CUSTOMER OWNED BANKING ASSOCIATION

2022

Policy Agenda

CUSTOMER OWNED BANKING ASSOCIATION

With a proud 150 year history, serving 4.5 million members, or 1 in 5 Australians, customer owned banks are highly valued by the communities they support.

The customer-owned banking sector is part of the fabric of local communities around Australia. Our model sees profits returned to customers through better products and services. Customer-owned banks also directly support local initiatives in the communities within which they operate.

For the customer-owned banking sector to continue to grow and support Australian communities, we ask the government to consider the recommendations in this report.

We want an agile regulatory framework that allows the sector to remain responsive to its customers and the environment within which it operates.

We believe there are opportunities to design regulatory change in a way that allows all participants in the sector to thrive, build our national resilience to natural hazard risk, and better protect Australians from increasingly complex and sophisticated scam and cybercrime activity.

ELIZABETH CROUCH AM
INDEPENDENT CHAIR

MICHAEL LAWRENCE
CHIEF EXECUTIVE OFFICER

ABOUT COBA

The Customer Owned Banking Association (COBA) is the industry association for Australia's customer-owned banking institutions – mutual banks, credit unions and building societies who are integrated into the communities they serve.

Our customer-focused approach and unique model provides a strong alternative for Australians. A diverse, competitive banking market improves outcomes for all customers, not just ours.

This policy document sets out a plan that will unlock the competitive potential of the customer-owned banking sector and ensure banking continues to work to help all Australians.

150 years

of putting customers first

THE STORY OF CUSTOMER-OWNED BANKING

Customer-owned banks have a different ownership structure to other banks. When customer-owned banks make a profit, it is to benefit the customer, not investors or shareholders.

Being solely customer-focused means all profits are used to benefit customers and are delivered back into better rates, fairer fees, and outstanding customer service.

We serve local communities with a 'people helping people' philosophy. Our sector is home to the original peer to peer lenders where like-minded Australians worked together to achieve one another's financial goals. Teachers lending to teachers, police officers lending to police officers, or Newcastle people lending to Newcastle people – the savings of one customer helping fund the loan of another.

We provide a full range of retail banking products to people living in communities across Australia, including savings accounts, home loans, car loans, personal loans, credit cards, term deposits, and in some cases, small business lending.

With the head offices of around half of our member institutions located outside capital cities, we are an important part of the Australian regional financial services landscape.

We have a track record of being innovators and early adopters in meeting our customers' needs. We continue to be forward-looking as we position ourselves to be future fit and address both present and future challenges, such as climate change.

OUR RECOMMENDATIONS
AT A GLANCE

1 Better regulation for better consumer outcomes

2 Delivering regulatory objectives in a proportionate way

3 Modernising consumer credit legislation

4 Recognising corporate diversity

5 Strengthening Australia's banking alternative

6 Investing in ongoing national disaster resilience

7 Creation of a cross-sector scams and cybercrimes taskforce

POLICY RECOMMENDATION 1

Better regulation for better consumer outcomes

POSITION

The government should pilot an Australian Regulatory Initiatives Grid like the United Kingdom's Regulatory Initiatives Grid. This Grid is used to coordinate and map out regulatory change and should be done through the Council of Financial Regulators (CFR).

BENEFIT

More consistent and transparent regulatory coordination reduces the costs of regulatory change across the economy. This can improve efficiency and productivity.

Any unnecessary regulatory change may impact consumers by diverting resources from customer-facing to compliance initiatives. These costs also disproportionately impact smaller banks such as customer-owned banks and reduce choice and diversity in the banking sector.

BACKGROUND

The increasing pace, volume and complexity of regulatory change is a challenge for all financial services entities but has a disproportionate impact on smaller ADIs who have more limited risk and compliance resources.

Regulatory change timelines are set by regulators and legislators and generally have limited scope for change. Better coordination will assist regulators to make more informed decisions when developing policy and setting timeframes. This will also help regulators be more efficient and targeted in their decision-making.

In the UK, this problem has been tackled through the introduction of the Financial Services Regulatory Initiatives Forum and the Regulatory Initiatives Grid. The forum brings together government and financial regulators, to provide the industry with a forward-look of upcoming regulatory initiatives.

The Grid sets out the planned regulatory workplan over the next two years in one document. The grid outlines key milestones for various financial services regulation, supervisory, and data initiatives. It also classifies them according to perceived operational impact on firms and flags any that may be of interest to consumers. The Grid allows regulators, policymakers and legislators to better consider the cumulative impact and timing of regulation.

October 2021 saw four key regulatory regimes under ASIC's remit commence within a one-week window: The deferred sales model for add-on insurance (DSM), the design and distribution obligations (DDO), expanded prohibitions for the hawking of financial products, and strengthened breach reporting requirements. Key elements of the various regimes, including ASIC guidance and legislative instruments, were not finalised until as late as a week before the regime commenced.

