

31 October 2025

Senior Manager
Licensing
Policy and Advice Division
Australian Prudential Regulation Authority
licensing@apra.gov.au

Dear Senior Manager

IMPROVING THE LICENSING FRAMEWORK FOR AUTHORISED DEPOSIT-TAKING INSTITUTIONS

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.¹ We appreciate the opportunity to provide feedback to the Australian Prudential Regulation Authority's (APRA) consultation on *Improving the Licensing Framework for Authorised Deposit-taking Institution* (the Discussion Paper).²

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

1. New entrants drive innovation in banking services to the Australian community

AFIA continues to support the Government, the Council of Financial Regulators (CFR), and APRA's efforts to better support new entrants in the banking industry. The enablement of new entrants is an important source of industry renewal and innovation. Although new entrants may not always be large, they have the potential to introduce new models for servicing the banking public; thereby shaking up existing and

¹ [Australian Finance Industry Association \(afia.asn.au\)](https://afia.asn.au)

² <https://www.apra.gov.au/improving-licensing-framework-for-authorised-deposit-taking-institutions>

entrenched banking models. This is an important contribution to economic dynamism, competition and productivity improvement for the real economy.

Bank model evolution over the last quarter of a century has largely come from new entrants. Examples of new entrants that have evolved banking include ING Bank (then operating under the business name ING Direct) which revolutionised banking by providing online direct services to retail customers; Judo Bank has resoundingly demonstrated that there are better ways to service business customers; 86 400 progressed the access to banking services through smart-phone based applications and a 'bank anywhere' approach.

Each of these examples demonstrates the significant contribution that small, nimble entities can make in progressing banking business models thereby opening banking services to customers 'where they are at'. Each of the banks noted saw an opportunity to meet unfulfilled customer needs and demands. These entities, like the non-bank lending sector, may constitute a small portion of market share, but the effect they have on incumbents, driving innovation, is disproportionate to their size and should be encouraged and supported by the Government and regulators such as APRA.

2. AFIA strongly supports Action 6 of the CFR Review Report

AFIA has been supportive of, and has participated in, the Small and medium-sized banks review conducted by the Council of Financial Regulators (CFR) at the request of the Treasurer³. In the context of the current APRA consultation, strongly support the CFR's Action 6 in respect to the bank licensing framework in Australia to help overcome barriers to entry and to facilitate sustainability and scale states:

APRA will make changes to its licensing framework, with the aim of making its expectations more transparent and its processes more efficient. This includes introducing formally defined and explicit timeframes for licensing assessments⁴

AFIA is pleased to see this focus on APRA's licensing regime as it plays an important role in enabling new and improved business models to come to the fore. AFIA supports APRA's proposed approach to licensing which 'seeks to strike the right balance between supporting new entry and competition in the banking sector while upholding robust regulatory standards⁵'. The settings of the licensing framework can be a brake or an enabler to ongoing banking model innovation. AFIA trusts APRA will approach the review from an enablement perspective.

The Discussion Paper considers two levers:

- Clearer licensing expectations; and

³ <https://treasury.gov.au/review/small-and-medium-sized-banks-review>

⁴ CFR, 2025, [Review into small and medium-sized banks](#), July 2025, p10,54

⁵ APRA, 2025, Discussion paper - Improving the licensing framework for authorised deposit-taking institutions.pdf, p5

- Quicker and more transparent licensing decisions.

AFIA is, in principle, supportive of these proposed changes that have been articulated at a high-level and we look forward to engaging in the proposed detail in due course. We note that it is the detail which will determine the extent to which clarity, speed and transparency will be achieved.

3. AFIA response to consultation questions

The Discussion Paper asks several questions; AFIA responds to two of the questions.

Consultation Question: Are there specific views on the RADI pathways and whether to discontinue this pathway for future new entrants?

