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31 October 2025

Submission to the Licensing Framework for ADIs review

Dear APRA

We note the publication of the *Improving the licensing framework for authorised deposit-taking institutions* discussion paper in July 2025, and the request for submissions relating to the proposed approach.

As the Australian Prudential Regulation Authority (“**APRA**”) would be aware, Islamic Money Australia Pty Ltd (ACN 609 971 280) (“**IMA**”) was previously licensed as a Restricted ADI (“**RADI**”) for the period from 2 July 2022 to 1 March 2024, adopting the name Islamic Bank Australia Pty Ltd during this time.

This submission is made with the objective of assisting APRA with this review. IMA has always regarded its relationship with APRA as being a positive and cooperative one, and where areas for improvement are identified, this is done in the spirit of providing actionable feedback that should improve processes and the regulatory frameworks associated with licensing (from the perspective of an industry participant that has recently traversed the licensing process).

This submission addresses the relevant proposals in turn, as well as providing relevant background information on our journey. At the end of this submission, we also suggest that APRA might consider offering ADIs/applicants a standardised suite of regulatory-compliant policies which ADIs/applicants could “opt-in” to, reducing the regulatory cost burden and speeding up applications, whilst ensuring ADIs have a robust prudential policy approach.

This document may be published publicly with other submissions.

1. Support for objectives of the review

1.1 Overall support for the objectives of the review

IMA is supportive of the review being conducted by APRA, and in particular the two objectives stated being “Clearer licensing expectations” and “Quicker and more transparent licensing decisions”. IMA concurs that both of these objectives would assist start-up ADIs in more rapidly achieving an unrestricted banking

authorisation, allowing capital to be preserved and moving the companies towards profitability more quickly (which is in the interest of a stable financial system).

IMA also supports a review of the Restricted ADI pathway, as IMA found the application process took considerably longer than anticipated. Given IMA has now largely built systems and intends to apply for a banking authorisation again, IMA submits that the existing process creates confusion as to whether a new RADI process will take longer than just applying directly for a full licence. Issues such as these should be clarified. More detailed observations/comments on this scenario are detailed later in this submission.

2. Proposal 1: Clearer licensing expectations

1.1 Proposed approach regarding the new licensing criteria

IMA is supportive of the new licensing criteria being enshrined in a legislative instrument. The strength of this approach, however, is entirely dependent on the level of documentation that is sought to validate whether the proposed criteria has been met.

IMA would submit that a specific, detailed, list of required proof points be outlined so that applicants can see exactly what is required to be submitted at each stage (similar to the spreadsheet application checklist used now). This provides clarity in relation to APRA's expectations at various parts of the process. In our experience, it is likely that an applicant would focus more on ensuring these specific, underlying expectations are met rather than seeking to "convince" APRA that it has addressed the higher-level criteria itself.

APRA should also consider whether there should be stage gates for documentation, as happens today. For example, audit certificates pertaining to capital levels and IT testing results are unlikely to be available at the commencement of the licensing application.

1.2 Adopting a more flexible approach to licensing

IMA notes the comment that "*In simple terms, these proposed criteria would mean that an application would be granted a banking licence where it:...*". IMA notes that this appears to take a more flexible and less explicit approach to licensing. If it is APRA's intention to allow applicants to demonstrate compliance in more flexible ways (noting that each application will be somewhat different given different business plans etc.), then IMA supports this approach.

IMA would also observe that IT builds and product launch timings/testing play a key role in the lead up to the launch of a bank (concurrently with the licensing process). There may be differences between applicants in timings in areas such as product launches on both the assets and liabilities side of the balance sheet. IMA would support an approach where the applicant is empowered to make decisions on when such launches occur provided that it can demonstrate compliance with prudential requirements and appropriate risk management. IMA submits that having APRA issue letters of no-objection for product launches throughout the process can create disparity in treatment between applicants (such as where one applicant has no existing products and requires consent, but another applicant is already running a mortgage business that can grow without approval).

On the basis of appropriate pre-ADI and post-ADI supervision, we would submit that APRA should be generally supportive of launch timelines proposed where these are logical, explained and tracked in regular meetings with APRA.

