CUSTOMER OWNED BANKING ASSOCIATION

12 May 2023

Senator the Hon Matthew Canavan
Chair
Senate Standing Committee on Rural and Regional Affairs and Transport References
Senator for Queensland
Australian Parliament House

Via email: rrat.sen@aph.gov.au

Dear Senator Canavan

Senate inquiry into Bank closures in regional Australia

The Customer Owned Banking Association (COBA) is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). We represent 56 customer owned banks which collectively operate 720 branches across Australia.

With 5 million members, the sector serves approximately one-in-five Australians. Customer owned banking institutions represent 70 per cent of Australia's total domestically owned banks and collectively hold approximately $160 billion in assets.

Our members operate predominantly in retail banking, supporting Australians to buy homes, while some customer owned banks also provide business banking services.

COBA thanks the Committee for the opportunity to contribute to the inquiry into Bank closures in regional Australia. Our key points follow:

Customer owned banks' significant presence in regional Australia

Customer owned banks punch well above their weight in regional Australia. More than half of our sector's employees live and work in regional Australia, and customer owned banks operate 21 per cent of all branches in regional Australia (despite our 3.5 per cent overall asset share).

Customer owned banks exist only to serve their customers and the communities within which they exist. Profits are reinvested into better products and services for members, instead of being distributed to investors.

Challenges and opportunities in regional banking

There are challenges facing the ongoing presence of in-person banking services in regional Australia, including declining customer demand for in-person services, high cash access costs, significant regulatory overheads, and risks associated with being the 'last bank in town'.

Where possible, customer owned banks are innovating to keep branch services open, including partnering with communities to operate co-owned community branches, co-locating with government services, answering calls from branch offices, and reducing opening hours.

Solutions that help, not hurt

Two policy solutions canvassed by stakeholders – a Government-owned bank and a community service obligation – would be anti-competitive interventions detrimental to our sector's ability to provide services for regional communities.

Better options include improving regulatory coordination to lessen the burden on smaller banks and recognising mutual banking in regulator mandates, as outlined in Appendices A and B.

COBA appreciates the opportunity to participate in this Inquiry. Please do not hesitate to contact Stephanie Elliott, Director of Corporate Affairs at selliott@coba.asn.au if you have any questions on our submission.

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer

Customer Owned Banking and Regional Australia

The customer owned difference

Customer owned banks have a unique proposition in Australian banking. Our members were founded by communities as a self-help solution and members serve these communities with a 'people helping people' philosophy. Teachers lending to teachers, police officers lending to police officers, or Novocastrians lending to Novocastrians – the savings of one customer helping fund the loans of another.

Our origins are diverse, and include geographic, employer-based, industry-based, ethnic and faith-based communities. While once restricted to serving our particular 'niches', our members now serve a broader concept of community with many serving customers across Australia. However, COBA members remain just as committed to their roots and to serving their customers as a collective as they have throughout their 150-year history in this country.

The mutual structure of customer owned banks means that we are more community conscious and have less commercial pressure than other banks. This is because we do not exist to maximise profits and pay out those profits to investors. However, this does not mean that we can afford to make non-commercial returns on our activities.

Customer owned banks have a different ownership structure to other banks. In this mutual or co-operative model, customer interests are not in conflict with shareholder interests. Being solely customer focused means all profits are used to benefit customers and are delivered back into better rates, fairer fees, responsible lending and outstanding customer service.

Branch presence in regional Australia

Australia's banking market is dominated by the four major banks who have around 75 per cent of the market share based on household deposits.[1] While our sector is collectively the fifth largest retail bank, our market share of household deposits is only around 10 per cent.

Customer owned banks operate 720 branches across the country.[2] This is larger than all but the two largest major banks (CBA and Westpac) despite our sector collectively being many times smaller than either of these banks. Our branch networks are also relatively large compared to the majors when it comes to regional areas, a fact made more impressive given our considerably smaller asset and profit sizes.

While many COBA members have grown and spread, the historical geographic formation of mutual banks in local communities means that many customer owned banks remain based in regional Australia with deep roots in regional towns. Examples include Broken Hill Community Credit Union, Queensland Country Bank, Orange Credit Union, and Goulburn Murray Credit Union. Mergers have also expanded the footprint of some metro-based customer owned banks into regional communities.

[1] Based on APRA's Monthly ADI Statistics

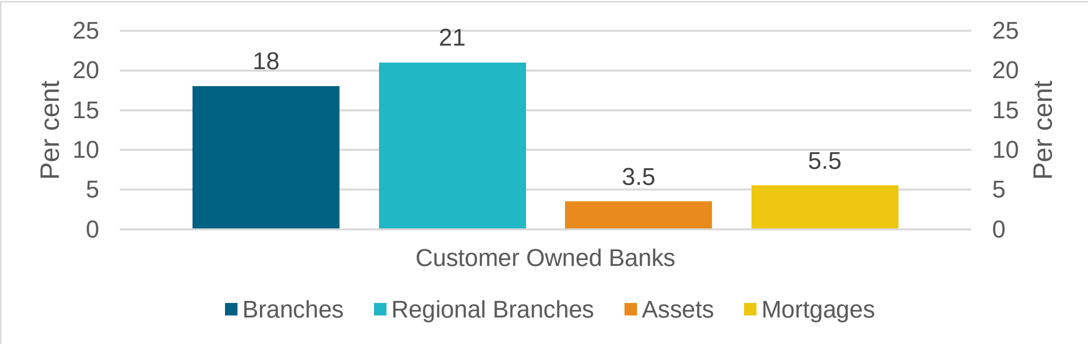
[2] Based on APRA's Points of Presence for June 2022

Figure 1: Customer owned banking branch presence across Australia

Source: Sector impact assessment of Customer Owned Banking in Australia, KPMG, 2023.

