

# Remuneration

Consultation Submission for proposed  
Remuneration Standard 511



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# Judo Bank Pty Ltd ('Judo Bank') submission to The Australian Prudential Regulation Authority ('APRA') – October 2019

Judo Capital Holdings Ltd and Judo Bank Pty Ltd (collectively "Judo Bank") welcomes the opportunity to contribute to the consultation by APRA into the introduction of a new Remuneration standard for all regulated entities.

A foundation belief in the establishment of Judo Bank was that human capital would ultimately define its competitive advantage. Judo Bank views remuneration as a critical human capital and performance management instrument to help achieve this competitive advantage. To enable the attraction and engagement of highly talented people, passionate about building and growing a challenger bank, has required Judo Bank to develop a unique remuneration framework. It is important that the remuneration design supports the objective to create an equity owners' mindset together with a balanced risk culture within the organisation.

As a challenger bank, Judo Bank has reviewed the proposed standard with the above principles in mind to provide input for consideration from its unique perspective. Judo Bank has identified two key areas through its review and has focused the submission on:

1. Prescriptive remuneration design, which inhibits flexibility; and
2. Impact of the proposed regulations on new entrants to the banking industry.

## 1. Prescriptive remuneration design inhibits flexibility

Judo Bank supports a principles-based approach to remuneration design, to enable the Board the ability to design remuneration plans aligned with enterprise strategy as it evolves. The proposed maximum of 50% financial measures and maximum of 25% per measure within the plan design would inhibit this.

The founders of Judo Bank, as experienced leaders within the banking industry, recognise the challenges of individual targets and short-term incentives. As such, the remuneration framework of Judo Bank has been intentionally designed to support a focus on the long-term success of the organisation through the provision of long-term incentive plans. The plans have been created to provide value to participants once certain conditions are met, both financial and non-financial.

The long-term plans include performance criteria and risk adjustments to reflect the outcomes of the business activities, the risks related to the business activities, and the time necessary for the outcomes of those business activities to be reliably measured. The Board, through its approval of the remuneration framework and policy, considers that the long-term components of remuneration, together with the risk adjustment mechanism inherent in the design of these arrangements, provides sufficient incentives to encourage behavior that supports the long-term financial soundness and risk management framework of Judo Bank.

In addition, the design intends to provide compensation for a reduced proportion of fixed pay, no short-term variable pay, and to reward employees for their commitment to the success of the organisation over a long-term period. This is a critical attraction and engagement tool for Judo Bank to fulfil strategic objectives.

Judo Bank recommends that APRA consider removing clause 38 to rely on the principles in clause 37.

Clause 37 provides clear expectations of the design of remuneration arrangements, including the risk, remuneration and financial objectives of the business. As a start-up, it is critical to focus on the financial objectives committed to investors, within the Board's approved risk profile. Start-up shareholders expect founders to align with their interests and many invest over a set time horizon to exit (eg 5 years). This is a very different shareholder base to that of a big bank. This may incentivise management to deliver relatively short-term results. As part of licensing, Judo Banks' projections are shared with APRA and their input is expected if the pursuit of those targets creates more risk for the ADI. Clause 38 may create a conflict with this given the prescriptive nature, which assumes a standard approach to remuneration in mature organisations.

An alternative is to amend clause 38, to allow for the "appropriate balance" of financial and non-financial measures to align with the intent and duration of the remuneration instrument (allowing for start-up organisations long term variable incentive plans to have a higher weighting of financials where this is necessary).

## 2. Impact of regulations on new entrants to the industry

Judo Bank believes that the Banking Executive Accountability Regime (BEAR) is an appropriate intervention which requires continued focus to imbed into organisations and cultures effectively and is committed to this.

However, as a new entrant to the industry, Judo Bank requests that APRA consider a phased timeframe for implementation of the compliance requirements of the proposed standard, which are in addition to the BEAR. This is consistent with the approach taken with implementation of the BEAR, where smaller organisations were afforded additional time to reach compliance.

Judo Bank does not yet have systems in place to enable the comprehensive reporting of remuneration and performance outcomes for a broader employee population as required by the standard in clause 29. This will require prioritisation of investment to allow the Board to meet the standard's requirements, and to create a sustainable solution to discharge their accountabilities effectively.

As a new organisation, a phased approach will minimise the adverse impact on the delivery of the business strategy. It is noted that these activities are necessary for the bank to establish the right foundations for sustainable success, the concern is the opportunity cost of sequencing these activities earlier than was originally planned.

It is not clear whether the standard proposed would apply retrospectively to variable plans already implemented, Judo Bank requests further clarification on the application of proposed standard. Due to the nature of the start-up long term incentives already in place, retrospective impact would diminish the value of the remuneration offer and "promise" made to those who have moved from a more established and stable environment to that of a start-up. This could also have an impact on the stability of a workforce in a start-up/building environment.

Clause 40 would present a challenge for the organisation given the nature of our capital structure and the tax and individual impacts that would arise for the existing start-up long term incentive plans in place. Judo Bank requests that the wording of this clause be amended to provide more flexibility for emerging start-up organisations.

Judo Bank acknowledges the principle of the suggested increased disclosure requirements and would value the opportunity to consult on proposed amendment to the standard related to this. Judo Bank would also welcome the opportunity to participate in the consultation process for development of the practice guide related to this proposed standard.

### In summary.

Judo Bank appreciates the opportunity to highlight the specific impact of the proposed standard for a new entrant to the banking industry. Judo Bank agrees with the principle of improving the governance and oversight of remuneration to ensure that outcomes align with the intended principles and design. However, the prescriptive requirements within the standard would have an impact on the achievement of the strategic objectives of the bank and consideration of this is appreciated.

Specifically, Judo Bank requests APRA to consider:

- Amend or remove clause 38
- Amend clause 40
- Allow a phased implementation timeline for smaller/emerging organisations to manage finite resources

## About Judo Bank.

Built by some of Australia's most experienced bankers - Judo Bank is a purpose-built Challenger (and not a Fintech) that has come to market to address the growing dissatisfaction with, and the gaps inherent in the offerings of the incumbent banks. The objective in forming Judo Bank is to build a unique banking offering that delivers the best aspects of genuine relationship banking coupled with a strong culture of risk management.

Judo Bank gained the banking licence in April 2019. For Judo Bank, a banking licence is seen as a privilege that will allow it to not only compete as a bank, but also to present the strength of its unique, alternative offering to the marketplace and add genuine value to the Australian SME market. Details on Judo Bank can be found at [www.judo.bank](http://www.judo.bank)