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15 September 2017

Rosalyn Bell  
Assistant Commissioner  
Productivity Commission  
4 National Circuit  
Barton  
ACT 2600

Dear Ms Bell,

CUA supports the Productivity Commission's *Inquiry into Competition in the Australian Financial System*. A competitive system creates opportunities for member-owned organisations such as CUA to thrive and grow, offering improved products and services to our membership and the wider community.

### **About CUA**

CUA is Australia's largest credit union, with around \$13 billion in assets and a branch footprint spanning five states and territories (Queensland, New South Wales, the ACT, Victoria and Western Australia). CUA provides financial, health and general insurance solutions to almost 500,000 Australians through our member-owned CUA banking business and our wholly-owned health insurance subsidiary CUA Health. Mutuality matters to us - CUA's members are our owners, with each member having an equal share in the organisation.

As a member of COBA we are committed to the Customer Owned Banking Code of Practice. This Code makes ten key promises to customers, reinforcing our focus on the delivery of member-focused, competitive financial services.

CUA is 12 months into a five-year corporate strategy of digital transformation towards a future where we are available to our members 'Anytime, Anywhere'. This approach is critical to sustain our relevance and provide greater reach beyond our physical footprint, offering more consumers an alternative in the financial sector. Our introduction of 'pays' platforms such as Apple, Android and Samsung pay are recent examples of steps we are taking to achieve that goal. We are also working proactively with industry to support the introduction of the New Payments Platform. Our recently announced collaboration with



international banking innovator, Pivotal Ventures, will give us exclusive Australian rights to test new digital banking propositions and potentially offer them to other institutions in Australia.

We are part of a wider sector which collectively holds more than \$100 billion in assets and represents more than four million members. We are regulated in the same way as the major banks with member deposits covered by the Government Guarantee. Whilst the sector accounts for around five per cent % of the residential mortgage market, KPMG's *Mutual Industry Review 2016* showed mutuals benefitting from increased penetration into the residential lending market with the residential lending book growing by almost ten per cent across the sector. The *Review* also showed balance sheets strengthened through above system asset growth of 7.8 percent compared with 5.1 percent for the overall banking industry. Despite these strong results we cannot afford to be complacent about competition as there are some significant barriers we face to offering consumers an alternative to the major players and achieving further growth, as outlined below.

### **Opportunities for creating further competition in Australia's Financial System**

#### **Capital Reform**

CUA's ability to grow, and expand our impact is constrained by a lack of access to external capital. As a mutual, CUA's limited ability to raise capital means that we are reliant on retained earnings as our only source of capital. We are also required by our regulators to hold a greater proportion of capital than the majors and regional banks. We are actively participating in consultation on this issue through a review being undertaken by Mr Greg Hammond at the request of the Federal Treasurer. Consequently we won't go into the detail in this submission but wanted to note that this is a key competitive issue for us and our sector and we are happy to discuss this further with the Productivity Commission.

#### **Efficiencies of scale**

The size of many organisations within our sector means it is difficult to individually achieve the operating efficiencies and margins of others operating within the Australian financial system.



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CUA has sought to address this through entering collaborations and joint ventures with like-minded organisations. An example of this is *Mutual Marketplace*, the joint venture we launched earlier this year with People's Choice Credit Union.

This is a new procurement and accounts payable services company which is designed to provide scale benefits and deliver streamlined operations for the negotiation and procurement of services and goods for the two organisations. Whilst People's Choice Credit Union and CUA are the funding joint shareholders the platform is designed to grow and support the mutual network in the long term.

*Mutual Marketplace* took more than two years to realise and came about after unsuccessful attempts to create such a vehicle at a wider industry level.

Our recently announced collaboration with Pivotus Ventures will allow CUA to tap into international banking and technology expertise to explore and develop new digital banking opportunities that will improve the member experience. CUA will have exclusive rights to test new digital banking propositions in Australia and potentially offer them to other financial institutions, particular in the member-owned banking sector. However, we have had to invest a proportion of retained earnings to participate in this collaboration, reducing the amount of capital available to invest in other initiatives this financial year.

We consider that the issue of size and scale impacting on our competitiveness cannot be addressed individually by organisations. The increasing rate of regulatory change and speed of innovation in the sector means many mutual organisations need to focus on playing catch-up to meet the widening technical capability gap. They are doing this by investing capital in areas such as optimising core banking systems and enhancing loan origination systems. This means they do not have the time, financial or human resources to focus on opportunities for collaboration and innovation beyond business as usual.

One idea which could be explored with government, regulators and the wider member-owned sector is the potential for a shared back office technology platform to be created for use by mutuals. This could help resolve some of the competing priorities mutuals face when deciding where and how to invest capital. The company structure for such a platform and potential benefits it would deliver are being considered by CUA. There are some commercial sensitivities attached to this proposal and CUA would appreciate the opportunity to explore this further with the Productivity Commission.