Customer owned banks operate 18 per cent of branches across the entire banking system, far greater than the sector's 3.5 per cent share of overall market assets.[3] This translates to more than 4 branches per billion dollars in assets, compared to 0.6 branches per billion dollars in assets for the majors.[4]

Figure 2: Customer owned bank branches and assets size



Source: Sector impact assessment of Customer Owned Banking in Australia, KPMG, 2023.

Our branch presence is even stronger in regional areas. Customer owned banks punch well above their weight, collectively operating the largest regional branch network in Australia. This equates to 1 in 5 regional branches.

Figure 3: Number of regional branches (30 June 2022)

Number of regional branches - 30 June 2022	
Total regional branches	1682
Customer owned banking sector	347
Commonwealth Bank	311
NAB	276
Westpac	256
Bendigo and Adelaide Bank	252
ANZ	158

Source: APRA Points of Presence Statistics, June 2022

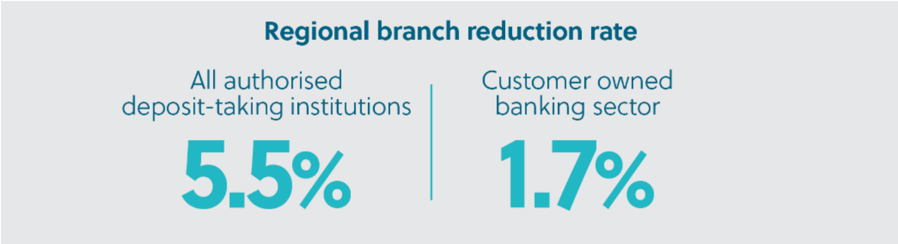
[3] Sector impact assessment of Customer Owned Banking in Australia, KPMG 2023, page 7

[4] COBA analysis of APRA Points of Presence Data and ARA Quarterly ADI Statistics

Although bank branches across Australia have closed in recent years, customer owned banks have reduced their branch footprint at a much slower rate.

The absence of a physical presence does not necessarily indicate a lack of commitment to the local community. While branches can be the most prominent physical presence in a community, one COBA member provides the example of its community managers who make regular visits to communities that do not have a branch presence.

Figure 4: Regional branch reduction rate (30 June 2021 – 30 June 2022)



Source: APRA Points of Presence Statistics, June 2022

Investment in people and in the regions

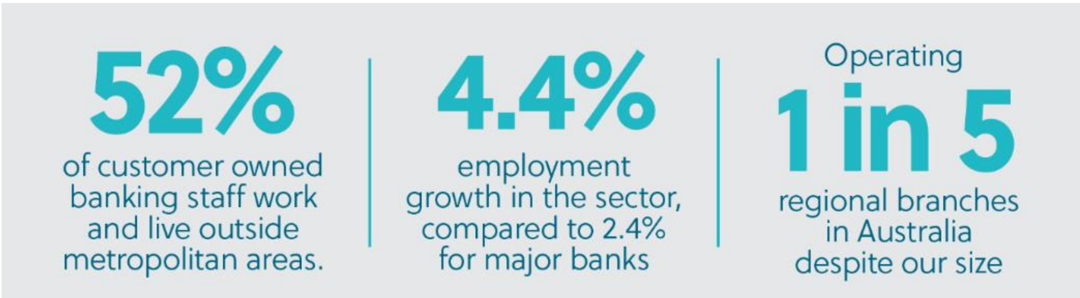
Due to the sector's Australia-wide footprint, COBA members provide many skilled jobs in regional locations, with 52 per cent of the customer owned banking sector's 11,200 strong workforce working and living outside metropolitan areas.

Amid the digital revolution, customer owned banks have hired more Australians to support their members. The pace of jobs growth in the customer owned banking sector last financial year outperformed that of the major banks.

- Employment in the sector grew by 4.4 per cent between FY21 and FY22, with 11,200 full-time equivalent jobs at customer owned banking institutions at the end of the most recent financial year, earning a combined $1.24 billion in wages.
- By comparison, as the major banks have been under shareholder pressure to reduce costs, they grew employment at a slower rate of 2.4 per cent.

KPMG found that the customer ownership model translates into additional job creation, equal to about 5 per cent of sector employment.

