

Licensing@apra.gov.au

General Manager
Regulatory Affairs and Licensing
Policy and Advice Division
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

30 April 2021

**Grant Thornton Australia
Limited**
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW
1230
T +61 2 8297 2400

Submission to APRA's Consultation on revisions to its approach to licensing and supervising new ADIs

As an organisation that works closely with the Neobank sector, Grant Thornton Australia proposes a number of changes be made to APRA's Consultation on revisions to its approach to licensing and supervising new ADI's.

As part of our review of the Consultation, we engaged with a number of our clients in the sector who have either been through the process, are currently going through the process, or are interested in applying. This submission reflects both the views of our clients and of Grant Thornton Australia.

Below we outline our response to APRA's approach to licencing and supervising new ADI's, and key changes that we believe should be made.

These changes include:

1. Providing more clarity and transparency
2. Reducing barriers to entry and increasing competition
3. A more cohesive approach between launching products and the licencing process
4. Increased collaboration between regulators

Providing more clarity and transparency

While we are comfortable with the direction and intent of the new guidelines, there is more clarity and transparency needed for the new guidelines, and on the artefacts that APRA expects organisations to deliver.

These guidelines should be publicly available and easy to access. Currently, the lack of guidance contributes to the impression that getting a licence is easier than it is. Some organisations might not have an in-depth level of knowledge within governance structures in Banking and need more prescriptive guidance on governance issues. This will depend on the skills mix within each applicant's executive team however it is reasonable to expect that within each applicant there may only be a small complement of expertise in banking licensing itself given the small number of RADIs and full ADI licences granted since 2017.

Initial FAQ's for organisations should have all of this information so that organisations can meet all requirements before putting in their application, rather than retrofitting afterwards.

We propose implementing a roadmap for the process so applicants know what to expect – this would include outlining key milestones along the way so that organisations can show investors and Boards where they are throughout the process. This would provide more clarity on the end-to-end process and

ABN-41 127 556 389 ACN-127 556 389

Grant Thornton Australia Ltd ABN 41 127 556 389 ACN 127 556 389 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

www.grantthornton.com.au

would assist organisations with planning their capital and resources, and building their projects based on the timeline.

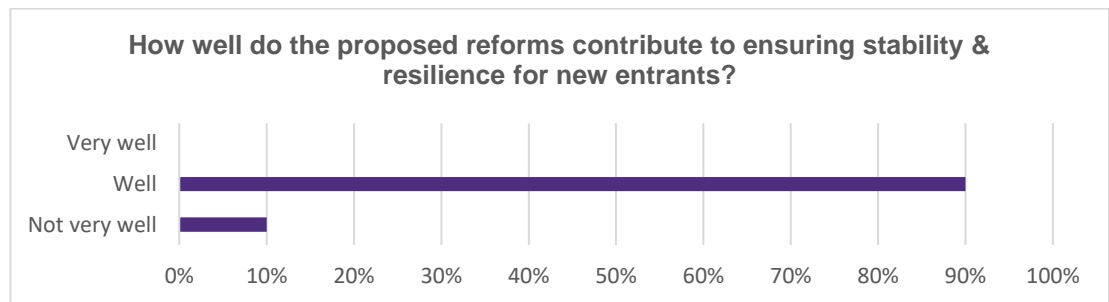
We would also like to see APRA clearly articulate the process and roles within its own organisation and how it fulfils its role as a regulator, including aspects such as:

- which teams within APRA an applicant should expect to engage with
- APRA expectations regarding the IT security process, and customer demonstration information requirements.
- the likely timing of their involvement
- decision making regarding the application
- timeframes for APRA to respond to applicant's information provision and to applicant queries.