1.3 Specific feedback on the proposed criteria

The below table provides comments on various components of the proposed criteria. Where no comments are made, IMA indicates that the proposed criteria point is appropriate:

Proposed criteria points	IMA remarks
<p><i>To be granted an ADI licence, an applicant must demonstrate within 12 months that it:</i></p> <p><i>a. is structured and operates in a manner that enables supervision by APRA. At a minimum, this would include:</i></p> <p><i>i. dealing with APRA in an open, constructive and cooperative manner</i></p> <p><i>ii. providing complete and accurate information to APRA within specified timeframes</i></p> <p><i>iii. evidencing that owners will meet requirements under the Financial Sector (Shareholdings) Act 1998 at the point of licensing</i></p> <p><i>iv. a group legal structure that does not hinder APRA's ability to exercise its powers and functions.</i></p>	<ul style="list-style-type: none"> ▪ While we support the intent of this clause, we note that these appear to be actual organisational outcomes that need to be delivered within 12 months (which is fine). Actual outcomes that need to be completed in order to achieve a licence should be differentiated from those that are required to ensure a decision is made within 12 months (these could be considered applicant required behaviours, but do not form part of the underlying requirements for the ADI itself). This should be clarified. ▪ Point (a)(i) regarding dealings with APRA is supported by IMA, but nonetheless is subjective. Nonetheless, IMA is supportive as we would expect APRA to be assessing organisational behaviours and risk management in any case. ▪ Point (a)(ii) regarding complete and accurate information within timeframes should be reviewed. In line with the first dot point above, if this is confirming that the organisation can provide complete and accurate information to APRA when licensed (e.g. regulatory reporting), then this point is fine. If it is stating that the applicant needs to get application documentation to APRA in a timely fashion to progress the application, it is not an end outcome for an ADI and it should sit in a separate list of expectations for an application to be assessed within the twelve months. ▪ Point (a)(iii) regarding FSSA is understood, but most applicants will require Treasurer approval under the FSSA as they will have at least one shareholder with more than 20% ownership. Applicants have no power over such a decision. The point could be written such that applicants have provided all required documentation for any required applications under the Act. ▪ Point (a)(iv) regarding legal structures is supported.
<p><i>b. has sufficient financial and non-financial resources to prudently conduct banking business. At a minimum, this would include:</i></p> <p><i>i. capital and liquidity positions that meet minimum requirements</i></p> <p><i>ii. credible plans that demonstrate how capital and liquidity positions will be sufficient to execute the business plan while remaining above minimum requirements in the 24 months following the grant of a licence, including under stress scenarios</i></p> <p><i>iii. generating revenue and operationally ready to accept deposits</i></p> <p><i>iv. IT systems that are fit for purpose and have been tested and independently validated.</i></p>	<ul style="list-style-type: none"> ▪ These points make sense and are generally supported. We note that these points assume that the RADI pathway is not pursued. ▪ The requirement in point (b)(iii) for the business to be generating revenue should be removed. This is because a startup bank may not be able to fund assets without deposits, and these cannot commence until licensed as an ADI. We do support the existing licensing requirement that banks must have an income producing asset product at launch.
<p><i>c. has suitable skills and experience to prudently conduct banking business. At a minimum, this would include:</i></p> <p><i>i. responsible persons that are fit and proper, with accountabilities clearly defined</i></p> <p><i>ii. a board of at least five directors, with the majority being independent and ordinarily resident in Australia</i></p> <p><i>iii. a board with the necessary skills and experience, individually and collectively, to prudently oversee operations</i></p> <p><i>iv. staff that have the necessary skills and experience to fulfil their responsibilities and deliver the business plan.</i></p>	<ul style="list-style-type: none"> ▪ These points make sense and are generally supported. ▪ Point (c)(ii) is too specific. We appreciate the intent, but this implies that only these points need to be addressed to gain a licence. We would expect applicants to be required to demonstrate compliance with the full <i>GPS 510 Governance</i> standard, and this point creates confusion. ▪ Point (c)(iv) is supported; the existing approach where organisations make an assessment of staff capability/propriety is appropriate and should be sufficient to meet this criterion. ▪ APRA should still consider whether certain concessions to new entrants make sense, such as waiving requirements for committees when the ADI is newly-licensed.
<p><i>d. has a risk management framework to prudently conduct banking business. At a minimum, this would include:</i></p> <p><i>i. having appropriate and adequate policies and procedures in place for all material risks</i></p> <p><i>ii. having controls in place for key operational risks, including risks related to critical operations and the use of material service providers.</i></p>	<ul style="list-style-type: none"> ▪ These points make sense and are supported. As noted elsewhere in this paper, it would be helpful if APRA suggested the required documentation (such as on the underlying application checklist).
<p><i>e. can credibly demonstrate how it would respond to a stress that threatens its viability. At a minimum, this would include:</i></p>	<ul style="list-style-type: none"> ▪ These points make sense and are supported.