Figure 5: Customer owned banking employment statistics (June 2022)



Source: Sector impact assessment of Customer Owned Banking in Australia, KPMG, 2023; APRA Points of Presence Statistics, June 2022

Challenges and opportunities in regional banking

Lessons from the Regional Banking Taskforce

COBA was a member of the Regional Banking Taskforce, which issued its final report in September 2022. Some findings of note follow[5]:

- Branch closures are not unique to Australia, with New Zealand banks closing a quarter of their branches between 2019 and 2021, while the United Kingdom has halved its bank branches in the period between 1986 to 2014.
- A decreasing number of regional Australians used branches to pay for bills between 2020 and 2022, with an increase in people using mobile banking apps and telephone banking.
- While people living in regional communities understand the factors contributing to branch closures – such as the impact the digital transformation of the banking market has on accelerating branch closures across Australia – in some cases communication processes did not meet community expectations.

Challenges to in-person banking services

Changes in consumer behaviour away from in-person transactions

Australians are voting with their feet – or more specifically, with their phones. New technology allows Australians with internet access the ability to bank at any time and Australians are turning to digital payment channels for an ever-increasing proportion of their transactions. This has resulted in a material decrease in cash usage, with only 13 per cent of consumers making a cash payment in 2022, down from almost 70 per cent in 2007.[6] This has also seen a corresponding decrease in automatic teller machines (ATM) usage with the number and value of ATM withdrawals falling by about 60 per cent and 40 per cent, respectively, since 2008.[7]

In the 12 months to February 2023, online banking transactions across the New Payments Platform reached $127.1 billion, an increase of 29.3 per cent from the previous year. Card purchases on Australian-issued cards were almost $80 billion, an increase of 14.3 per cent, and in addition, over 30 per cent of consumers surveyed by the Reserve Bank of Australia (RBA) used a mobile device to make a card payment in 2022. Meanwhile, cheque payments continued to decline, falling almost 16 per cent since February 2022 after falling 11 per cent the previous calendar year.[8]

These trends highlight a rapid movement to digital payment technologies, which is being seen across banking services more broadly. As noted in the KPMG Mutuals Industry Review 2021:[9]

> "All customers are demanding more self-service solutions via multiple online platforms – a trend accelerated by COVID-19 and the shift to broker-introduced lending. As digital channel usage has increased, the relevance, reach and impact of the branch network has declined."

In response to these trends, banks must carefully allocate resources to maximise outcomes for the largest number of customers. Customers expect a full-service digital offering and are paying with card and using digital offerings more regularly than legacy methods. With rising regulatory costs and expensive IT transformations driven by skills shortages in specialised IT roles, banks must be able to make choices and move resources in response to consumer demand.

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[5] Regional Banking Taskforce Final Report, September 2022

[6] The Shift to Electronic Payments – Some Policy Issues, Speech by Ellis Connolly (RBA), March 2023

[7] RBA Bulletin, March 2023

[8] RBA Retail Payments, February 2023

[9] KPMG Mutual Industry Review, 2021

Existing branch networks may need to be upgraded to be the ‘branches of the future’ and resources reprioritised to open branches in growth areas. These factors may put more pressure on lesser-used branch locations, especially in larger relative networks, as customer owned banks look to reprioritise resources for a greater benefit for a bank’s collective customer base.

The costs of maintaining uneconomic branches in areas with insufficient customer demand are ultimately borne by customers themselves (as the owners of mutual banks). This could be through higher fees, less competitive interest rates or less investment in digital offerings – reducing the capacity of the mutual bank to compete and be an attractive choice for customers looking for alternatives to major or foreign owned banks.

Cash access costs

As the use of cash across the economy declines, the cost of cash transport and processing is increasing and, as a result, member banks are bearing an increasing cost burden to offer cash across their branch network, particularly in regional areas. The RBA notes that this “is making it more challenging to maintain service levels, particularly in regional areas”.

The RBA found the decreasing cash usage in regional areas is putting significant cost pressure on cash providers[10], which then face the prospect of increasing costs for clients (banks) and risking a further reduction in demand for cash as banks respond by decreasing their services offered. This is an ongoing pressure which members face and is contributing to the challenges many bank branches face in remaining viable.

The RBA’s conclusions paper noted that:

> “Some stakeholders requested additional financial support from the Reserve Bank for the transportation of banknotes. Options proposed include: providing a new subsidy to assist with the cost of transporting banknotes as they enter circulation; paying a subsidy for transport to regional areas; and the Reserve Bank holding banknotes at, or distributing from, Cash in Transit cash depots around Australia.”

The concern is sufficient that the RBA concludes it will “continue to monitor the ability of consumers to access and pay with cash, with a particular focus on regional communities”.

Significant regulatory costs creating need to reduce costs elsewhere

The fast pace of regulatory change greatly increases the cost of compliance. The fixed cost nature of compliance disproportionately impacts small players such as customer owned banks. One large COBA member estimated that regulatory costs amounted to over $9 million for the 2022 calendar year. The mandatory and time-bound nature of regulatory compliance means that scarce resources are diverted from ‘nice to haves’ towards regulatory, risk and compliance projects to meet legal obligations. Further costs are incurred by the deadlines associated with regulatory change, which puts pressure on smaller banks to compete for a limited pool of trained specialists to implement regulatory changes in limited timeframes.

Our need to remain profitable combined with our smaller size means that we have more limited resources compared to larger banks. As a result, this means that customer owned banks must at times make difficult decisions to prioritise resources to areas that best service their broader customer base. This diversion of resources to respond to an increasing regulatory burden reduces the budgets available to fund customer-facing improvements such as branches and digital channels. Reducing

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[10] Review of Banknote Distribution Arrangements: Conclusions Paper, RBA, August 2022.

