



31 March 2014

John Lonsdale  
Secretariat to the Financial System Inquiry  
100 Market Street  
Sydney NSW 2000

email: [john.lonsdale@fsi.gov.au](mailto:john.lonsdale@fsi.gov.au)

Dear John

### **Submission to the Financial System Inquiry**

Firstmac is Australia's leading non-bank home loan lender with a comprehensive business that undertakes all loan credit assessment, loan processing and documentation preparation, loan portfolio management and treasury management services.

Since 2002 Firstmac has funded loans in excess of \$11 Billion and currently has a loan portfolio in excess of \$5.0 Billion. Firstmac's relevance to the Australian home loan market can be seen by the fact that between 2008 and 2012 the Australian Government supported its funds raising endeavours by way of direct investment in Firstmac's capital market bond issuance.

Firstmac has more recently evolved from being a wholesale funder of home loans to being a diverse financial services house with a strong retail brand comprising home loans and a managed investment fund.

The most natural progression for the Firstmac Group from today is to transition to an Approved Deposit Taking Institution (ADI). This would not only place Firstmac on a more equal footing with its market competitors but would also deliver to the consumer the benefits of greater deposit price competition, product innovation and service. The introduction of non-bank financial lenders revolutionised the home loan market and heralded a new era of greater competition and cheaper consumer funding, and there is nothing to suggest that this could not be replicated in general retail banking.

The number of ADIs has continued to decline over the past ten years largely driven by an overweight emphasis placed by regulators on system stability to the detriment of competition. Consolidation in the industry has been actively encouraged.

In October 2008, the Treasurer Wayne Swan announced additional funding of A\$83 m for APRA to speed up processing of applications seeking ADI status. However, in the aftermath of this announcement and up until the present time, no new licences have been issued. In actual fact the number of ADIs has continued to decline.

The Firstmac Group, 100% privately owned, is restricted in applying for an ADI license due to the cap on individual ownership at 15%. Ownership of ADIs is governed by the Financial Sector (Shareholdings) Act 1998 (the FSSA) which limits shareholdings of an individual shareholder or group of associated shareholders in an ADI to 15% of the ADI's voting shares. No other country in the world imposes this ownership restriction which effectively acts as a barrier to entry for groups such as Firstmac wishing to transition.

We understand that APRA views the ownership limitation as a strength, due to the fact that it requires all substantial shareholders to be able to demonstrate that their involvement in the ADI represents a long-term commitment and that they have the capacity to contribute additional capital, if required.

This approach is however contrary to that applied to mutual credit unions and building societies that are unable to raise capital as their owners are members rather than shareholders. Despite talk of this sector forming the fifth pillar in the banking sector, the inability of the mutuals to raise capital to fund growth has largely eliminated them as a competitive force. In a post Global Financial Crisis (GFC) environment capital is more important than ever. Without access to capital the number of ADIs will continue to decline as a result of the need to consolidate to survive.

True competition will not come from the existing ADI sector just as it wasn't the ADIs that drove home loan competition in the 1990s.

The few non-bank home loan lenders in Australia are all owned either by individual entrepreneurs or small groups of entrepreneurs. The banking act and its shareholder limitations is stifling much needed competition in the banking sector. It is the entrepreneurs that drive innovation and reduce consumer costs in the market place through the introduction of technological advances that drive down cost of delivery, improve service and provide greater choice for consumers.

APRA has demonstrated its capabilities as a leading global regulator. The regulator is more than capable of extending its regulatory oversight to the non-bank home loan lenders that wish to also compete in the retail deposit market.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Kim Cannon', with a long horizontal flourish extending to the right.

Kim Cannon  
Managing Director, Firstmac Group