

20 April 2018

Manager
Banking and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: bear@treasury.gov.au

Dear Sir/Madam

Re: Treasury consultation on Banking Executive Accountability Regime – Size of an Authorised Deposit Taking Institution

CUA welcomes the opportunity to provide a submission on the proposed legislative instrument for the BEAR. As a credit union, CUA will be subject to the new regime and while we recognise the importance of strong executive accountability standards for the banking sector, we have concerns about the proposed resident asset thresholds which will be used to define Small and Medium sized ADIs.

About CUA

CUA is Australia's largest and oldest credit union, with a network of more than 50 branches spanning five states and territories (Queensland, New South Wales, the ACT, Victoria and Western Australia). CUA provides financial, health and general insurance solutions to around 500,000 Australians through our member-owned CUA banking business and our wholly-owned health insurance subsidiary CUA Health.

As a mutual ADI, CUA's members are our owners, with each member having an equal share in the organisation. Our profits are reinvested into our business, to grow our business and invest in the technology, digital channels and member experience improvements that directly benefit our growing member base. CUA has total consolidated assets of around \$13.4 billion and last year (FY17), CUA recorded a Net Profit after Tax of \$55.87 million. While this was a strong result for CUA, our assets and profits are well below those of the much larger regional banks, and retained earnings are currently our only source of capital.

CUA has been formed through the amalgamation of 171 credit unions and mutuals over the past 72 years – our roots extend back to Australia's very first credit union, the Catholic Thrift and Loan Cooperative, founded in Sydney in 1946.

We have recently endorsed a refreshed 5-year strategy, which is built around four key pillars – providing great experiences; attracting more members; scalable technologies and processes; and being an adaptable organisation. Underpinning everything we do are a strong culture anchored by our Purpose

– *members working together through life's changes for mutual good.* Connecting with, and supporting our communities, is part of our DNA, reflecting the values by which we operate the business. The opportunity we have to positively impact society drives our team and decision-making every day.

How the current BEAR thresholds will adversely impact CUA

Using the calculations in the draft legislation, CUA currently has total resident assets of **approximately \$12.87 billion dollars**, which would push CUA marginally into the proposed “Medium” ADI category. We understand this would make us one of only two credit unions/ mutual ADIs – out of a total of 54 credit unions in Australia – that would be marginally above the \$10 billion threshold and would therefore be classified as Medium ADIs for the purposes of the BEAR legislation. This is despite there being no greater risk in CUA’s business than there is for the credit unions that are below the \$10 billion threshold and fall into the Small ADI category.

We agree with the submission by our industry body, the Customer Owned Banking Association (COBA), that a threshold of \$10 billion for an ADI to be considered Medium ADI threshold is inappropriate and must be raised, to ensure credit unions and mutual ADIs are not captured in the Medium category.

A “true Medium ADI” is one that is not a Big 4 bank, but still has significant complexity and business risks. CUA is predominantly a residential home lender, with this accounting for more than 90% of our business. CUA’s funding base is also relatively simple, with retail deposits from our members accounting for 72% of CUA’s total funding (wholesale funding accounts for the balance). Our smaller scale, lower lending volumes and relatively simple business structure means we operate a much less complex business than other Medium ADIs such as Macquarie Bank, HSBC or Suncorp.

On this basis, we support COBA’s view that a threshold of around \$20 billion to \$25 billion for a Medium sized ADI is appropriate, and ensures that all mutual ADIs are treated equitably as Small ADIs.

Without a review of the asset thresholds, we are concerned that the \$10 billion threshold to be considered a Medium ADI would have detrimental impacts for CUA including:

Remuneration & ability to attract/ retain talent

As a Medium ADI, Executives would have a larger portion of their income withheld – up to 20% of total remuneration, compared to only 10% of total remuneration at a Small ADI. This would adversely affect CUA’s ability to attract talented people to work at CUA, when we are competing against similar sized mutual ADIs that would have a lower proportion of deferred remuneration as Small ADIs.

This competitive disadvantage to CUA in attracting high calibre executives would be even more pronounced when competing against larger “true” Medium ADIs. While they would be subject to the same proportion of deferred remuneration as CUA, reflecting the higher risk they carry, they also have much greater capacity to pay higher salary packages to key personnel, due to their significantly larger businesses (with up to \$87 billion more in assets than CUA).

Maximum penalties:

We are concerned that mutual ADIs that are at the very low end of the Medium ADI category, such as CUA, would be subject to much higher maximum penalties in the event of a breach. The maximum

penalty for a Medium ADI is 250,000 penalty units (\$52.5 million), or 5 times higher than the maximum penalty for a Small ADI of 50,000 penalty units (\$10.5 million). This maximum fine for a Medium ADI is the equivalent of CUA's annual Net Profit after Tax, which is a disproportionate penalty when you consider other Medium ADIs have annual profits for their banking operations ranging from \$300 million to more than \$500 million. Similar to our point above, this means we would be disadvantaged relative to other similarly sized mutual ADIs that are in the Small category, even though there is no material difference in either our company structure or the inherent risks in our business, when compared to other large credit unions with just under \$10 billion in assets.

Potential for greater compliance burden

CUA notes COBA's comment that this will be the first time that ADIs are classified as Small, Medium and Large in legislation. CUA shares COBA's concern that these definitions, once enshrined in legislation, may also be used in the application of other legislative or regulatory changes for banks. We have already seen this through the application of Comprehensive Credit Reporting (CCR), with these same definitions used to require the major banks to implement CCR ahead of other Small/ Medium sized ADIs.

Our concern is that the differences between the risks inherent in the business model of CUA, as a member-owned organisation, are not recognised by these arbitrary asset-based definitions. As such, CUA may be subject to higher standards and regulatory or reporting burdens in the future, creating an unjustified additional administrative burden. For an organisation of our size, any additional administrative burden is challenging to resource given the much smaller risk, compliance and legal teams within CUA, compared to other Medium sized ADIs (eg. regional banks). This typically results in resources (both financial and staffing) needing to be diverted from other member focused activities and initiatives, and this adversely impacts our ability to compete.

As such, the only appropriate definition is one that sees all member-owned, or mutual, ADIs falling into a single category as Small ADIs, where we are all subject to the same remuneration provisions, penalties, and any other potential future compliance or regulatory requirements.

Thank you again for the opportunity to contribute to this consultation. If you have any questions on our submission or wish to discuss any of these points in more detail, please contact CUA's Chief Risk Officer Megan Readdy on Megan.Readdy@cua.com.au or (07) 3552 4046.

Yours sincerely,



Rob Goudswaard
Chief Executive Officer
CUA