“Respondents highlighted cost inefficiencies for [Cash in Transit] CIT companies as a result of having fewer cash access points to service, particularly in regional areas. The cost of providing CIT services to a town is relatively fixed, while revenues have declined as a result of the lower volume of banknotes being transported. If the industry were to charge more for delivering cash services to regional areas, to offset the increased unit cost of doing so, this could lead to a further reduction in demand for these services. This highlights the trade-off between raising prices in response to the higher unit cost and maintaining sufficient demand from customers in regional areas” these regulatory cost pressures could free up funds for banks to invest in projects that benefit our customers and their communities.

Limited meaningful switching to the 'last bank'

Several COBA members who operate the last branch in town in regional areas have reported to COBA that there is minimal to no financial benefit in retaining branches open for longer than competitors.

Anecdotally, customers do not change banks in large numbers when their bank of choice closes. However, some customers may use the last remaining branch in town as a cash deposit point and then transfer deposited funds to another bank. This places the cost of cash handling, transport and security on the remaining bank (e.g. COBA member) without the opportunity to benefit from these deposits (i.e. lending them out). A small-sized branch in a regional town can cost around $300,000 per annum to maintain. While this amount may be a rounding error to a major bank, this is not an insignificant figure to many COBA members.

Innovating to meet community needs

Despite the above challenges, many customer owned banks go above and beyond to support regional communities. Some banks are opening new branches to service regional communities, such as Hume Bank's new branch in Holbrook, NSW (population 1,650),[11] and Horizon Bank's new branch in Berry, NSW (population 3,100).[12]

Others are making changes to their service delivery model to remain sustainable. This may include answering phone inquiries in branches, reducing opening hours, and deploying mobile lending services to areas not served by branches.

One member has redirected branch staff to perform centralised tasks such as conducting credit assessments, performing arrears management, making out-bound calls, performing fraud management processes and a range of member service functions during times of low in-person demand. This greatly increases the efficiency of the branch network and contributes to the retention of branches.

Several customer owned banks have entered into partnerships to keep branches open. Further information follows:

The Capricornian – Co-locating with local Queensland councils

Central Queensland-based credit union The Capricornian has worked with local councils to find a solution for communities faced with the prospect of living without branch-based banking services by partnering with local councils, and operating from council buildings.

In August 2021, The Capricornian opened its new branch in Capella, locating it inside the Central Highlands Regional Council offices, following on from the success of its Springsure branch. This new branch was in response to the announcement that the town's National Australia Bank was closing, leaving the local community without a banking service.

The new branch allows convenient, in-person banking services for not only the residents of Capella, which is home to just over 1,000 people, but also to nearby communities including Clermont and Tieri which are currently without banking services.

[11] https://www.humebank.com.au/news/announcements/brighter-banking-days-ahead-for-holbrook

[12] https://horizonbank.com.au/campaigns/2023/hello-berry/

Unity Bank – CreditCare-supported agencies in New South Wales

Sydney-based Unity Bank has three agencies in the Central West NSW region born out of the CreditCare model – in Trundle, Eugowra, and Gulargambone.

Cuscal and state and federal governments partnered with local communities to create sustainable banking services in small towns through CreditCare. The model was a collaborative approach that saw local mutual banks partner with government to put services back into the community as a 'one-stop-shop'. This relied upon local businesses that were prepared to provide premises and staff who would undertake transaction processing and provide basic banking information on behalf of the mutual bank. The bank provided all of the equipment, staff training and cash delivery and paid the host business a fee based on use. However, the model was constrained as it did not cover any start-up costs, seed funding or ongoing operational cost contributions.

A successful outcome from this model requires the support and willingness of the mutual bank to continue to subsidise this agency arrangement as well as the collaboration of the local community and businesses. Local and federal governments are no longer participants following the end of funding for the program.

Heritage Bank – Community branches in regional Queensland

Toowoomba-based Heritage Bank operates seven Community Branches based on a model where Heritage Bank and the local community work together to establish a branch that retains banking services in the local area.

This model involves community members forming a community-based company made up of a range of investors from the local area to be the joint-venture partner in establishing the new branch with Heritage Bank. Heritage Bank operates these full-service branches but the community company plays a key role in helping to promote the Community Branch.

Once the initial investment is repaid, the branch becomes a true Community Branch with all future profits shared between Heritage Bank and the community company. The directors of the community company act in a voluntary capacity and their charter is to return their share of the profits back into the community. This occurs primarily through grants to support charities, sporting clubs and other deserving local organisations.

The success of the Heritage Bank model is evidenced by their first two Community Branches, Crows Nest, Queensland (population 2,200) and Nanango, Queensland (population 3,400) which have both been established for over 20 years. These two Community Branches alone, through staff employment and local service support, have contributed in excess of $22 million back into their local communities of which more than $11 million has been directly available for grants, sponsorships or capital projects that support their communities.

