone,” Markor says.

Growing Overseas

In the meantime, Discreet continues to grow internationally and the New Zealand banking issues will not hold the company back. Hiring new staff locally is complicated by the lack of bank account access, which means more Discreet team members may need to be based overseas.

“If we want to hire a Kiwi to work for us in a cryptography role, which is relatively well-paid at around US$200,000 a year, that would entail convincing someone who might have had an ordinary career to all of a sudden give that up, go on a contracting basis, and then accept payment in USDT and have to liquidate it on their own,” Markor explains.

“It definitely makes it difficult to do payroll, hire people and have a safe place to store our funds locally.”

www.discreet.net

Immersve
Be the master of your money

"If people start using a Facebook coin, PayPal or Apple dollar, then in five years time I would question whether the banks will be able to remain relevant." - *Jerome Faury, Founder and CEO of Immersve*

Key Takeaways

- Immersve hasn't had problems securing access to banking services as it provides 'technology plumbing' for Web3 applications, rather than virtual assets.
- A lack of innovation in digital identity, and digital payments is holding the country back.
- Structural change is required for New Zealand to become a leader in the fintech space.

From World-Leaders to Laggards on Digital Payments

New Zealand floated its exchange rate in 1985 and was a world-leader in digital payments with the creation of the Eftpos system in the late 1980s.

But that innovation in currency and digital payments has given way to a risk-averse and inward-looking stance, according to Jerome Faury, the co-founder of Auckland-based Web3 company Immersve.

Immerve's issuing-as-a-service platform allows centralised and decentralised digital payment transactions. A partnership with Mastercard lets users of digital assets make payments via the Mastercard network from an associated crypto wallet.

A veteran of the New Zealand tech sector and one of the founding executives of Centrality, a major blockchain development company in the New Zealand Web3 ecosystem, Faury hasn't had any trouble gaining access to banking services for Immersve.

He puts that down to 20 years' experience of working with the major banks and the nature of Immersve's businesses.

"We are more like an internet service provider, where we provide technology plumbing to get data from point A to point B," he says.

"We don't hold crypto for the benefit of consumers or convert it to cash, or any of that type of stuff. So our profile is slightly different to other companies, like crypto exchanges."

Still, Faury says the "risk averse" nature of New Zealand's banks leads to fintech companies facing relatively high compliance costs here. In New Zealand we spend $100 in compliance to save $1 of financial crime.

“The bigger issues for me is the lack of innovation and the sovereignty of our digital identities, data, currency and payments which Big Tech has control over for the most part,” says Faury.

”While open banking is on the Government’s agenda with the development of a consumer data right allowing customers to share their banking information with third-party fintech operators, the reality is more complicated,” says Faury.

”The current system of application programming interfaces (APIs) operated by nine New Zealand banks is clunky, doesn’t offer basic functionality such as refunds and comes with extremely high compliance costs,” he says.

“I haven't heard any of the bank CEOs talk about investing in fintech,” says Faury.
“In saying that, BNZ is definitely very active in market, working closely with the fintech ecosystem.”

“I haven't heard CEOs talk about their planned investment digital currencies, domestic payments or investing in infrastructure to support the Digital Identity Trust Framework.”

“The Australian parents of our banks have been more progressive across the Tasman, says Faury. They invested in developing the Next-generation Payment Platform for real-time bank-to-bank payments, already have a Consumer Data Right (CDR) for banking services in place, and have been experimenting with trials of a Central Bank Digital Currency (CBDC).

Faury fears that a lack of innovation in digital payments here due to inactivity from the large banks, risks the stability of the entire banking system as more attractive payments options emerge that circumvent banking services altogether.

“If people start using a Facebook coin, PayPal or Apple dollar, then in five years time I would question whether the banks will be able to remain relevant. I think that's a really sad thing, because I would much rather have the banks in New Zealand invest in this stuff and remain relevant than big tech companies moving in,” says Faury.

Faury describes the banks as “good corporate citizens” and doesn’t object to the billions in profits they generate collectively from their New Zealand operations. But he also sees a structural problem with the New Zealand banking market, similar in nature to the telecommunications industry prior to structural separation in the mid-2000s.

That move by the Government required Telecom to split its retail operations from its core telecoms network, most of which was acquired by a new company - Chorus, which now runs the ultrafast broadband network.

“At the moment where it comes to the money supply and the payments infrastructure, banks have both the wholesale and the retail business, and payments is governed by this entity called Payments New Zealand that they are the shareholders of,” Faury explains.

“You have this situation where you've got the turkeys voting for Christmas.”

Faury sees a big opportunity for New Zealand fintech to once again lead the world in financial services and payments, but believes structural change will be required to put the right incentives in place for the sector to thrive.

www.immersve.com

“It gives Kiwi users fewer options and they have to pay more. It’s a big reason why adoption in New Zealand is far less than what it is over the ditch.” - *Ben Rose, General Manager of Binance NZ.*

Key Takeaways

- Binance, the world’s largest digital asset marketplace, has been unable to secure banking services in New Zealand.
- The crypto exchange says it is fully compliant with anti money laundering (AML) and Countering Financing of Terrorism (CFT) requirements.
- The outcome of not being able to access banking services means customers’ funds go offshore, reducing transparency into local activity.

Thousands of Kiwi Customers, but No New Zealand Bank Account

Binance, which launched in New Zealand in September 2022 and claims to have over 200,000 registered users here, faces a pretty fundamental problem shared by many others in the Web3 industry - it hasn't been able to secure a local bank account.

Ben Rose - Binance Regional General Manager, Australia, New Zealand, and the Pacific Islands, says numerous discussions with New Zealand banks in the run-up to Binance’s commercial launch in New Zealand failed to secure a banking relationship.

