Novatti's submission to Discussion Paper:

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

30 November, 2017

Executive summary

Novatti welcomes this initiative of the Australian Prudential Regulation Authority (APRA) to review its approach to licensing new entrants to the prudentially-regulated segments of the financial system, with a view to making it easier for potential applicants to understand and navigate the licensing process while at the same time not materially lessening entry standards that serve as important protections for the Australian community.

Novatti is supportive of APRA's intent to foster an efficient, competitive and equitable banking system whilst maintaining the right balance with financial safety, stability, prudence and integrity that is critical for market confidence.

Novatti plays a unique role in the Australian financial services landscape through both collaborating with select innovative partners and by leveraging its own extensive mobile billing and payments capability to create innovative new payments solutions for a global market of telecommunications, financial, and payment entrepreneurs.

With the fundamental and inevitable community shift to online, digital and mobile channels for banking and payments processing, the timing of this discussion paper is particularly important.

This submission provides responses to the consultation questions as noted in the Phased Licensing Discussion Paper.

We believe this Discussion Paper is an important step for the industry to help ensure that the financial system's over-arching regulatory regime promotes an environment that enables innovation, efficiency and competition – in the best interests of Australian consumers and businesses.

As digital channel access becomes increasingly sophisticated and wide-spread, it is equally important to maintain community-wide access to financial products and services – the elderly; rural and remote; the "digitally illiterate", new and visiting Australian's.

New entrants such as Novatti will bring to the sector modern, tested platforms focussed on solving specific business problems with high domain-specific applications and technology that will decrease overall sector risk whilst offering target customer sets a broader range and diversity of offerings.

Novatti, is keen to continue to support Australia's financial system and expand its role as an agent and facilitator in the movement of money – connecting consumers and businesses to remit funds, locally and globally, and by developing new, trusted, innovative banking solutions that enable convenient and secure access to the financial system for all Australians.

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Novatti's role in the Financial System

Novatti is an award-winning global software technology and systems integration provider. Novatti's continuing commitment to deliver innovative payments since 1994 has yielded a portfolio of adaptable and proven solutions.

Novatti's broad range of financial products and services include:

- Consumer Digital Wallet
- Electronic Top up
- Mobile Money
- Bill Payments
- Remittance Services
- Electronic Voucher Distribution
- Voucher Management Systems

These financial products are collectively referred to as our "Integrated Payment Services" within Novatti. Increasingly, we are enabling digital access to our solutions to enable MNOs, banking and alternative payment network service providers to extend their product portfolio – taking our robust, integrated payments services to their customers faster and more cost-effectively.
Novatti continues to develop end-to-end money transfer solutions that are secure and protect the information of its users. Today people expect to be able to securely pay and receive online 24/7, and want efficient and cost effective payment delivery options that suit their busy lifestyles. Cross border payment providers are growing to serve a burgeoning, digitally connected global community and labour force, and need compelling solutions to create an excellent customer experience to differentiate themselves from competitors.
With demand for alternative methods of transferring money rapidly growing, our focus has been to deliver comprehensive, functional solutions to enable telco, financial and other network service providers create strong value propositions within their particular eco-systems and target markets, responding to ever-changing market demands and trends.

Consultation Questions

a) Should APRA establish a phased approach to licensing applicants in the banking industry?

A phased approach to licensing as outlined by APRA will lower the barrier to entry into the banking sector as evidenced by overseas experiences, particularly in the UK, since 2013. New entrants will encourage and drive innovation of service offerings and contestability for customer business. Capital can more efficiently be deployed in the creation and testing of innovative new service offerings, operating models and value propositions, rather than a significant amount ($50m) upfront, to sit dormant on the balance sheet. Such new offerings, exposed to market and even if not successful, are likely to have a positive market effect on legacy incumbents to act, as well as reduce customer inertia for both consumers and businesses to seek out providers that give them the experiences they seek.

b) Do the proposals strike an appropriate balance between financial safety and considerations such as those relating to efficiency, competition, contestability and competitive neutrality?

As noted above, the proposed new phased license approach is likely to spark greater movement in the industry in respect of digital innovation focused and aligned to enhancing customer experience, but with financial safety of the sector protected and uncompromised as outlined in the initial requirements for a Restricted ADI. Digital innovation in itself will promote efficiency in product and service delivery, whilst providing customers more choice will enhance contestability across segments.

c) Are the proposed eligibility criteria appropriate for new entrants to the banking industry under a Restricted ADI license?

On balance the criteria would appear appropriate however this will only truly be known as applicants commence their respective journeys. The conundrum will be ‘innovating at low risk’. It is assumed the ‘low risk’ requirement is to protect confidence in the sector from a rogue proposition, rather than from the corporate (applicant) perspective. The eligibility criteria noted should be effective in this regard. One issue that could arise from an applicant’s side is the investment to set up the operating model (whilst maintaining the $3m capital and wind-up cost reserve) in context of the limited earnings that could be achieved given restrictions imposed on business activity (deposit thresholds) and the key milestones that an applicant would need achieved prior to beginning their journey to a full license.

d) 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?

As two years is the maximum time allowed, we believe it is both appropriate and sufficient. Based on reported UK experience it would appear that applicant’s needed less than 12 months but as neo-banks are yet to flourish in the UK it is too early to make an informed judgment on reducing the period. It is suggested that APRA retains the 2 year period and allows applicants the flexibility to apply for a full license (with or without conditions) within that timeframe.

e) Are the proposed minimum requirements appropriate for potential new entrants to the banking industry? Are there alternative requirements APRA should consider?

The proposed minimum requirements in respect of start-up capital and liquid holdings would seem appropriate to ensure that any start-up will realistically have sufficient funding to set-up and operationalize, whilst at the same time mitigate the financial risks in the event of failure through holding wind-up costs equivalent to 12 months of operations. Requirements in respect of the persons responsible for the management and oversight of the ADI, as well as confirmation of a realistic and achievable business plan will help ensure credible applicants proceed forward with high potential to ultimately apply for and attain full ADI status.

f) Are the proposed licence restrictions appropriate for an ADI on a Restricted ADI licence? Are there alternative or other restrictions APRA should consider?

Restrictions in respect of the conduct of business is an area where APRA may need more flexibility and need to work with applicants in their respective areas of focus / customer value propositions. Whilst the rationale for limitations on deposits, individually and in aggregate, are understandable from a risk mitigation perspective, it may prove difficult for an applicant to create and test its operating model to the right scale. We would suggest that APRA provide guideline boundaries in respect of deposits, with varying threshold requirements for MLH ranging from 20% for $2.5m aggregate deposits to 50% for $10m aggregate deposits. APRA should have discretion to approve increased business activity relative to applicant performance and confidence in being able to meet the full prudential framework requirements. This will enable gradual scaling of the applicant's operating model, confidence in the business model and more seamless transition to an application for a full ADI with or without conditions – rather than a significant leap from Restricted to full ADI status.

g) Are the proposals appropriate in the context of the last resort protection afforded to depositors under the Financial Claims Scheme?

We believe the proposal in respect of the last resort protection afforded to depositors under the Financial Claims Scheme is appropriate. The reporting obligations on Restricted ADIs will enable APRA to effectively monitor, control and act on any emerging risks to depositors.

h) Are there other refinements to the licensing process APRA should consider?

There should be a firm commitment, based on an applicant's provision of suitable materials and clarity on nature of operations, that the time taken to assess an application should be within 90 days. We believe this is achievable given the now dedicated APRA Licensing team resources and is further testament to an applicant's credibility to meet the assessment information requirements of APRA on a case by case basis.