Community branches are a valuable opportunity to retain and expand banking services in regional areas, however the initial establishment cost, which must be met by local community investors, can be prohibitive – a community branch can cost $500,000 to establish. Government support for more community branches can offer an opportunity to grow this important network, by overcoming the significant funding hurdle facing community branch establishment. This could be achieved through the provision of interest free loans to the community for establishing a branch combined with acceptable loan repayment periods.

Solutions that help, not hurt

Avoiding adverse and unintended consequences

Some proposals put forward by stakeholders – while well-meaning – carry significant risks.

A Government-owned Bank

COBA notes some parties are advocating for Australia Post to obtain an ADI license to compete in the banking market. COBA does not support this proposal.

Competitive pressure on the big four banks does not need to come from a new participant or a taxpayer subsidised Government-owned entity. The banking market already has 80 Australian-owned full license holders. These entities, including COBA's 56 member institutions, already provide competitive pressure on the big banks with better products and services and a greater commitment to customer service, including substantial branch networks.

A Government-backed competitor, through an Australia Post Bank, will fundamentally disrupt the competitive banking landscape in Australia and lead to worse outcomes for the sector, particularly smaller institutions. The attractiveness of an Australia Post Bank with an explicit government guarantee for customer deposits would almost certainly reduce deposit flows to privately owned banks; this would have an out-sized impact on customer owned banks given their relatively small size in the marketplace and reliance on customer deposits as a funding mechanism, compared to the big banks.

With limited funding sources outside of deposits, customer owned banks would be forced to increase the price of their services (i.e. mortgages and other loans) or face reduced profitability leading to concerns over the viability of members in this sector, thereby reducing competition to the major banks.

Another critical issue to address in the establishment of an Australia Post Bank is competitive neutrality in regulation. Banks in Australia are heavily regulated by numerous government entities – questions over the government's neutrality in developing and enforcing regulation for a sector in which it also operates will always remain if an Australia Post Bank is established.

The international experience with government-owned banks is different – for example, KiwiBank and Post Bank in places like New Zealand or Japan are long established, with co-location and shared priorities going back decades. These institutions grew out of a fundamentally different operating environment than Australia.

KiwiBank in New Zealand has not remained part of NZ Post and was separated due to a lack of strategic alignment between the Bank and its owners.[13] The transformation of KiwiBank away from NZ Post has been ongoing, with falling customer demand for branch services and KiwiBank replacing some of its co-located NZ Post bank branches with standalone facilities in response to customer feedback. KiwiBank found that "our customer feedback is that they want a place where they can come in and sit down; they're not in an environment which is heavily transactional and busy and a thoroughfare. They want a nice place to have those conversations."[14]

Australia Post would need a significant capital injection from the Government to become a bank and would need to fundamentally change its structure, an upgrade that would take many years, with no guarantee of success particularly given that Australia Post is already facing headwinds – it will report a full financial year loss in 2022-23, the first since 2015, and its financial losses are projected to grow over the next decade.[15]

The cost and logistical challenges of skilling up LPO workers in remote locations to be able to offer banking services would be very high. Finding staff with the required skills and experience to operate

[13] https://www.beehive.govt.nz/release/kiwibank-remain-fully-kiwi-owned

[14] https://www.rnz.co.nz/news/national/376586/kiwibank-customers-appalled-by-branch-closures

[15] Postal Services Modernisation: Discussion Paper, Department of Infrastructure, March 2023

Australia Post Bank branches would also be very challenging in regional areas. The existing Bank@Post operations only require staff to undertake basic transactions and do not require LPO staff to be experts in banking service delivery and the significant regulatory and compliance requirements imposed on bank employees. In addition to these staff costs, infrastructure costs to get Australia Post outlets to an acceptable level where they can offer banking services would be extensive. Franchisees could be in the red for years before any return to profit, if at all.

Furthermore, the establishment of a bank which relies primarily on its branch network as a competitive advantage is likely to be problematic. The trend for consumers to move away from in-person banking to digital channels is well established and shows no signs of slowing, which would put an Australia Post Bank at a significant disadvantage – leaving it with a high fixed cost branch network and under-developed digital engagement channels. This is a recipe for long term unprofitability. This trend is also being replicated in Australia Post's existing network of post offices, with declining post office transactions already threatening the long-term viability of this model.[16] A Government-owned bank would still be required to operate in at least a semi-commercial manner to avoid wasting taxpayer dollars.

Finally, there are also privacy concerns. Banks are locations physically designed to facilitate the discussion of sensitive private financial matters with longer average transaction times. Australia Post offices are bedrocks of many communities, but they have a specific purpose for postage and retail. It's hard to discuss a mortgage when there is a queue of people wanting to buy stamps behind you.

Restrictions on branch closures

Any moves to impose regulatory obligations on the last bank branch in town – of which many COBA members already are – would herald a rush of banks to exit the market in local towns to avoid the regulatory impost of any community service obligation style requirements.

Customer owned banks are committed to the communities in which they operate and where their customer-owners live and work, however our members are also commercial businesses which need to make prudent business decisions in the collective interests of all customer-owners.

Imposing regulatory barriers on the last bank branch in town could lead to the perverse outcome of accelerating branch closures as banks look to avoid being the last one standing.