“I spoke to all registered banks that have business banking in New Zealand from the big ones to the small ones,” says Rose.

“Some just said outright, no, we don't bank crypto businesses. They just wouldn’t entertain an application because of the industry we operate in. That would seem to go against the Reserve Bank’s guidance,” he adds.

“ Binance had registered as a financial services provider with the Ministry of Business, Innovation and Employment and was fully compliant with anti money laundering (AML) and Countering Financing of Terrorism (CFT) requirements,” says Rose.

While some of the larger New Zealand banks examined Binance’s AML procedures and financial structure, a “lack of appetite” to bank a crypto-related business saw nothing come of initial conversations.

That’s despite Binance offering to contribute towards the banks’ costs related to vetting the company for compliance, and asking what else it could do to allay any issues the banks might have had.

It has meant that Binance has had to run a sizable operation serving local customers without having access to a New Zealand bank account both for holding customers' funds, and for paying local operational expenses.

This is not an unusual situation for crypto exchanges, which have been denied or had banking services removed in several countries. In May 2023, many crypto exchanges operating in Australia were dealt a blow when Westpac banned customers from transferring funds to them.

Rose says the banks are guilty of operating a double standard, pointing to the United Nations estimate that 2-5% of global gross domestic product (GDP), some US$800 billion to $2 trillion, is laundered fiat money. The proceeds of crime, enabled by the banking sector, were substantial prior to the arrival of digital assets and remain so.

For Binance, the lack of access to banking services has made it "more challenging and expensive" for both its New Zealand operations and Kiwi customers alike.

"Local operations have to use offshore and third party payment solutions for example payroll and office rental," he says.

Binance customers don't have the option of New Zealand bank transfers to deposit or remove funds from the Binance exchange. While Binance has a peer-to-peer (P2P) network for trading digital assets directly between users, Rose says it isn't widely understood yet. Many customers use their credit card for Binance transactions, but incur a transaction fee from the card provider in the process.

"It gives Kiwi users fewer options and they have to pay more. It's a big reason why adoption in New Zealand is far less than what it is over the ditch," says Rose.

Rose maintains that as a business operating legally in New Zealand, Binance should be able to access banking services.

"The outcome of them not banking these businesses is the money is going offshore," he says.

"If New Zealand makes it really hard for certain businesses to operate here, there is a risk that they simply won't. And it'll be the Kiwi consumer that would lose out."

www.binance.com

The Reserve Bank's **View**

The Reserve Bank is keen to hear from the web3 sector as it ramps up its monitoring.

With its remit of promoting "the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy", the Reserve Bank of New Zealand – Te Pūtea Matua has a fine line to tread when it comes to cryptocurrencies, distributed ledger technologies and fintech innovation.

The Reserve Bank recently said it was "ramping up its monitoring of stablecoins and crypto assets" but that a "regulatory approach isn't needed right now." This came on the back of its consultation on Private Innovation in Money[27], which explored the opportunities and risks associated with stablecoins, crypto assets and other new forms of money.

Robbie Taylor, Manager Money & Cash Policy says they are carefully watching the international regulatory landscape. There is a lot of activity in other countries and in global standard setting bodies. The EU, for example, recently introduced Markets in Crypto-Assets MiCA legislation governing crypto assets activity.

"Our general view is that New Zealand's interests are best served by closely monitoring international developments and learning from others, rather than introducing untested ideas. But we should aim to quickly adopt best practice as it emerges," he says.

In the meantime, the Reserve Bank is keeping a close eye on Web3 and fintech companies and their interaction with local banks. It is aware of start-ups being unable to secure banking services from local banks. It has noted concerns about the potential impact on competition and innovation in its recent consultation on Private Innovation in Money.

Robbie Taylor says the Reserve Bank concurs with the recently published report on the Finance and Expenditure Select Committee inquiry into crypto assets that greater transparency in access to banking is needed.

[27] https://www.rbnz.govt.nz/money-and-cash/future-of-money/private-innovation#

“It’s not possible to operate a business without a bank account so debanking poses a real risk to the emergence of new, innovative businesses that have the potential to contribute to a sustainable and prosperous economy,” says Taylor.

The Council of Financial Regulators Fintech forum, which includes agencies such as the Commerce Commission, the Financial Markets Authority, the Department of Internal Affairs, as well as the Reserve Bank, aims to ensure that the New Zealand regulatory system facilitates innovation that improves outcomes for customers and participants of the financial system. It is a forum where member agencies can provide coordinated joint responses to complex issues, such as debanking challenges.

The Reserve Bank is also undertaking a review of its access policy to the Exchange Settlement Account System (ESAS). Currently 14 commercial banks have access to ESAS. Because the banking sector in New Zealand is highly regulated, that contributes to a high level of stability in New Zealand’s financial system.

“It does mean that we have a very heavy reliance on banks to act as a vanguard for New Zealand's payment system and monetary system,” Taylor says.

“Do we have the right sort of constituents accessing the Reserve Bank's settlement system? Are we balancing stability with the benefits of open access in terms of innovation and competition in the right way?” he says.

We are currently working through these issues and will be consulting further with industry later in the year.

New Zealand Web3

Authors, Coordinators & Community

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CallaghanInnovation New Zealand's Innovation Agency WEB3NZ BLOCKCHAIN NZ

Interviewees

This report was enriched with insightful interviews by experts from the web3 sector. We would like to thank each interviewee; Jerome Faury, Janine Grainger, Frederik Markor, Ben Rose and Robbie Taylor for their honest discussions and thoughtful contributions.

Supporters

We wish to acknowledge and thank the following Web3 companies for supporting the information within this report.

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