<p>i. at least one credible option for an orderly and solvent exit from banking business</p> <p>ii. recovery options that would be relevant and plausible during stress</p> <p>iii. being operationally ready for the activation of the Financial Claims Scheme.</p>	<ul style="list-style-type: none"> ▪ In relation to the Financial Claims Scheme and Exit Plans, during the previous application process IMA found that there was limited guidance around APRA's actual expectations on exit planning. Significantly more detail was requested in this area versus other parts of our application, and this was not clear from the application documentation itself. This constituted a major project for IMA, and it would be helpful if APRA could provide best practice guidance on addressing Exits to assist applicants in future.
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2 Proposal 2: Quicker and more transparent licencing decisions

2.1 Our experience of the timeline of the Restricted ADI application process

IMA initially lodged our application for a Restricted ADI licence on 6 September 2018, with the licence issued on 2 July 2022. The below summarises (at a high level) the various steps throughout the process:

Date/s	Part of process
6 September 2018	IMA makes an application to APRA for a Restricted ADI authorisation , providing documents addressing each of the ten categories noted in the "Chapter 5 – Restricted ADI application guidance" section of APRA's RADI information paper.
4 December 2018	APRA advises that it is considering whether IMA deposit products would constitute banking products under the <i>Banking Act 1959</i> prior to formally accepting the application.
8-11 April 2019	APRA confirms that IMA's proposed Islamic deposits would be considered banking products in the context of the <i>Banking Act 1959</i> , and advises it will issue an invoice for the commencement of the application process. A copy of the first RADI Excel application checklist is provided.
18 October 2019	IMA submits first batch (1 of 3) of documentation under the checklist.
7 April 2020	APRA writes to IMA advising it is suspending the issuing of new licences.
14 May 2020	IMA submits second batch (2 of 3) of documentation under the checklist.
28 August 2020	IMA submits final batch (3 of 3) of documentation under the checklist.
March 2021	APRA recommences issuing licences.
1 July 2021	Pre-licensing CEO/ExCo/director interview meetings with APRA occur.
5 May 2022	APRA advises that the licensing guidelines have changed and an additional eleven documents are now required; IMA provides in May.
2 July 2022	Restricted ADI authorisation issued.
1 March 2024	IMA requests revocation of its Restricted ADI authorisation due to capital having fallen to near the RADI capital requirement; APRA revokes RADI authorisation.

2.2 Capital drainage resulting in return of Restricted ADI licence

Clearly, the extended application process timeline resulted in IMA's expending more costs for staffing than if the process had been shorter. IMA recognises that it contributed some part of these times in returning documents and working with APRA to amend various materials to ensure they met regulatory expectations.

In particular, IMA expended significant capital in the 2021/2022 period in terms of staff costs as IMA had anticipated that following the pre-licence interviews on 1 July 2021, the application would enter the "Fatal Flaw" stage and then be decisioned. For various reasons (such as the decisioning timeline for an approval under the *Financial Sector (Shareholdings) Act 1999*), the licence was not issued until twelve months later.

Regrettably, in 2024, IMA was unable to maintain its capital position and we took the prudent and appropriate (yet extremely disappointing) decision to seek a revocation of our licence prior to any regulatory capital breaches occurring.