In respect to the Restricted ADI (RADI) licence, AFIA's submission to the CFR Small and Medium-Sized Bank Review noted:

'APRA announced changes to their Restricted ADI licence requirements in August 2021, noting the launch of the Restricted ADI licensing pathway in 2018. AFIA supported these measures at the time; however, the Restricted ADI licence requirements have not resulted in encouraging and ensuring new ADIs are equipped to succeed.

The requirements and processes for ADI licensing are onerous, require significant workloads, capital and reporting expectations. To promote further competition and innovation, as noted above, AFIA recommends that APRA conduct a further review of the Restricted ADI license requirements and the CFR consider ways to collaborate on pathways to reduce barriers to entry for nascent sectors.'⁶

RADI is an important pathway for entities to become licensed as banks. It serves as an onboarding mechanism into the industry for entities that have not had a previous history as a bank. The absence of a restricted licence mode of entry signals to all stakeholders that new entrants (those that do not have existing ADI backing) are not supported by Government and regulators. AFIA appreciates APRA's critical role in maintaining strength and stability in the financial system, however we also highlight elements of the Treasurer's Statement of Expectations⁷ which in addition to strength and stability also asks APRA to be high-performing and responsive in promoting:

- Contestability and competitive neutrality (point 2.2); and
- Facilitating innovation and competition in the economy and ensuring consumer needs are met (point 3).

RADI was introduced in May 2018 and there was unprecedented societal disruption during the COVID period from January 2020 through February 2022. Discounting the period of the disruption, this makes APRA's review period of the success or otherwise of the RADI approximately 3.5 years to

⁶ AFIA, 2025, [AFIA Submission CFR Small and Medium Bank Review](#), February 2025, p27

⁷ <https://www.apra.gov.au/statement-of-expectations>

December 2024⁸. This is a very limited period to review the efficacy of a licensing regime, especially given the prevailing economic conditions during the review period.

Recommendation 1: AFIA strongly supports the retention of the RADl licence to enable an extended and more appropriate review period.

We note APRA's conclusion that 'the RADl pathway has not achieved its intended purpose of providing a simpler and effective pathway to obtaining a banking licence'⁹ and APRA highlights several impediments including challenges in raising capital¹⁰.

Rather than cancelling the RADl pathway, APRA should consider adjustments that would give RADl licensees the greatest potential to progress onto an unrestricted ADl licence. AFIA considers that, in addition to the efficiency and transparency enhancements foreshadowed in the Discussion Paper, making some adjustments to the licensing conditions and operation would improve the outcomes for RADl licence holders.

Recommendation 2: AFIA encourages APRA to look beyond the options listed in the Discussion Paper and consider other ways to make the RADl licence work more effectively as a sandpit. This would help entities test and build their operations in a safe environment before moving to a full ADl licence.

AFIA outlines practical options under **Recommendation 2** in the commentary below.

The RADl license's time-limit of two years is likely too short to scale up a banking business for many new entrants; APRA should give consideration to extending the maximum time limit on the RADl. This would provide restricted ADls with a more realistic timeframe to demonstrate the viability of their business models and attract the necessary capital. Given the long-term nature of banking and the challenges faced by new entrants, a longer licence period may offer a more supportive environment for institutional growth and maturation.

Suggestion 1: AFIA submits that a longer maximum RADl licence period may better support new entrants in demonstrating viability and attracting capital.

A second consideration for the RADl licence is the restriction to offering products to the general public and marketing limits. This licence condition limits the RADl licensee's ability to validate their business model and therefore to attract further capital. Within the context of a longer RADl license timeframe, the RADl licensee could be permitted to offer their products more broadly at some point after being licensed

⁸ 3.5 years is a generous interpretation given the tail of COVID-19 impacted business and consumer confidence will into 2023 and 2024. These were not times to launch a new bank.

⁹ APRA, 2025, Chapter 1, subheading 2

¹⁰ AFIA deals with the issue regarding capital in our response in the next question.