Early engagement with the sector would have delivered a better approach to the management and implementation of the October 2021 reforms.

POLICY RECOMMENDATION 2

Delivering regulatory objectives in a proportionate way

POSITION

Policymakers, regulators, and legislators should apply COBA's eight principles of proportionate regulation to regulatory design, implementation, and review.

BENEFIT

Applying these principles will make regulation more efficient and targeted, lowering the cost across the economy, particularly for smaller or less complex banks. This encourages a more competitive and diverse banking market that benefits consumers.

BACKGROUND

Australian consumers are currently served by a wide and diverse range of banks ranging from the four major banks to a large group of customer-owned banks.

The customer-owned banking model creates a point of difference leading to different customer outcomes compared to shareholder-owned banks. Within our sector, our members range in size and business models.

Some members service particular regional areas while others focus on key worker demographics. The diversity of banks across the sector means that regulation designed for the major banks can have adverse consequences on others.

Proportionate regulation enables the delivery of regulatory objectives, such as consumer protection and system stability, in a more cost-effective, pro-competitive way. Keeping regulation proportionate will boost competition in retail banking, promoting innovation and efficiency and more choice and lower prices for consumers.

Keeping a tighter rein on regulatory costs will allow challenger banks, such as customer-owned banks, to grow more rapidly. An expanding customer-owned banking sector is good for consumers because of our unmatched consumer focus and prudent risk culture.

Unnecessary regulatory costs hurt consumers because resources are diverted away from investment in product innovation, better service and better pricing.

While COBA continues to advocate for proportionate regulation during consultation processes, it is far more optimal that policymakers, regulators and legislators embed a 'proportionality by default' mindset.

COBA's eight principles of proportionate regulation

1. Recognise that regulatory costs can affect competition and are ultimately borne by customers.
2. Avoid a one-size-fits-all approach to regulation.
3. Ensure regulation is tightly targeted at a clearly defined regulatory objective.
4. Assess the cumulative impact of new regulation.
5. Consider a bank's size, risk profile and complexity when designing and implementing new regulation.
6. Allow smaller banks sufficient implementation time, commensurate with the scale and complexity of the regulatory change.
7. Recognise that smaller banks may be impacted disproportionately to larger banks who can implement at scale.
8. Accommodate different models, such as the customer owned model, particularly where the model itself can mitigate risks that are otherwise addressed by regulation.

POLICY RECOMMENDATION 3

Modernising consumer credit legislation

POSITION

Review and modernise Australia's consumer credit regulatory regime, taking into account recent developments in the market, technology and consumer needs.

BENEFIT

A modern and efficient consumer credit regime benefits consumers by appropriately balancing consumer protection, reducing the burden on consumers and providing timely and fair access to credit. A regime that can appropriately respond to new developments and technologies will ensure that consumers continue to be protected when engaging with new forms of credit.

BACKGROUND

Access to credit can be onerous, time consuming, inconvenient and at times intrusive for consumers. There are also credit-like products that are not subject to the same level of consumer protection obligations which poses risks to consumers.

COBA proposes a review of credit regulation based on challenges that the current regime poses for consumers trying to access credit.

The credit regulatory regime has not been reviewed in its entirety since its inception. Given the slew of recently introduced regulatory regimes that impact credit products, and the emergence of new credit-like products in the market, it is critical to examine the regime holistically to ensure it remains fit for purpose.

The review should consider the level of consumer protection the credit regulatory regime provides, any areas of regulatory overlap and the need to balance regulatory requirements with the capacity to provide consumers with timely and fair access to credit.

The regime should be reviewed to ensure it is fit for purpose and fit for the future.

Recents awards and recognition for sector

1 Customer satisfaction on consumer banking in Australia, Roy Morgan, July 2020
2 Australian Banking Brand And Trust Index, Glow, 2020
3 IMB Bank, Workplace Gender Equality Agency (WGEA) 2021
4 Mozo People's Choice Award 2021

POLICY RECOMMENDATION 4

Recognising corporate diversity

POSITION

The government should introduce a corporate diversity clause into APRA's and ASIC's mandates. This clause would ensure that regulators explicitly consider the mutual structure when developing regulation. This will embed customer-owned banks into regulatory policy development.

BENEFIT

Explicitly recognising corporate diversity in regulator mandates will entrench it as a default consideration when designing regulation.

This will ensure Australia does not end up with a regulatory environment that assumes the default of an investor-owned business model.

These clauses will support a stronger customer-owned banking sector that gives consumers a strong alternative.

BACKGROUND

The Australian banking sector is dominated by investor-owned companies. This dominance leads to a view of 'investor owned' by default in policy and decision-making.

The mutual banking model provides a powerful counterpoint and difference to the investor-owned banking model. It is critical that this is recognised and all regulator staff who develop policy understand the model.

