

14 August 2017

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

Email: lenderrules@treasury.gov.au

Dear Sir/Madam

Financial Stability Risks – Non-ADI Lender Rules July 2017

Thank you for the opportunity to provide Heritage Bank's submission on the Non-ADI Lender Rules consultation paper.

Please see our submission attached.

Yours sincerely



Peter Lock
Chief Executive Officer
Heritage Bank Limited

Financial Stability Risks – Non-ADI Lender Rules

HERITAGE BANK SUBMISSION

Heritage Bank

Heritage Bank ('Heritage') is Australia's largest customer-owned bank and one of the three largest Mutual ADIs in the country. Heritage's history stretches back 142 years to its beginnings as a building society founded in Toowoomba in 1875, making it one of the oldest Mutual financial institutions in the country. Heritage has grown to more than \$9 billion in assets, 300,000 customers, 800 staff (including 470 in the Toowoomba region) and 61 branches across southern Queensland. Heritage is a national player in the mortgage market; having sourced loans from brokers for twenty years, and now has customers around Australia sourced via a network of mortgage broker partners.

In addition to our traditional broker and aggregator relationships, Heritage has also formed long-standing relationships with non-ADI lenders within the Australian Market. These relationships allow us to continue to offer options to our customers where either; we don't offer a specific product or service, or perhaps, where our traditional products or criteria do not match our customers' individual circumstances.

Introducing more competition

The Australian banking sector needs greater diversity as a prudent approach to diffusing systemic risk associated with the concentration of retail banking services into four dominant players. Banking consumers need broader choices to stimulate competition and innovation.

Heritage Bank asserts that the Mutual ADI sector offers a viable and competitive alternative to Australian banking customers. Likewise, the non-ADI lenders are also becoming more active, but are not necessarily subject to the same level of regulation and reporting as lending ADIs and do not have their ability to compete constrained by a number of factors that impede the Mutual sector's ability to effectively fund innovation and growth. Many of these issues are being addressed by recent Treasury announcements, reviews and proposed changes to existing regulation. On the whole, Heritage is supportive of these various moves and sees the various proposals as a move to a levelling of the playing field, promoting more accountability in the banking sector and introducing better oversight of all participants in the lending market. Ultimately, this provides for a stronger, safer sector that continues to build consumer confidence.

Regulatory Compliance

As a Mutual ADI, Heritage is regulated in the same manner as all ADIs. We work cooperatively with all regulators and recognise the privileged role we play in the economy and our communities. Whilst we are a large bank within the Mutual sector, we are a small bank within the overall financial sector and increased regulation and compliance, designed in the main for larger players, adds an increasing cost and regulatory burden to our business.

Just as we have agreed and supported changes designed to restore faith in the broader financial industry, we do recognise this comes at a cost. In a similar manner, we support the proposed powers for APRA over the non-ADI lenders and note that while specific concerns from operators will be raised, the building and retaining of consumer confidence in any lending enterprise must be APRA's dominant concern.

We comment specifically:

Amendments to the Banking Act

Heritage recognises significant and unchecked growth in the non-ADI lender market has the potential to undermine other marco controls that APRA and other regulatory bodies may wish to exercise. It further recognises that such unchecked growth and potential failure of operators may lead to unintended consequences for both market participants and consumers. In these circumstances, affected parties may hold some expectation of regulatory oversight.

Heritage supports the proposed amendments to the Banking Act. We concur with the intent of the changes to grant APRA the power to address financial stability risks that may be posed by the lending activities of non-ADI lenders.

Amendments to the Financial Sector Act

Heritage recognises the need for participants within the financial sector, and in particular the consumer and home finance markets to have strong data capture and data analytic capability. Heritage sees the potential of the non-ADI lender market to grow significantly. It therefore sees these proposed changes as prudent measures of the regulator to ensure capture of relevant data to enable accurate interpretation of macroeconomic trends.

Heritage supports the proposed amendments to the Financial Sector (Collection of Data) Act 2001.

Conclusion

Heritage Bank has a proud history and a strong relationship with its regulators. We believe the proposed changes to both Acts will move to further strengthen the Australian Financial sector and provide further confidence and ultimately competition and better access to lending for all Australians.