## Financial inclusion

There are two cohorts to consider in this area – unbanked (people with no relationship with a bank) and underbanked (people who hold a transaction account but have no other product such as a credit card, loan or insurance policy.) Research undertaken by the Centre for Social Impact at the University of New South Wales indicates these cohorts respectively make up one per cent and 15 per cent of the population.

There are opportunities to improve access to financial services to these groups through the further use of basic mobile technology enabling people to accept and make payments. This creates opportunities to consider alternative models for helping people access mainstream banking rather than having to resort to payday lenders and loan sharks at exorbitant rates of interest.

Access to data and exposure of income and expenditure patterns has, and will, provide more insight into how we may support individuals in making informed decisions about managing their money, particularly for those with regular expenditure and irregular income.

The creation of new shared financial models for example parents supporting children for longer, friends sharing money when they travel, children supporting parents for longer can be progressed by leveraging technology to enable people to connect their finances, even if they aren't banking together with the same financial institution. Some apps exist today to enable this but there are regulatory gaps and opportunities which should be further explored by the Productivity Commission in conjunction with industry.

## Fintech

### 1. Neo Banking Licenses

Financial technology (or *FinTech*) is new technology and innovation that aims to compete with banks by providing a purely digital alternative to traditional institutions. Previously, the complexity and cost of obtaining a banking licence was one of the biggest stumbling blocks FinTech firms faced, creating a barrier for market entry. In response to this problem, a growing number of “neobanks” have emerged as FinTechs continue to penetrate and disrupt the banking industry.

Offering greater flexibility and an alternative customer experience to members, the lighter regulatory shackles affords them a competitive advantage compared to existing traditional banks. The segments of the banking value chain (where most of these opportunities have sprung into being) are in payments and more recently, lending, to individuals and small businesses.



Neobanks promise significantly differentiated, customer-centric services – focusing on helping individuals manage and understand their relationship with money.

Compared to banks, they have the advantage of not having a complex legacy technology burden, with data that is hard to exploit through being organised into silos, and the cost-saving that comes from not having a physical distribution network. Such simple technology systems, as well as non-reliance on a physical network, make them very well-placed to grow rapidly in new markets. Agility and efficiency of this type, as well as greater familiarity with the needs of digital customers, are what gives them the edge in competing with the traditional banks.

To incentivise competition, the financial authorities in the UK (FCA and PRA) have changed the conditions for obtaining banking licences by lowering the capital requirements, extending the window for acquiring the capital necessary and simplifying the process for obtaining a licence, which has made it possible to shorten the time for such processing from over two years to six months under the new scenario.

The traditional players are also looking into the options for distribution models via purely digital channels. We are aware of one major Australian player who is doing this through a subsidiary. In this case, the range of products on offer could be broader and take in more complex products such as mortgages, as they have the backing of their parent banks. This puts CUA at a competitive disadvantage.

We consider that there may be opportunities for CUA to partner with Neo Banks for to deliver scale and speed in innovation space in order to benefit our members and we would like to explore ways in which we might do this as part of this inquiry.

## 2. Regulatory sandbox

ASIC has released a waiver to allow eligible FinTech businesses to test certain specified services for up to 12 months without an Australian financial services or credit licence.

The challenge for CUA is that established financial institutions like CUA are unable to participate in the sandbox due to the established criteria.

This criteria may inhibit the likelihood of established financial institutions collaborating on early stage FinTech opportunities, restricting our ability to innovate and grow.

## 3. The 'black economy'

The black economy refers to individuals and organisations who operate outside the tax and regulatory system. Participation in the black economy penalises the general population of taxpayers, undermines the integrity of Australia's tax systems and creates an uneven playing field for the majority of businesses doing the right thing.



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The increase in digitisation of banking has led to what is known as a ‘shadow economy’. Examples of this include where small community based shopfronts use Point of Sale (POS) tools to transact and direct payments offshore. This creates competitive disadvantages for Australian businesses in areas such as taxation and regulatory controls.

We recognise that the Black Economy Taskforce has been established to develop a whole-of-government policy response to the ‘shadow economy’ in Australia.

CUA would like to understand how the Productivity Commission will incorporate the Taskforce’s activities into this review into competition.

#### **4. Open banking**

We note that there is a separate *Treasury Review into Open Banking in Australia* underway at present. CUA would like to understand how the Productivity Commission will incorporate the findings of the Treasury review into this inquiry.

Thank you again for the opportunity to contribute to your consultation paper. We would welcome a discussion with you on the issues we’ve raised in this paper about the challenges and opportunities impacting our ability to compete in the wider financial services sector.

Yours sincerely,

**Sue Coulter**  
**Acting CEO**  
**CUA**