

4 November 2019

Ms Alison Bliss  
General Manager - Data Analytics  
Australian Prudential Regulation Authority  
Sydney NSW 2001

Via email: [dataanalytics@apra.gov.au](mailto:dataanalytics@apra.gov.au)

Dear Ms Bliss

**Proposed improvements to the Quarterly Authorised Deposit-taking Institution Property Exposures (QPEX)**

COBA welcomes the opportunity to comment on APRA's proposed improvements to the Quarterly ADI Property Exposures publication.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has \$121 billion in assets and 4 million customers. Our sector is defined by the concept of mutuality, where our customers are owners and members of our institutions. This results in a different business model and different incentives compared to investor-owned banks. As of 1 November 2019, COBA's member institutions include:

- 37 credit unions;
- 25 mutual banks; and
- 1 mutual building society.

There is no difference between a mutual bank, credit union or mutual building society for statistical or regulatory purposes. APRA's supervisory approach reflects this, as all these mutually owned institutions are regulated by APRA in the same manner irrespective of their institutional brand.

COBA supports APRA's proposal to revamp its quarterly publications and believes these changes will significantly improve the use of these publications for public policy and benchmarking purposes.

**COBA recommendations:**

- 1. Include a 'mutual ADI' series in the QPEX and all other relevant statistical publications to ensure that they remain valuable for all stakeholders. This series should be based on the use of a 'statistical' definition of a "mutual entity".**
- 2. Ensure that this 'mutual ADI' series has the same coverage as all other series to ensure that there are no information gaps for the customer owned banking sector.**

Suite 403, Level 4, 151 Castlereagh Street,  
Sydney NSW 2000

Suite 4C, 16 National Circuit,  
Barton ACT 2600

[Customerownedbanking.asn.au](http://Customerownedbanking.asn.au)

## Clear value in APRA's revamped publication

COBA strongly supports APRA's proposed improvements to the QPEX publication. This will provide a much more detailed data set for industry stakeholders to use for benchmarking and policy-making purposes. These revised APRA statistical publications will have significant value to COBA and our COBA members.

The revised QPEX will contain more detailed aggregated data on residential property exposures and new housing loans funded than has previously been published. This detail is not available in other publications such as the QADIP and the Monthly ADI Statistics. The public disclosure of this data at an aggregate level will provide a 'benefit' to offset some of the costs of ADIs' reporting against the underlying ARF 223 Residential Mortgages forms.

## Clear need for a mutual ADI sector series for public policy & benchmarking purposes

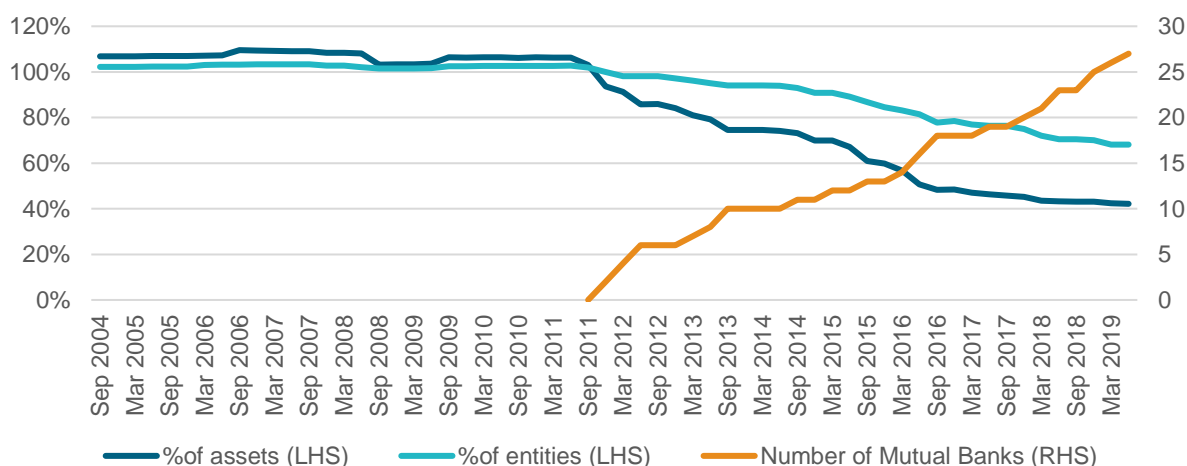
COBA believes there is a clear need for a 'mutual ADI' subsector series. A separate series will provide policymakers the ability to compare statistics against the broader ADI sector and the major banks<sup>1</sup>. This approach aligns with the existing 'mutual ADI' series in the current APRA QADIP.