IMA certainly does not represent that we did not contribute to delays, but it is important to state that delays in licensing can and do have a material impact on startup banking businesses. Accordingly, any efforts by APRA to shorten and/or make such processes simpler and clearer are supported.

2.3 Proposed new 12-month decisioning approach

The proposed new 12-month decisioning approach is supported, and should make a material difference to the application journey. It will provide investors with significant comfort that licensing timelines will not be extended over long periods.

It is critical that there not be unnecessary delays in admitting applicants on this journey. As detailed elsewhere in this submission, it will be necessary for there to be a clear admission criteria that would permit an application to be made and a clear description of documentation/activities that can be completed within the twelve-month period.

2.4 Capital considerations under the proposed 12-month approach

A key consideration for applicants is the capital requirement at various stages of application (RADI or the new 12-month approach).

If the RADI pathway is abolished, we submit that full capital requirements should not be required until just before a full banking licence is issued. This is because it allows applicants additional time to meet capital requirements on their journey to become a licensed bank. We suggest that licence application fees should remain in place (at a similar level as now) to prevent a large number of applications being made if capital is not required upfront.

2.5 Future of the RADI pathway

We understand that the purpose of the RADI pathway was to provide a lower capital requirement and to avoid a “chicken and the egg” situation where investors would not invest capital without a licence being issued, and APRA wouldn’t issue a banking licence without capital being invested.

In our experience, many investors do not understand the difference between a Restricted ADI authorisation and an unrestricted ADI authorisation. Investors from overseas tend to interpret “Restricted ADI” as being a fully authorised bank that can only operate in some areas – similar to licences in other jurisdictions where licences are restricted in “breadth” – such as where digital-only banking licences are offered. This is clearly not the intention of the Australian RADI pathway given it is more a “testing” licence that still allows maximum breadth of operations.

As a result, our experience is that investors tend to interpret this licence as being less attractive than a bank that is fully licensed (notwithstanding our explanations).

In practice, IMA did not find that the Restricted ADI authorisation assisted substantively with capital raising. Many other markets do not have the RADI pathway, and so investors are more accustomed to a shorter, direct to full ADI authorisation than a staged RADI process.

2.6 We would suggest abolishing the RADI pathway

The benefits of the RADI pathway from a brand, investor and capital perspective are outweighed, in our experience, by the additional length of time that is added to the licensing process by the additional RADI step. It would be faster and more efficient if applicants had a clear expectation of:

1. the “entry requirements” for the 12-month process (i.e. what APRA expects to be in place/available at the start of the application process);
2. the process itself over the 12-month period, including key stage gates. For example, the timeline should include specific timelines for documents (submission due dates, review periods and amendment periods), and key meetings (such as IT presentations, site visits or board/management interviews); and
3. a robust tracking mechanism and working group between APRA and the applicant to track progress through the process (holding both APRA and the applicant to account in a similar way to a steering committee).

Importantly, it is critical that applicants enter the 12-month period as soon as they can demonstrate they are ready, rather than there being an extended pre-qualification period prior to them being permitted to start the formal process.

2.7 A realistic quandary now – get another RADI, or go direct to full?

An example of the challenges that the RADI pathway unintentionally introduces is outlined below.

IMA has built around 70% of banking systems, and is currently waiting for additional capital to be raised with the aim of being authorised with a full banking licence. We recognise that we will need to make a new application, but have retained all documentation that was previously submitted to APRA (i.e. we had completed 149 items out of 196 on the full ADI application checklist at time of revocation).

For business case, community and investment purposes, IMA would like to be known again as an ADI/bank as soon as possible (with the intention of submitting all RADI documentation for this purpose of course). However, we are now so advanced that we have concerns that if we re-enter a RADI application process, we will be nearing full licence completion while the RADI is still being assessed (effectively then attempting to upgrade the application mid-way through RADI assessment).

Accordingly, we believe that taking the RADI pathway will be higher risk, with limited benefit. We would also submit that it is unclear how the RADI pathway would operate alongside the proposed new 12-month decision period (other than the “RADI phase” being reduced from 24 months to 12 months to accommodate the new approach).

The above highlights the internal debates that all applicants would have when seeing an approval under the existing separate pathways.