COBA has presented to regulators in the past on our sector and the customer-owned model. We believe that embedding the knowledge of this valuable alterative model into regulator decision-making will benefit the broader population.

UK regulators are explicitly required to consider mutuals, and must report on their compliance with the corporate diversity clause.

The UK's Centre for Financial and Management Studies says one of the key findings of post GFC research is that diversity is an important yet neglected source of systemic stability and resilience.

Benefits of diversity include:

- Systemic stability by virtue of having institutions that manage risk by staying close to their customer.
- Enhanced competition via different business models.
- Customer-owned banks have a longer-term focus by virtue of their proximity to the community, and are more likely to be locally based.
- A competitive banking sector is critical to providing genuine consumer choice.

POLICY RECOMMENDATION 5

Strengthening Australia's banking alternative

POSITION

The government should amend the GST treatment that applies to current and former credit unions to include current and former mutual building societies.

BENEFIT

This simple change would support greater collaboration and ensure consistent treatment across the banking sector. A stronger and more collaborative 'fifth pillar' will provide customers with a better banking alternative to switch to if dissatisfied with their current bank.

A stronger and more collaborative 'fifth pillar'

BACKGROUND

Credit unions and former credit unions currently benefit from a GST treatment known as Reduced Input Tax Credit (RITC) item 16, 'credit union services'.

Under the GST regime, larger banks have an incentive to insource services to avoid paying GST. However, due to their size, smaller banks and credit unions are not able to reap the tax benefits of insourcing like the big banks, so receive this benefit to level the playing field.

The customer-owned banking sector has several aggregator bodies owned by customer-owned banks that provide a wide range of critical business inputs. These bodies are unable to be jointly owned by both credit unions and building societies without significant tax penalties due to the anomaly in the RITC regulations. For example, existing aggregator bodies that supply information technology and data-processing services to credit unions and former credit unions now trading as mutual banks would lose eligibility under RITC Item 16 if just one of their owners merged with a building society or with a mutual bank that was formerly a building society.

Excluding building societies from this treatment creates an artificial and arbitrary barrier to the efficient outsourcing of services, and the additional competitive pressure on major banks that flows from this.

POLICY RECOMMENDATION 6

Investing in ongoing national disaster resilience

POSITION

Increased investment in pre-disaster funding by federal and state governments to improve the resilience of Australian communities.

BENEFIT

While avoiding natural disasters is impossible, greater investment in planning, mitigation and preparedness will help protect the significant investments Australians have made in their homes and businesses.

BACKGROUND

Australia continues to experience the devastating impact of natural hazards, and research points to an increase in these occurrences due to climate change. These events cause significant impact through loss of life, loss of property, and impact on livelihoods.

We believe that greater investment in disaster mitigation strategies will help lessen the impact on both customers, and the financial institutions who support them.

This could include targeted support for homeowners to undertake household resilience measures to protect against flood, cyclone and fire risk, community measures such as levees, drainage and flood ways, and early warning systems.

In the recent Lismore floods, many COBA member banks had their physical infrastructure inundated and their customers were severely impacted, including the loss of houses. However, through the support of the community and Southern Cross University, they were able to establish a Community Banking Hub to enable residents to access banking services, and particularly access to cash.

Without this Hub, communities would have been cut off from in-person services.

Being able to mitigate against disasters will support vulnerable communities in times of need, and allow the banking sector to lend prudently for housing and continue to support their members when they need it most.

POLICY RECOMMENDATION 7

Creation of a cross-sector scams and cybercrimes taskforce

POSITION

The government should establish a cross-sector taskforce to better understand and counter the growing prevalence of scams and cybercrimes in Australia.

BENEFIT

Enable coordinated activity across business and government agencies to protect Australians from increasingly complex and sophisticated scam and cybercrime activity.

BACKGROUND

Customer-owned banks are concerned about the impact of scam activity on customers.

Criminals continue to innovate and evolve their approaches to seize opportunities and bypass countermeasures.

For example, scam activity accelerates in the environment of disaster impact and recovery, with sophisticated scammers using these conditions to deliver targeted attacks on customers who are in a vulnerable state.

COBA urges the government to establish a taskforce comprised of regulators, banking representatives, payment providers, law enforcement officials, utility providers, relevant federal policy agencies and political representatives to:

- Establish a framework for combatting scams via a strategy paper, similar to the Australian Cybersecurity Strategy 2020 and the Ransomware Action Plan 2021
- Establish themes and best practice for consumer messaging
- Establish and lead a workplan to measure and track the prevalence of scams and cybercrimes and any reductions

COBA welcomes the announcement of the AFP's Joint Policing Cybercrime Coordination Centre (JPC3) as a critical step in the right direction. Scams and cybercrime continue to pose a significant threat to customers and small businesses. While COBA welcomes existing efforts combat cybercrime, governments must ensure that these crimes are not solely approached through a national security lens, but instead with a view to protecting consumers and convenient access to banking services.

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