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Aspiring neobanks face stricter Australia licensing process after Xinja collapse

Article

The news: The **Australian Prudential Regulation Authority (APRA)** has issued stricter standards for prospective neobanks that apply for banking licenses following **Xinja's** collapse last December, per Business Insider Australia.

From here on out, applicants will need to offer an "income-generating asset," like loans, in addition to a depository product. They also will have to establish contingency plans for financial stress, including exit plans for winding down.

More on this: The new regulation covers obtaining a full banking license, a prerequisite for neobanks to garner funds from the general public in Australia. The full license stands in contrast to the APRA's temporary, restricted credential.

The regulator's move would help to avoid a repeat of Xinja's demise: The neobank had to return deposits to its customers after burning through its cash. Business Insider Australia reported that Xinja had been spending generously—including offering a relatively high depository interest rate—without offering any lending products.

The fall of Xinja wasn't the only sign of shrinkage in Australia's consumer neobanking space. **86 400** exited by selling itself to **National Australian Bank (NAB)**, while **Volt** has moved its focus toward banking as a service (BaaS).

The big takeaway: APRA's stricter criteria will likely deter many neobanks from opening in Australia. The flipside is that the ones that do launch will be better positioned to avoid collapse.

Neobanks that are just now ramping up may even benefit from the regulatory shift, as they are either already in the process of getting credentialed or will have the wherewithal to move through it.

- **Alex** is operating on a restricted license, but is on the road to meeting the product-side requirement through its partnership with technology vendor **Temenos,** which allows it to issue personal loans—and it's planning more products.
- **Up** already has licensing by way of its parent bank, **Bendigo and Adelaide Bank**.
- Buy now, pay later (BNPL) provider **Afterpay** will enter the fray with a savings app in partnership with incumbent **Westpac**. Afterpay could become an even more formidable newcomer once its pending sale to US-based fintech **Square** closes. The tie-up, valued at around **$29 billion**, will create a company big enough to endure a full licensing process, should it choose to.

The new regulations are unlikely to come as a shock to these challengers, whose business plans may already have taken them into account—the APRA signaled that the changes were in the works back in March.