2.8 Issuing application confirmation letters to applicants

In the absence of a RADI phase (where the applicant has already become a licensed ADI), APRA should be aware that certain key external parties will require proof that applicants are on the journey to become an ADI. For example, payments networks/schemes may require APRA confirmation that an applicant entity is applying to become an ADI in order to grant access to various services for testing. APRA should be prepared to issue letters confirming that the applicant has commenced the ADI authorisation journey at the time the ADI application is first made.

2.9 Advising applicants when a checklist document has passed APRA review

Whilst we appreciate that it is not APRA's role to approve policies (as the ADI should be running itself in a compliant way), the existing application process sees documents submitted to APRA and reviewed. In some cases, APRA sends applicants feedback letters with a list of matters that needs to be addressed. IMA is supportive of this approach.

APRA does not currently advise applicants when documents have "passed" internal APRA review, and that no further feedback is expected. This means that applicants are uncertain when a particular document/approach has been finalised, or whether amendments could be required at a later time. This makes it difficult for applicants to forecast the expected timeline through to licensing.

Feedback such as "APRA has reviewed this document and has no further comments" would assist applicants in understanding which documents have been finalised, and which are still undergoing APRA review. This could be implemented through a simple "APRA status" column on the application checklist, allowing both the APRA Licensing team and applicant to easily see which areas of the licence application remain outstanding.

3 Suggestion: Create a standardised "model" suite of policies for ADIs

3.1 Significant expense incurred in writing/maintaining policies

A significant amount of time and cost is expended in developing the suite of policies and key artifacts required to start and run a bank. APRA's full application checklist (i.e. transitioning from RAD1 to ADI) has 196 individual items on it. Naturally, this is to be expected in launching a bank, but many of these documents are relatively mundane and could benefit from a best-practice approach.

We estimate that IMA spent at least \$1-2 million in addressing these requirements, with the majority of this being staff FTE cost. Ensuring that policies are compliant with regulatory expectations also carries a significant cost – particularly for smaller ADIs where these costs are likely to be a higher proportion of overall expenditure.

3.2 Suggested approach: Create an ADI policy suite, and allow ADIs to opt-in

We submit that it would be beneficial if APRA created a full suite of policies which addressed many of the standard requirements that are needed to run an effective and safe banking operation. ADIs could adopt this suite, removing the need for individual ADIs to write and maintain documents.

Such a suite could include:

1. Specific APRA-approved policies that cannot be amended for the vast majority of prudential requirements, such as whistleblower policies, liquidity policies or dealings with related parties;
2. Specific APRA-approved board and management committee structures that meet the requirements of CPS 510 Governance, such as Executive Committees, required board committees and several other standard management committees (such as the Asset and Liability Committee). These could then be codified in the Governance Policy that formed part of the policy suite;
3. Supporting templates that met APRA's expectations to enable policies, such as the recent CPS 320 template for reporting to APRA.

It would be expected that major company documents, such as the Risk Appetite Statement, would not form part of the policy suite as these are (a) very important and each bank may have different appetites; and (b) they are likely to require specific board/leadership discussion, and considered review. Where possible, APRA should endeavour to provide best-practice examples of these documents, however.

3.3 ADIs to pass board resolution to opt-in to policy suite, with APRA notified

In order to activate the policy suite, applicants and ADIs would be required to pass a board resolution that the full suite of model policies be adopted. This would be communicated to APRA with the policies becoming in force within (say) 30 days.

For simplicity, we would recommend that ADIs adopt the suite in full, or not at all – ADIs are either “opt-in” ADIs or not. This approach will avoid confusion as to whether individual ADIs are using model individual policies, or their own.

We recognise that each ADI is different, and a model set of policies would not be appropriate for many ADIs (such as significant financial institutions). We are certainly not suggesting that such an approach be mandated across all ADIs.