Mutual ADIs exhibit significantly different characteristics than their investor-owned banking peers. This is due to their ownership structure, market niches and respective sizes. Therefore, there should be a separate series for policy-making and benchmarking purposes. The characteristic likely to separate these would be 'ownership structure'.

COBA and other stakeholders would use this statistical series to benchmark against the major bank series, and the all ADIs series. Given our sector's individual members' size, this would also serve as a proxy for small ADIs.

Being mutual ADIs, all credit unions, mutual building societies and mutual banks have a customer owned or mutual structure as their business model as well as having closely aligned values. There may be small differences due to historical or regional factors but being a customer (member) of any mutual ADI provides broadly the same benefit, i.e. the customer-centric focus. Mutual banks are ADIs that were formerly credit unions or building societies but have rebranded and retained their mutual structure. For statistical purposes, COBA sees no difference between a mutual bank, credit union or mutual building society.

### Mutual ADI sector coverage of the CUBS series<sup>2</sup>



<sup>1</sup> Tables 1(a-c) and Tables 4(a-c) in the mock-up publication.

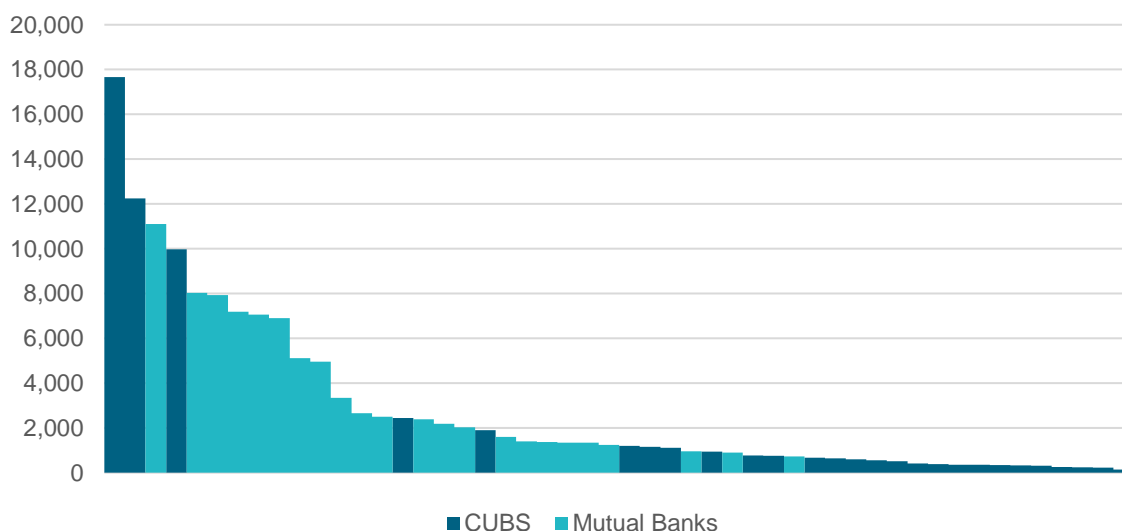
<sup>2</sup> Note where the percentage is over 100% is due to non-mutual building societies in the CUBS series.

The proposed QPEX includes a combined 'credit union and building societies' (CUBS) series (Tables 4abc) containing institutions identifying as credit unions or building societies. The CUBS series is diminishing in importance for sector-wide analytical purposes. This is due to more credit unions and mutual building societies becoming mutual banks.

COBA expects this trend to continue with 6 new mutual 'banks' since the Government passed legislation<sup>3</sup> in May 2018 removing barriers to the use of 'bank', particularly for smaller CUBS. This is an increase to a rate of around 1 new mutual 'bank' every 3 months compared to 1 every 4 months before this change. There are now 27 mutual banks in Australia, which comprise 30 per cent of mutual ADIs and 60 per cent of assets. The CUBS series no longer exists as a meaningful proxy for our sector.

This series is also concentrated given that around 70 per cent of its assets come from three of the four largest mutual ADIs who are credit unions or building societies (see Graph B). As a measure of concentration, the CUBS series has a Herfindahl–Hirschman Index measure<sup>4</sup> of 1820 indicating moderate concentration (compared to 709 for mutual banks and 548 for mutual ADIs). A concentrated series is less likely to be useful for benchmarking purposes (particularly as it is likely to be less representative of the tail below).