Supporting a diverse banking industry

Reducing the impact of regulation on competition in banking

An effective mechanism to support customer owned banks to better serve the communities in which they operate, particularly in regional areas where costs are high, is to reduce the impact of regulation on the sector.

Policymakers and regulators need to recognise and respond to the impact on competition, innovation, and consumer choice of constantly ratcheting up regulatory compliance costs.

The increasing diversion of scarce resources away from customer service and innovation towards meeting new compliance obligations hits challenger banks hardest and gifts a competitive advantage to major banks. The ultimate losers from this entrenched trend are all banking customers who need a vibrant, dynamic, and innovative retail banking market.

The sheer scope of regulatory compliance is a challenge for all banking institutions. However, smaller banks are subject to relatively higher regulatory costs due to the fixed cost factor which hampers their capacity to grow and expand into new markets. This view is not controversial. For example, the Australian Prudential Regulation Authority (APRA) has taken some steps with its new 'significant financial institution' regime which introduces more proportionate requirements for smaller entities.

[16] Postal Services Modernisation: Discussion Paper, Department of Infrastructure, March 2023

It is critically important to acknowledge the opportunity cost of imposing new regulatory requirements that force banks to divert scarce funds away from other priorities that are more relevant to their customers. This hurts consumers through less investment in better pricing and better service, including investment in bank branches.

While regulatory costs can be reduced through more targeted regulation,[17] the volume of regulatory change nevertheless continues to grow as the risk environment becomes more complex and dynamic.

To reduce the impact of regulatory change, and free up banks to invest in customer focused initiatives, the Australian Government should implement a new regulatory coordination and transparency mechanism (an Australian Regulatory Roadmap) similar to the United Kingdom's Regulatory Initiatives Grid. This roadmap would outline regulatory change across multiple financial services regulators to support better decision making from regulators, industry and other stakeholders (see **Appendix A**).

Customer owned banking as a different model

Our sector's main point of difference is our ownership model – our customers are also the owners of our institutions. This model removes the motive to undertake the 'profit before people' behaviour examined in the Banking Royal Commission. Our model better aligns the incentives of customers and their bank and reduces the risk that the bank's purpose will create issues that drive the need for more regulation, including through more and better investment in local communities across Australia.

Investor-owned banks currently dominate the banking market. This can lead to 'group think' given the dominance of the shareholder profit earning incentive. COBA's view is that diversity of business models is part of achieving more competition and innovation in both banking and the broader financial services industry. In this context, the customer owned banking sector and its customer owned ethos is a critical pillar of the Australian banking system.

Explicitly recognising this 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, particularly in regional communities where many COBA members are based (see **Appendix B**).

[17] See COBA's 2022 Policy Agenda page 7.

Appendix A: Regulatory roadmap proposal

A whole-of-system approach to regulatory change

In the UK Government's 2020 Budget, the Chancellor of the Exchequer announced a proposal to improve regulatory coordination through the introduction of the Financial Services Regulatory Initiatives Forum (FSRIF) and the Regulatory Initiatives Grid. The Financial Services Regulatory Initiatives Grid reveals in one document the regulatory pipeline over the next two years. This document allows the financial services sector and other stakeholders to understand and plan for the continual change that will have significant cost and operational impacts. FSRIF is a similar grouping of financial sector regulators to Australia's Council of Financial Regulators (CFR).

The Grid includes information on each regulatory initiative including:

- name, lead agency and links to public information on it,
- estimates of operational impact (higher impact, lower impact or unknown impact),
- any expected key milestone dates and any changes to these milestone dates,
- whether the initiative is a newly announced initiative, and
- whether the initiative is expected to have a consumer impact to flag to consumer organisations.

The Grid's development has been an iterative process with financial sector stakeholders and continual calls for feedback. For example, "In response to the feedback received in the Call for Evidence that consultations, data requests and new requirements all contribute to the administrative burden on firms, the Grid will include all publicly announced supervisory or policy initiatives that will, or may, have a significant operational impact on firms." The evolution of the Grid has been impressive and now includes an online dashboard and a spreadsheet.

While COBA greatly appreciates recent moves by regulators and policymakers to increase the transparency of their workplans,[18] these individual workplans without demonstrated consideration of broader regulatory change do not deliver the most efficient outcomes. COBA accepts that regulators do endeavour to coordinate this change, e.g., via discussion at the CFR of big ticket items, but industry needs transparency about this coordination.

Now in its sixth edition,[19] the Grid has continuously evolved over this period based on stakeholder feedback and FSRIF discussion. Recent updates have included: adding new regulator members and their initiatives, including a flag on consumer interest, including an annex of changes, developing an interactive online tool, and highlighting key examples of closely interconnected initiatives to help stakeholders more readily identify them.

Such a document and its underlying processes would be invaluable in the Australian context to help the financial sector navigate the current pace, volume and complexity of change.