3.4 There would be substantial benefits with this approach

The expected benefits for ADIs (particularly smaller ones, and startups) in having access to a regulatory-compliant suite of policies and documents would be substantial. We would also submit that there might be efficiencies generated at APRA. Some benefits across parties are as follows:

- Startup/opt-in ADIs would have access to a suite of policies which were continuously updated by APRA, ensuring that they always met regulatory expectations. This will support robust regulatory compliance across the industry;
- Speed to market for new ADIs would be enhanced as they would only have to focus on developing the most important and material policies;
- APRA would not need to review all of the individual documents of applicants/ADIs that had opted into the policy suite, providing efficiencies and speeding up the process for licence approval;
- Industry regulatory burden/costs would decrease, whilst standardisation drove an improved regulatory environment;
- The risk of an ADI missing a key regulatory change (and the associated required amendment of a policy) would be eliminated, as APRA would update policies (and communicate changes) as required; and
- Staff moving between “opt-in” ADIs (such as smaller ADIs) would benefit from immediately understanding the key organisational committees and policies at their new ADI, driving enhanced regulatory understanding for bankers and policy compliance.

3.5 Alternatively/additionally, provide guidance/templates so that it is easy to comply

Whilst we appreciate that it is not APRA’s role to direct ADIs in relation to how they should comply with the various prudential standards, we submit that most ADIs are genuinely seeking to act in good faith in relation to their regulatory compliance. In some instances, it can be challenging for an ADI to understand the level of documentation and/or approach that should be taken in interpreting the prudential standards (either during the licencing process, or later once launched under supervision).

For example, during IMA’s licencing process a question arose as to whether the use of a particular software-as-a-service (SaaS) solution would constitute an outsourcing if only internal staff had access to the system and the data within it, but where the backend of the system (i.e. the website infrastructure) was being managed by an external company. When IMA enquired as to whether such an arrangement should be regarded as an outsourcing, APRA advised that it was up to us (the applicant) to make that assessment. Whilst we appreciate why this position is taken, it would be beneficial for APRA to issue prudential guidance on similar queries that could be presented as “a submission of this nature is likely to be acceptable in meeting regulatory requirements”.

We note that APRA has recently published a spreadsheet template for ADIs to use in reporting their material service providers in accordance with the recent CPS 230 changes. This sort of template is excellent and conveys clearly the level of detail that would meet APRA's expectations, saving time and cost for ADIs.

4 Other licensing matters

4.1 Licensing team have always been helpful, supportive and responsive

IMA wishes to note that notwithstanding any feedback on policies/processes within this paper, IMA has always found the APRA Licensing (and Supervisory team under RADI) to be helpful, considered and supportive. Due to the sheer volume of documentation required, one of the most critical components of the licensing process is ensuring that both APRA and our team are able to speak regularly (at some times, multiple times per day) to address issues as they arise, and assisting us with any queries as an applicant. We have always found APRA responsive in this regard.

IMA has always felt that we had a strong relationship with APRA's licensing team, and found them to be of great assistance (in particular given the nature of our banking business has required some non-standard regulatory consideration which has been referred internally within APRA). We thank the Licensing team for their role and their assistance on our journey.

4.2 Early notification of prudential capital requirement

As a further observation, we would suggest that APRA should either publish the proposed CET1 Capital Ratio/Total Capital Ratio requirement for all new entrants post the licensing phase, or otherwise advise applicants as early as possible in the licensing process.

The financial forecasts underpin many submission documents and take considerable time to prepare. Robust forecasts are also critical as a part of the capital raising process for potential investors. Changing this requirement triggers rework of substantial parts of an application, such as sensitivity and stress analysis.

Providing this requirement as early as possible allows applicants to ensure that their post-licensing forecasts are appropriate, with relevant capital raises built in where required. This capital planning will also assist in avoiding applicants requiring "just-in-time" capital.

Islamic Money Australia remains committed to supporting APRA to deliver a robust financial system that is enhanced by strong regulation. As a startup banking applicant, we remain committed to working to support the Australian community and APRA's efforts.

We hope that the feedback in this submission is helpful, and provides some specific insight given our previous participation in the existing RADI process.

Should APRA have any queries in relation to the contents of this submission, please contact me via the standard email address/phone numbers known to the APRA Licensing team. We would be very happy to meet with APRA in person or on video to discuss our views further if it would assist, or work with APRA in developing any required approach/materials.

Yours sincerely