#### *Individual mutual ADIs by asset size<sup>5</sup>*



If more institutions rebrand as 'banks' there will be a decrease in the various balance sheet & flow metrics under the CUBS series, despite the mutual sector (mutual ADIs) growing.<sup>6</sup> This has occurred in the Quarterly ADI Performance Statistics (QADIP) as well as the previous QPEX publication. This may create false perceptions about the growth and performance of the mutual ADI sector.

#### **Defining mutual ADIs in a post-RG 147 world**

COBA recognises that a key part to creating a mutual ADIs series is drawing a boundary with an objective definition. There is currently no specific definition of a mutual ADI. Intuitively, a mutual ADI is an ADI whose main purpose is to provide services to its customers rather than to provide returns to a separate group of shareholders. The ADI boundary is straightforward. A mutual definition is required.

<sup>3</sup> Treasury Laws Amendment (Banking Measures No. 1) Bill 2017

<sup>4</sup> COBA estimates based upon individual institution assets from the APRA's Monthly ADI statistics publication (August 2019)

<sup>5</sup> Based on APRA's Monthly ADI Statistics

<sup>6</sup> Mutual ADI sector assets have grown at over 6.7% per year since 2014 despite the assets for credit unions decreasing by 4.7% per year over this period.

COBA considers that this could be based upon the definition in the Corporations Act of a 'mutual entity' (ME) introduced in May 2019.<sup>7</sup> This replaces the previous definition used in APRA's publications based upon the now-defunct (for practical purposes) Regulatory Guide 147 *Mutuality – Financial institutions*. This ME definition is a simpler form of the RG147 governance test (conceptually, one member one vote) and does not include an economic test.

While the ME definition is designed for capital raising purposes it is likely most mutual ADIs would be compliant with this definition. This is due to the definition being largely in line with the existing RG147 definition which notes: "A membership must only allow the person who holds it to have one vote. This does not prevent a person who holds a membership in more than one capacity from having one vote for each membership (for example, an individual membership and a joint membership with another person.)"

However, COBA notes that strict adherence to this ME definition is not necessarily required unless an ADI seeks to take advantage of the Corporations Act provisions based upon this definition. There may be minor technical inconsistencies with current constitutions of mutual ADIs and this definition. COBA considers that this interpretation should be for 'statistical' rather than legislative purposes. This approach would allow APRA to transition those that were previously covered by the existing mutual ADI definition onto the revised definition.

#### *Corporations Act definition*

### **51M Mutual entities**

- (1) A company is a **mutual entity** if:
  - (a) the company is registered under this Act; and
  - (b) the company's constitution provides that a person has no more than one vote at a general meeting of the company for each capacity in which the person is a member of the company.
- (2) To avoid doubt:
  - (a) the requirement in paragraph (1)(b) does not fail to be satisfied merely because the company's constitution provides that:
    - (i) 2 or more persons may together be joint members of the company; and
    - (ii) those persons each have one vote at a general meeting of the company; and
  - (b) that requirement does not fail to be satisfied merely because the company's constitution provides that:
    - (i) a person may vote as proxy or representative at a general meeting of the company; and
    - (ii) as a result of voting as a proxy or representative, the person may have more than one vote at a general meeting of the company.

### **Covering subsidiary mutual ADIs**

There are currently three COBA members that we would consider to part of the mutual ADI sector but would not be included under APRA's definition. This is because these ADIs have had to demutualise to become a subsidiary of another mutual. COBA notes these institutions currently comprise a relatively limited proportion of the sector's assets and hence their omission is unlikely to have a material impact. COBA notes that parent entities of these ADIs are likely to have a mutual structure in

<sup>7</sup> Treasury Laws Amendment (Mutual Reforms) Bill 2019

line with the ME definition. While ideally these would be included in the mutual ADI series, our priority is ensuring that there is a mutual ADI series and that this series reflects the majority of the sector.

### **Ensuring equal treatment of mutual ADIs**

APRA should ensure that the mutual ADI series is as complete as its peer series for major banks and ADIs. This allows full comparability of mutual ADIs and their peers to meet users' requirements. This ensures that mutual ADIs are not treated as second class citizens. An example where the mutual ADIs series is incomplete is the current QADIP which does not include either the capital, asset quality or liquidity tabs for mutual ADIs.

Please feel free to contact Mark Nguyen on 02 8035 8443 or [mnguyen@coba.asn.au](mailto:mnguyen@coba.asn.au) if you want to further discuss the proposals or views in this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Michael Lawrence', with a stylized flourish at the end.

**MICHAEL LAWRENCE**  
**Chief Executive Officer**