Removing barriers to entry and increasing competition

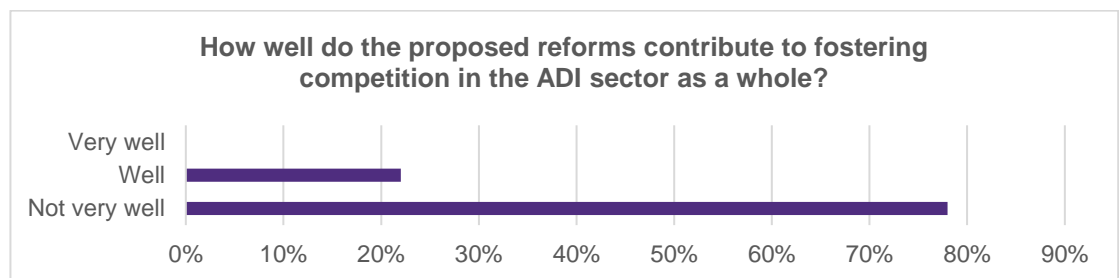
The new guidelines have raised barriers to entry through inequity in the application process. These barriers could be removed by improving clarity and transparency around the process, as outlined above.

We surveyed our clients on how they believe the proposed reforms contribute to ensuring stability and resilience for new entrants – the results show that overall they feel as though the reforms provide stability & resilience, however there is room for improvement.



APRA has outlined its focus is on risk management and increasing competition in the sector. However, so far there hasn't been a lot of proportionality happening – level of supervision is very intense for all types of organisations.

We see the need to increase competition in the sector. With higher barriers to entry, contestability is lowered. We surveyed our clients on how they believe the proposed reforms contribute to fostering competition in the ADI sector as a whole – the results below show they don't believe the current guidelines have achieved APRA's initial intention of this.



A number of participants in the poll commented that the complexity and work load involved in obtaining a RADI licence is not materially different to that of obtaining a full ADI licence.

A more cohesive approach between launching products and the licencing process

Investor friendly licensing path

A large number of our clients feel there is a disconnect in the RADI framework in regards to how APRA governs the process and what investors want to see in terms of timeframes. An indicative timeline with milestones that need to be cleared would be useful.

Family & friends

We recommend APRA consider raising the limit on deposits to – for example - \$5m to provide an additional source of liquidity rather than just capital injections. The current limit of \$2m restricts available cash available to the organisation and therefore liquidity, increasing the RADI's dependence on capital injections.

The definition of “family and friends” has been cited as a definition which may be unnecessarily restrictive. The marketing strategy for some Neobank's involves seeking to attract depositors who are offshore and would not otherwise fit within any reasonable construction of staff, their family & friends.

We also recommend APRA allow staff of outsourced service providers of the applicant to be included in the definition of “staff”. The rationale for this is that outsourced service providers have been used in order to provide a nimble & agile operating model minimising headcount and keeping costs variable rather than fixed in the startup phase for sound commercial reasons.

APRA's objective seems to be to keep the customer base to those who are personally known and therefore easier to locate in the event of a return of deposits. Allowing accounts to be held by outsourced service provider staff who would be personally known to the applicant would be consistent with APRA's objectives.

FSSA requirements

A cornerstone investor who puts in 50-100% is in conflict with the maximum shareholding requirements under the FSSA. Clarity of the FSSA and an exemption framework would be beneficial. This would allow cornerstone investors including access to capital from overseas sources which improves contestability in the marketplace and reduces the need for applicants to conduct multiple funding rounds – thereby improving stability and resilience.

Increased collaboration between regulators

We believe there is an opportunity for APRA and other regulators to collaborate to help improve the experience and process for organisations looking to get their RADI or full licence.

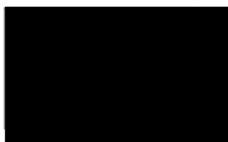
In particular, part of this collaboration should include providing more clarification around Consumer Data Right (CDR) and when a RADI should be thinking about joining the program. We would like to see a clear statement around when CDR applies. This includes working alongside Treasury and the ACCC, as it is important for organisations to understand how they will design their IT platform and use of data.

Consistent with APRA's arrangements for cooperation with other regulators we would also like to see articulation of how and when APRA engages with other regulators as part of the RADI process including ASIC, AUSTRAC and the Australian Taxation Office.

Conclusion

In summary, we believe by focusing on these four areas, the process for new entrants will be a lot clearer and better outcomes will be achieved by all. Thank you for taking the time to read our submission.

Yours sincerely
Grant Thornton Australia Limited



Partner & National Head of Financial Services