

30 November 2017

General Manager, Licensing  
Policy and Advice Division  
Australian Prudential Regulation Authority  
1 Martin Place (Level 12)  
SYDNEY NSW 2000

Via email: <mailto:licensing@apra.gov.au>

Dear Sir / Madam,

**Response to Discussion Paper  
“Licensing: A phased approach to authorising new entrants to the banking industry”**

Cuscal appreciates the opportunity to respond to APRA’s August 2017 Discussion Paper *Licensing: A phased approach to authorising new entrants to the banking industry*.

Cuscal is an ADI focussing on end-to-end payment solutions that services more than 100 established and challenger brand clients. We provide our clients with access to Australia’s financial system and payments landscape. We provide some services to the major banks although the majority of our clients are within the second tier banking and mutual sectors. By allowing our clients access to a range of services and products with significant scale, we enable them to compete on a more level playing field.

Our services cover the issue and processing of credit, debit and prepaid cards, transaction switching and processing across various networks including card schemes and eftpos, fraud and settlement services and operation of the RediATM network. We are a founding member of the New Payments Platform and we are heavily involved in the delivery of mobile payments (Apple Pay, Samsung Pay and Android Pay). Our business is highly technology focused, and we work with numerous business partners including many early stage fintech companies. By way of example, we have recently been appointed as the local processing provider for “Square”, which is set to become a major player in the acceptance of card payments in Australia.

We are supportive of efforts to stimulate competition in the financial services sector. We think any efforts to stimulate innovation in the Australian banking sector will be a boost for competition, and assist the transformation and strength of the Australian economy. We therefore support the initiatives which APRA has proposed in the Discussion Paper. We hope that the views and comments provided below will assist APRA in the formulation of its final position.

<b>Introduction of phased approach for ADIs</b>	Should APRA establish a phased approach to licensing applicants in the banking industry?
<p>We believe that it is appropriate for APRA to introduce a phased approach to licensing new entrants to the banking industry. The phased approach is likely to increase innovation in the Australian banking sector. Moreover, given that a similar phased approach is being adopted in other jurisdictions it is needed to ensure that Australian innovations are developed in Australia rather than overseas.</p> <p>Our experience is that that many potential new entrants to the banking system find themselves in a Catch 22 scenario. They need to arrange substantial capital support to achieve fully fledged ADI status and the right to act as participant in the banking sector; however, investors prefer to support entities that have a working business model that depends on ADI status. The phased approach allows new entrants to participate in a limited way in the banking sector in order to develop a working business model without the need to initially commit large amounts of capital and to be able to raise that capital through stable long term investors.</p>	
<b>Balance of APRA's mandate</b>	Do the proposals strike an appropriate balance between financial safety and considerations such as those relating to efficiency, competition, contestability and competitive neutrality?
<p>The proposed approach does not change the essential obligations of an entity wishing to act as an ADI. This seems appropriate given the responsibilities of an ADI to depositors and other stakeholders as well as the need to protect the reputation of the Australian finance sector.</p> <p>Given that the phased approach restricts the activities that can be conducted and the time period under which an entity can operate under a restricted licence it does not seem that the proposal will create an unfair competitive advantage to new entrants over incumbents.</p>	
<b>Eligibility</b>	Are the proposed eligibility criteria appropriate for new entrants to the banking industry under a Restricted ADI licence?
<p>Given the responsibilities of an ADI to depositors and other stakeholders the criteria seem appropriate.</p>	
<b>Restricted ADI Licence phase</b>	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?
<p>A two year period seems to strike the right balance between protecting the interests of incumbents while giving time for a new entrant to establish their operational business model. That said we can envisage circumstances where a strict application of the two year period could result in issues for a restricted licence holder. For example, the imminent expiry of the trial period could place a restricted licence holder in a difficult position when negotiating with potential investors. It may be desirable for APRA to maintain the right to extend the two year period subject to the restricted licence holder meeting agreed milestones and deadlines.</p>	
<b>Minimum requirements</b>	Are the proposed minimum requirements appropriate for potential new entrants to the banking industry? Are there alternative requirements APRA should consider?
<p>Given that the proposal is intended to provide a transition to full ADI licence the minimum requirements seem appropriate. We suggest that metrics be set as to what constitutes appropriate funding for the business model including technology requirements and resources</p>	
<b>Licence restrictions</b>	Are the proposed licence restrictions appropriate for an ADI on a Restricted ADI licence? Are there alternative or other restrictions APRA should consider?
<p>Since the purpose of a Restricted ADI licence is to allow entities to develop and establish a business model it seems appropriate to put limits on the exposures that can be committed to by a Restricted ADI licence holder. We would suggest that APRA consider putting restrictions on how funds can be deployed to ensure that the entity is not put at risk by concentrated exposures.</p>	

<b>Financial Claims Scheme</b>	Are the proposals appropriate in the context of the last resort protection afforded to depositors under the Financial Claims Scheme?
We agree that customers of Restricted Licensees should be afforded the protection of the FCS and that Restricted Licensees should therefore manage its funding and capital so that there are sufficient funds to ensure that that the FCS is only called on as a last resort. It is essential that any entity accepting customers' deposits has a record keeping system that allows them at any point to identify their obligations to deposit holders.	
<b>Further refinement</b>	Are there other refinements to the licensing process APRA should consider?
We think that the most usual path to a full licence by a Restricted Licensee will be through a conditional licence. APRA may wish to give some more detailed guidance on the considerations it will take into account in providing a conditional licence and the nature of the possible conditions.	

We trust our feedback will assist in your deliberations, we would welcome the opportunity to clarify any items or further discuss any of the comments provided . While we have not contributed directly to submissions of industry bodies we would be happy to facilitate discussion with those relevant bodies if that would be of assistance. Please feel free to contact me on 02 8299 9069 or [kmckenna@cuscal.com.au](mailto:kmckenna@cuscal.com.au).

Yours sincerely,  
**Cuscal Limited**



**Kieran McKenna,**  
Chief Risk Officer.