For more information, please see COBA's 2023-24 Budget Submission.[20]

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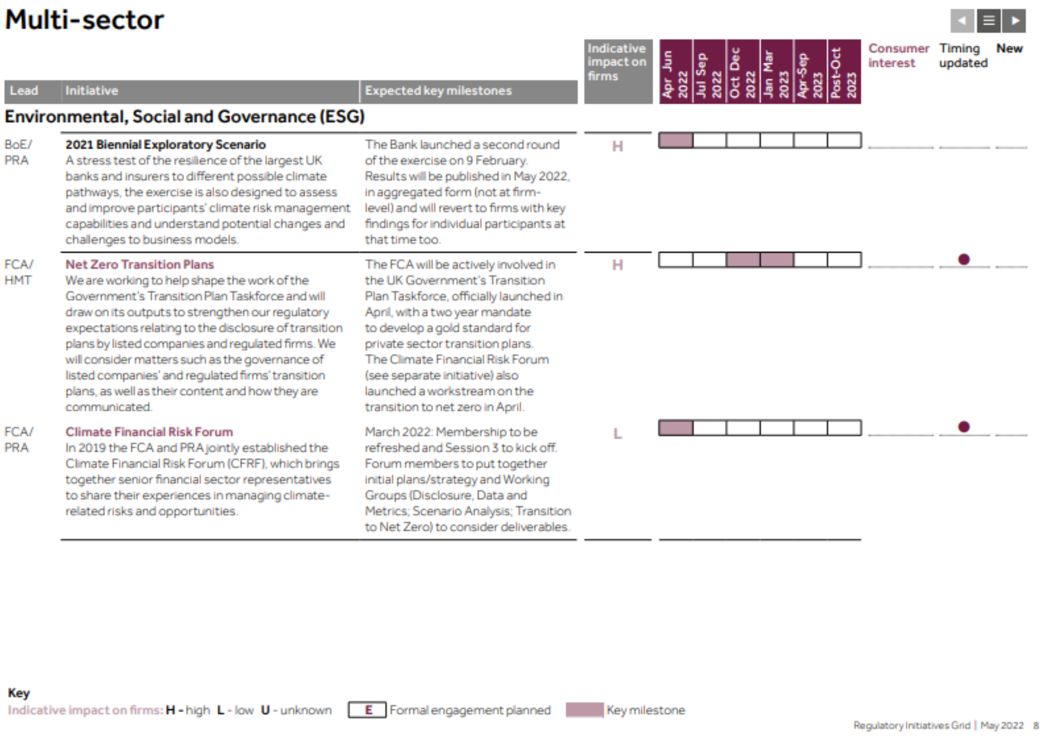
[18] Example: see APRA's Policy and Supervisory Priorities, ASIC's Regulatory Developments timetable and Treasury's Royal Commission roadmap.

[19] https://www.bankofengland.co.uk/report/2023/sixth-edition-of-the-regulatory-initiatives-grid.

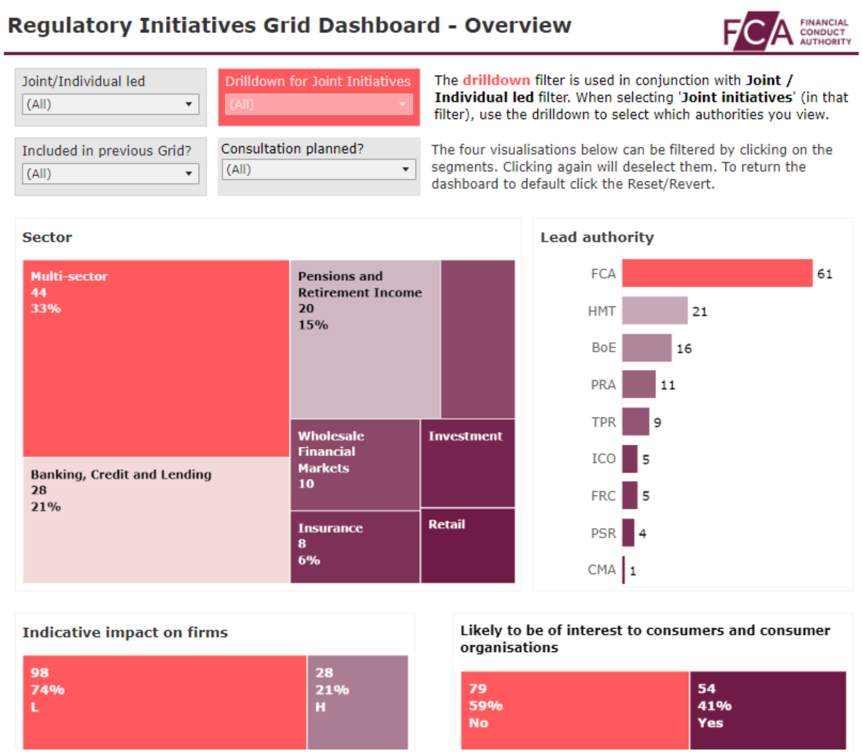
[20] https://www.customerownedbanking.asn.au/advocacy/policy-submissions/regulatory-roadmap-pilot