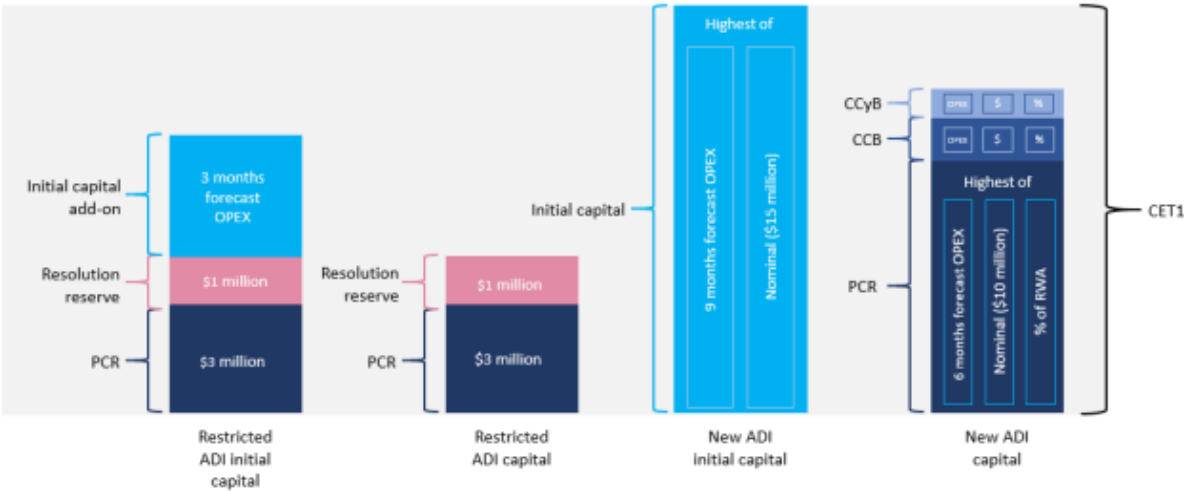
as a RADI. This enables a guided pathway towards an unrestricted license. This could be done in a controlled and/or phased manner, potentially after an initial operating period, to enable better testing of business models and support capital raising efforts. Such an approach may help bridge the gap between restricted and unrestricted licensing, while maintaining appropriate safeguards.

Suggestion 2: APRA explore options for allowing RADI licensees to gradually extend their product offerings to the general public during the RADI licence period.

Consultation Question: Where could APRA's licensing requirements be more proportionate?

AFIA acknowledges that banking is a capital-intensive business, and depositors deserve the security of knowing that their funds are backed by adequate levels of capital and liquidity and prudent lending activities. Whilst AFIA does not comment on the quantum of capital in this consultation, we highlight the disparity of the quantum of capital required between a RADI and an ADI licence as shown in the figure below¹¹.

Figure 5. The 'capital stack' for Restricted ADIs and new ADIs



It is a significant quantum for a RADI licensee to achieve the new ADI initial capital requirements in a two-year period. A longer RADI licence that supports step change in the quantum of capital required over the licence term will provide a further guided pathway for new entrants to become ADIs. This could involve incremental capital targets aligned with business growth and risk profile, culminating in meeting unrestricted ADI requirements by the end of the licence term. Such a pathway may offer greater clarity and support for new entrants navigating the transition to full ADI status.

Suggestion 3: Within a longer RADI licence period, APRA considers providing guidance to RADI entities on a staged approach to capital accumulation.

¹¹ APRA (2021), [Information Paper. ADIs: New entrants - a pathway to sustainability](#), p27

Concluding comments

AFIA strongly recommends the retention of the RADl under a revised rule set. Eliminating the RADl will close off newer types of banking models which are to the benefit of the community. It is important for the provision of 'sandpit' like environments which support entity growth and maturation to prove new business models and therefore innovate and drive productivity. In this submission, AFIA has made several recommendations aimed at improving the operation of the RADl such that new entrants have a pathway to an unrestricted ADl licence.

Thank you for the opportunity to make this submission. Should you wish to discuss our submission or require additional information, please contact me at Emma.Penzo@afia.asn.au

Yours sincerely



Dr Emma Penzo
Head of Regulatory Policy