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8 September 2017

Ms Heidi Richards  
General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority  
ADIpolicy@apra.gov.au

Dear Ms Richards,

CUA welcomes APRA's proposals to revise the capital framework to facilitate the issuance of Common Equity Tier 1 Capital instruments for mutually-owned authorised deposit-taking institutions (ADIs). CUA also welcomes the opportunity to provide input on proposed revisions to *Prudential Standard APS111 Capital Adequacy: Measurement of Capital (APS 111.)* The proposed changes are a further step towards implementing the Senate Economic References Committee's 2016 review into cooperatives, mutuals and member-owned firms. These proposals should complement wider capital reforms being considered for the mutual and member-owned sector as part of the Review into Coops and Mutuals chaired by Greg Hammond and initiated by the Treasurer earlier this year. We would note that in making this submission we also support the submission put forward by our industry body, the Customer Owned Banking Association (COBA.)

### **About CUA**

CUA is Australia's largest credit union, with around \$13 billion in assets and a branch footprint spanning five states and territories (Queensland, New South Wales, the ACT, Victoria and Western Australia). CUA provides financial, health and general insurance solutions to almost 500,000 Australians through our member-owned CUA banking business and our wholly-owned health insurance subsidiary CUA Health. Mutuality matters to us - CUA's members are our owners, with each member having an equal share in the organisation.

As a member of COBA we are committed to the Customer Owned Banking Code of Practice. This Code makes ten key promises to customers, reinforcing our focus on the delivery of member-focused, competitive financial services.

CUA is 12 months into a five-year corporate strategy of digital transformation towards a future where we are available to our members 'Anytime, Anywhere'. This approach is critical to sustain our relevance and provide greater reach beyond our physical footprint, offering more consumers an alternative. Our introduction of 'pays' platforms such as Apple, Android and Samsung pay are recent examples of steps we are taking to achieve that goal. We are also working proactively with industry to support the introduction of the New Payments Platform. Our recently announced collaboration



with international banking innovator, Pivotus Ventures, will give us exclusive Australian rights to test new digital banking propositions and potentially offer them to other institutions.

### **APRA's role in removing regulatory and legislative barriers to accessing capital**

CUA is in discussions with APRA about the possibility of raising T2 and AT1 capital. In the course of those discussions we have raised the constraints the lack of access to external capital places on the mutual business model and our ability to grow, and expand our social impact. As a mutual, CUA's limited ability to raise capital means that we are reliant on retained earnings as our only source of capital.

These discussions were triggered by APRA's decision in April 2014 to introduce changes to enable mutuals to issue capital instruments that are convertible to MEIs (or Mutual Equity Instruments). Whilst this was a step in the right direction in terms of providing a new, alternative way to raise capital, the complexity of the instrument is challenging.

While CUA has been actively exploring this opportunity for more than a year, this mechanism has proven to be very complicated both from a regulatory perspective, but more importantly, from a consumer and member perspective. It is a difficult concept for mutual members to understand, in order for them to make a fully informed decision as to whether or not to approve the issuance of such an instrument. There are also market level issues in attracting investors to purchase such a complex capital instrument. We would like to discuss both issues further with APRA.

### **Proposed reforms to the capital framework & APS111– key considerations**

#### **Limits on MEI inclusion in an ADI's capital base**

CUA supports COBA's view that the proposed 15% limit is too low to make MEI's useful beyond an initial issuance. We would urge APRA to consider increasing the limit on MEI inclusion in an ADI's CET1 capital base in line with COBA's recommendation to improve the efficiency of the framework.

#### **Clause 3c of APS 111 attachment K**

This section could be enhanced by amending it to read 'the mutual equity interest cannot be redeemed and the purchase price of a mutual equity interest will not be repaid unless APRA approved.' This is consistent with provisions relating to buy-back arrangements for ordinary shares.

#### **Clause 4 of APS 111 attachment K**

CUA would like to see some flexibility around this clause. Whilst the requirement may make sense for a first time issuance it should not be required for subsequent issuances. One way in which this could be addressed would be for standard documentation to be developed for all mutuals to follow, similar to procedures which are followed for the issuance of ordinary shares. Standardisation would also help to demystify the process for potential investors.



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### **Need for wider reform which would benefit cooperatives, mutuals and member-owned firms**

As stated earlier, whilst CUA welcomes the proposed revisions in response to the Senate committee's recommendations, they will only provide assistance to mutual ADI's and will not support mutuals which are not ADI's.

It is vital that work continues to progress other committee recommendations to realise changes to corporate law which will benefit all cooperatives, mutuals and member-owned firms. Such a move will generate further competition in a sector which is growing as evidenced by *2016 National Mutual Economy Report* produced by the Business Council of Cooperatives and Mutuals (BCCM.)

Such reform would create further opportunities for investment in member services and technology and improve productivity so that we can continue to be a viable and strong alternative for our members and communities. It also enables us to take advantage of opportunities to build scale or explore different models of working with other mutuals, start-ups or fintechs. Our afore-mentioned collaboration with Pivotus is an example of this.

Thank you again for the opportunity to contribute to APRA's review. As mentioned we would like to discuss some issues further with you. To arrange a suitable time please contact Anne Syvret, Head of Public Affairs, on 07 35524566.

Yours sincerely,

**Steve Chugg**  
**Chief Financial Officer**  
**CUA**