UK Regulatory Initiatives Grid



Multi-sector

Lead	Initiative	Expected key milestones	Indicative impact on firms	Consumer interest	Timing updated	New
Environmental, Social and Governance (ESG)						
BoE/ PRA	**2021 Biennial Exploratory Scenario** A stress test of the resilience of the largest UK banks and insurers to different possible climate pathways, the exercise is also designed to assess and improve participants' climate risk management capabilities and understand potential changes and challenges to business models.	The Bank launched a second round of the exercise on 9 February. Results will be published in May 2022, in aggregated form (not at firm-level) and will revert to firms with key findings for individual participants at that time too.	H			
FCA/ HMT	**Net Zero Transition Plans** We are working to help shape the work of the Government's Transition Plan Taskforce and will draw on its outputs to strengthen our regulatory expectations relating to the disclosure of transition plans by listed companies and regulated firms. We will consider matters such as the governance of listed companies' and regulated firms' transition plans, as well as their content and how they are communicated.	The FCA will be actively involved in the UK Government's Transition Plan Taskforce, officially launched in April, with a two year mandate to develop a gold standard for private sector transition plans. The Climate Financial Risk Forum (see separate initiative) also launched a workstream on the transition to net zero in April.	H		●	
FCA/ PRA	**Climate Financial Risk Forum** In 2019 the FCA and PRA jointly established the Climate Financial Risk Forum (CFRF), which brings together senior financial sector representatives to share their experiences in managing climate-related risks and opportunities.	March 2022: Membership to be refreshed and Session 3 to kick off. Forum members to put together initial plans/strategy and Working Groups (Disclosure, Data and Metrics; Scenario Analysis; Transition to Net Zero) to consider deliverables.	L		●	



Source: https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid

Appendix B: Corporate diversity proposal

Corporate diversity to promote the customer owned model

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.

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 customer owned banking model provides a powerful counterpoint and difference to the investor-owned banking model. For examples, please see our recent KPMG Sector impact assessment of Customer Owned Banking in Australia.[21]

It is critical that our counterpoint is recognised and all regulator staff who develop policy understand the model to ensure that policy can promote a diversity of business models in financial services.

The systemic benefits of greater diversity include:[22]

- (i) Systemic stability by virtue of having institutions that manage risks differently (and through the lower risk-appetite of mutual and co-operative banks).
- (ii) Enhanced competition via different business models.
- (iii) Mutual and co-operative banks tend to be less prone to short-termism via the pressure of maximising shareholder value over a short time horizon.
- (iv) Mutual and co-operative banks are more likely to be locally based.

The *Financial Services and Market Act 2000* (UK) (FSMA) requires UK regulators (PRA and FCA) to consider "mutual societies" (i.e. more broadly mutuals) through their regulatory principles.[23]

> 3B Regulatory principles to be applied by both regulators
>
> (1) In relation to the regulators, the regulatory principles referred to in section 1B(5)(a) and 2H(2) are as follows—
>
> (f) the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons (including different kinds of person such as mutual societies and other kinds of business organisation) subject to requirements imposed by or under this Act;

[21] KPMG Sector impact assessment of Customer Owned Banking in Australia.

[22] Measuring corporate diversity in financial services: a diversity index (2022), p.9.

[23] *Financial Services and Market Act 2000* (UK) s 3B.

Additionally, the FSMA[24] requires regulators to provide opinions on whether proposed rules will have a "significantly different" impact on mutual societies compared to others.

138K Consultation: mutual societies

> (1) Subsection (2) applies where a regulator proposes to make a rule ("the proposed rule") which would apply both to—
>
> > (a) authorised persons which are mutual societies, and
> >
> > (b) other authorised persons.
>
> (2) The regulator must prepare a statement setting out—
>
> > (a) its opinion whether or not the impact of the proposed rule on persons within subsection (1)(a) will be significantly different from its impact on persons within subsection (1)(b), and
> >
> > (b)if so, details of the difference.

An example of one of these statements is below in relation to the PRA's recent Strong and Simple Framework consultation.[25]

PRA Impact on mutuals

> 1.18 The PRA has a statutory obligation to give an opinion on the impact of its proposals on mutual societies (s138K FSMA), hereafter 'mutuals', which refers to building societies, friendly societies, co-operative, and community benefit societies. For the purpose of this Consultation Paper (CP), all references to 'mutuals' refer to building societies, which are the only group of mutuals within the proposed scope of application as set out in Chapter 2 of this CP.
>
> 1.19 FSMA requires that the PRA assess whether, in its opinion, the impact of the proposed rules on mutuals will be significantly different from the impact on other firms, and if so, provide details of the difference. The PRA anticipates the proposed scope for the simpler regime would capture a significant number of building societies, which would benefit from a simpler prudential regime. For the Net Stable Funding Ratio proposals, the proposed approach may require mutuals to calculate the Retail Deposit Ratio (RDR) in addition to the funding limit present in the Building Societies Act (BSA). The PRA considered whether it would be more proportionate not to apply any funding standard to such firms, given this existing limit. However, the PRA decided to consult on applying the RDR framework to mutuals as the BSA funding limit is designed to place a restriction on the nature of mutual societies, and not as a mitigant for funding risk. As such the BSA limit does not include all sources of funding in its calculation. For all other proposals, the PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

While Australian regulators have positive steps regarding mutuals over recent years, embedding it into their mandates will ensure accountability as well as longevity in these considerations. Embedding the knowledge of this valuable alternative model into regulator decision-making will benefit the broader population through greater diversity in financial services offerings.

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[24] *Financial Services and Markets Act 2000* (UK), s 138K.

[25] CP4/23 - The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms.