



Response to the Financial System Inquiry Interim report

22 August 2014

Our key message

Banking in Australia in the future needs to be:

- **transparent**, to inform and protect customers
- **diverse**, to be innovative and resilient, to enable new business models, and to tackle social and economic issues beyond profitability
- **sustainable**, to have products and services that account for changing economies, markets, customer needs and technologies, as well as the importance of protecting natural capital.

Customer owned financial institutions already uphold these principles. And we look to the Australian Government to adopt policy and regulatory settings that encourage the principles in practice across the whole banking sector.

Read more about us in appendix A.

Note: **bankmecu** is a member of the Australian Bankers' Association and the Customer Owned Banking Association. We contributed to their respective inquiry submissions.

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Introduction

In **bankmecu**'s full submission to the Financial System Inquiry, we offered a values based premise to underpin how banks take on the challenge of embracing innovation to renew for the future.

Our submission was based around the following three principles, which can strengthen banks' relationships with all their stakeholders (shareholders, customers, community and the environment) for both economic and social prosperity:

Principle 1. Banks need to be transparent.

Principle 2. The banking sector needs to be diverse.

Principle 3. The banking sector needs to be sustainable.

bankmecu has now considered the interim report issued by the Financial System Inquiry (FSI). We have also considered and contributed to submissions in response to the interim report by the Australian Bankers Association and the Customer Owned Banking Association (COBA).

This brief submission provides additional comment on two areas related to these principles and in response to the interim report.

Principle 1. Banks need to be transparent.

Transparency is critical to banks. It helps protect consumers, and it drives an inclusive approach to governance. In our submission we identified three areas that required improved transparency:

1. better educating and informing consumers
2. identifying banks' ownership of sub-brands
3. banks' reporting on their sustainability.

Transparency and vertical integration

As a result **bankmecu** welcomes and supports the comment in the Interim Report that:

Consumers should have access to the information, advice and education necessary to make effective decisions about products and services that help them meet their financial needs. Informed consumers can better stimulate effective competition, driving system efficiency.

However, we feel this statement and the associated commentary falls short in one respect, namely, that there should be clear disclosure to consumers about who owns the sub-brand or subsidiary they may be dealing with.

We are not suggesting that use of sub-brands, subsidiaries or the vertical integration into mortgage broking or financial planning by the major banks and other institutions is an illegitimate strategy that should be restricted.

Rather, we are seeking to ensure that consumers are informed about who they are really doing business with. In a competitive market this allows consumers to be fully equipped to make decisions about the level of independence of the advice they are receiving.

This is also material in when consumers are considering the application of the Financial Claims Scheme (FCS) and its operation across sub-brands. Specifically because the FCS guarantees deposits up to \$250,000 per account holder, per ADI, which means that consumers with deposits adding up to more than \$250,000 spread across sub-brands (For example, with Westpac and its St George, BankSA, RAMS and Bank of Melbourne brands) are not provided with the same level of depositor protection that would apply if their funds were deposited across different ADIs.

Principle 2. The banking sector needs to be diverse.

A diverse banking sector is a strong one that contributes to a robust economy. It contains a diversity of institutions, in terms of size, approach and business model.

As our submission argued, while a large number of ADIs and banking products are available in the Australian market, we have an oligopoly that holds approximately 80 per cent of banking assets and an 85 per cent share of the home loan market, and enjoys a significant funding advantage due to its 'too big to fail' status.

Risk Weighted Assets

bankmecu therefore welcomes the commentary in the Interim Report that:

The application of capital requirements is not competitively neutral...banks that use IRB risk weights have lower risk weights for mortgage lending than smaller ADIs that use standardised risk weights, giving the IRB banks a cost advantage.

This is a welcomed acknowledgment and we encourage the Inquiry to further investigate and recommend an option or options to eliminate, or at least significantly narrow, the gap in capital requirements between IRB and standardised ADIs.

We note the options to achieve this, the merits of these and the impact of each from a small ADI perspective have been discussed at length in the COBA response to the interim report.

We are however concerned that any recommendation to deal with this issue must be available to all ADIs and be equitable. For example, on its own, assisting regional banks to achieve IRB status will further disadvantage small ADIs that do not have the resources to implement the same systems.

Appendix A: More about bankmecu

bankmecu is a new kind of bank in Australia—a customer owned bank. This means we put our customers first because they also own the bank.

What we do

We provide our customers with value for money, responsible banking, insurance and financial planning solutions, as well as superior service in a profitable and sustainable way.

We are Australia's strongest customer owned bank. That success has grown from a conservative and more responsible approach to banking, and from our customers' strong support. We listen to our customers, and their attitudes and values help guide how we decide to invest their money in the community, environment and more responsible banking products and services.

We offer our customers:

- exemplary personal service.
- better interest rates and lower fees. Since 2003, our customers have been collectively better off banking with us than with the major four banks (Cannex report 2003–12).
- a more responsible approach to banking. People want to bank with someone they can trust with their money and trust to act ethically.
- banking products and services that help our customers achieve their financial goals while taking steps to live more sustainably.

In 2010 *Ethical Investor* recognised us as Australia's most sustainable small company of the year.

Why we matter

We are different from investor owned banks because we are customer centric. So, we answer to a different philosophy, and we align our values with our stakeholders' expectations of sustainable economic wellbeing.

We genuinely seek to integrate a sustainable approach into everything that we do, from our organisational culture, to our operations and our innovative products and services. This approach means ensuring we meet our stakeholders' economic, social and environmental performance expectations. It also means we look to protect, sustain and enhance the financial, human and natural capital needed to develop **bankmecu** into the future.

Yet, we don't see responsible banking as a balancing act—we don't trade off financial discipline and profitability to achieve strong community and environmental outcomes. We run a lean and efficient business and we have strong profits as a result.

But our decision making can take in a time horizon longer than a quarterly or half yearly profit reporting period. And, being customer owned, we can focus on delivering value without taking excessive risks or looking for ever-increasing returns for investor shareholders. In

other words, we can create shared value, including profit, because we generate positive community and environmental outcomes rather than thinking of them as incidental.

What we envision ...

We want to be the pre-eminent customer owned banking brand in Australia. We want to be considered a challenger brand representing thought leadership in responsible banking. So, we are always looking to articulate what we stand for.

This submission reflects our objective of advocating our values in a relevant way for a modern banking environment. In particular, it highlights our concern that global environmental and economic issues mean Australia needs a broader measure of 'progress' and prosperity than economic growth alone.

... and seeing it in action

For us, the key to enacting our vision is to unify our business strategy and our values.

An example is our Community Investment Program, whereby we use our profitability to create value for our community sector customers and the communities they serve. Under the program, we allocate up to 4 per cent of annual after tax profit to invest in community related initiatives. Over the years, this program has invested in science, education, social housing, community resilience and sustainability. It has also helped develop the financial and governance capabilities of many not-for-profit organisations serving our nation.

We live our values

- We treat our customers with dignity and respect.
- We value, encourage and support our employees.
- We operate ethically and with integrity.
- We apply prudent financial and business practices.
- We are economically, environmentally and socially responsible.

We also uphold the cooperative principles of mutuality

bankmecu proudly supports the following principles of mutuality, shared by all financial cooperatives around the world:

- open and voluntary accounts
- democratic control
- non-discrimination
- service to customers
- building of financial stability
- ongoing education
- cooperation among cooperatives
- social responsibility.