

B39

ACN 621 245 636
12 Grandview Parade
Caringbah South NSW 2229
www.B39.com.au

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General Manager
Licensing Policy and Advice Division
Australian Prudential Regulation Authority

By email: Licensing@apra.gov.au.

Dear Sir/Madam,

Discussion Paper – Licensing: A phased approach to authorising new entrants to the banking industry

Please find attached the B39 Australia Pty Ltd (B39) submission on the proposed phased approach to authorising new entrants to the banking industry. B39 welcomes the opportunity to provide feedback to APRA and looks forward to working on participating in this new initiative once it is finalised.

Yours faithfully

Paul Dortkamp

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Director

B39 Australia Pty Ltd

Introduction of phased approach for ADIs	Should APRA establish a phased approach to licensing applicants in the banking industry?
B39 Response	<p><i>Yes – The current environment is prohibitive to small innovative companies that can bring significant user experience advantages to the Australian consumer. This makes it very difficult to attract the necessary capital to build and fund the bank. A phased approach is much more in line with the agile or “Lean” nature of modern startup ventures, that allows all parties to consider the various potentialities and begin testing the various hypotheses without having necessarily answered all the questions inherent in such a venture. The ADI licensing regime needs to be flexible enough to respond to the technological developments in the delivery of banking services. The phased approach provides the opportunity for new entrants to develop full operational capability over a known timeframe. The phasing of capital requirements allows a new entrant to have a phased approach to fund raising activity over two / three years to coincide with the capital requirements in establishing the business.</i></p>
Balance of APRA’s mandate	Do the proposals strike an appropriate balance between financial safety and considerations such as those relating to efficiency, competition, contestability and competitive neutrality?
B39 Response	<p><i>Yes – The restricted licence limits strikes to appropriate balance as it limits both the number of clients and the aggregate exposure to the new entrant while allowing it to test and develop its full operational capacity.</i></p> <p><i>There is a risk that the \$2M aggregate limit is too low. If for example the average deposit size is \$20,000, this would limit the total number of customers to 100. This may be too few to adequately to test the commercial viability across a broad enough spectrum of potential customers. There is a chance therefore that incorrect assumptions are made because too small a data set of customers has been tested.</i></p>

Eligibility	Are the proposed eligibility criteria appropriate for new entrants to the banking industry under a Restricted ADI licence?
<i>B39 Response</i>	<p>Yes – <i>This should be limited to new entrants that are fintech or traditional start-ups, non-traditional business models and existing non-ADI, as these groups will require the time to develop operational capabilities and secure the necessary investment to meet the full requirements.</i></p> <p><i>The document could be a lot clearer in defining examples of who may and who may not be considered. For example, the document states that “APRA expects such institutions are likely to be small and in their formative years of operation independent of established prudentially-regulated institutions. “It however makes no mention of how “small” or “formative” is defined or its preference for organisations that fit this description, or the converse.</i></p>
Restricted ADI Licence phase	Is two years an appropriate time for an ADI to be allowed to operate in a restricted fashion without fully meeting the prudential framework? Is two years a sufficient period of time for a Restricted ADI to demonstrate it fully meets the prudential framework?
<i>B39 Response</i>	<i>Yes – Two years is an appropriate time frame for the restrictive licence. However, there should be the capacity to extend this if the new entrant is able to demonstrate good reasons beyond its control for not meeting full operational status within the two-year period.</i>
Minimum requirements	Are the proposed minimum requirements appropriate for potential new entrants to the banking industry? Are there alternative requirements APRA should consider?
<i>B39 Response</i>	<i>Yes - The proposed minimum requirements are appropriate for potential new entrants given the need to ensure the integrity of the Australian banking system.</i>

Licence restrictions	Are the proposed licence restrictions appropriate for an ADI on a Restricted ADI licence? Are there alternative or other restrictions APRA should consider?
<i>B39 Response</i>	<i>Yes – The restrictive licence should be limited to providing the new entrant with sufficient time to become fully operational.</i>
Financial Claims Scheme	Are the proposals appropriate in the context of the last resort protection afforded to depositors under the Financial Claims Scheme?
<i>B39 Response</i>	<i>Yes – As the new entrant is not fully capitalized to the level of a licensed ADI it is appropriate to limit the deposits for each account and in aggregate to less than \$2 million.</i>
Further refinement	Are there other refinements to the licensing process APRA should consider?
<i>B39 Response</i>	<i>The technology landscape is changing rapidly, particularly in the areas of cloud computing and hosting. In order for the startups to test their value propositions and show that many of the other core requirements can be met, we would highly encourage the regulator to permit restricted ADIs to harness commercial public off shore cloud offerings at a minimum for the duration of the restricted license to allow them to focus their limited resources on building strong competitive offerings. Once validated the offering can be scaled out on local technology platforms. We see a risk that restricting technology to on-site hardware will put Australian entrants at a competitive disadvantage to their offshore peers entering the market and unduly hamper their innovation initiatives.</i>