Spriggy
Level 7, 249 Pitt Street
Sydney NSW 2000
www.spriggy.com.au

29 November 2017

By email: licensing@apra.gov.au

General Manager
Licensing Policy and Advice Division
Australian Prudential Regulation Authority

Spriggy appreciates the opportunity to share its perspective on the proposals to introduce a phased approach to licensing applicants in the Australian banking industry. As a leading independent provider of practical financial education services to Australia's families and a prominent fintech startup, Spriggy has a keen interest in the regulatory framework governing the provision of banking services in Australia. Spriggy welcomes APRA's efforts to support new entrants with innovative business models or those leveraging greater use of technology.

Spriggy is a financial education company on a mission to help Australian's have happier and healthier financial lives. The Australian Psychological Society's annual Stress & Wellbeing Survey[1] has consistently rated "Financial Issues" as the number one source of stress and anxiety amongst Australians of all ages for the last 5 years. Spriggy's primary research has shown that one of the most effective approaches to changing financial behaviours is to build everday financial products that encourage constructive behaviours through real world experience.

In line with those insights, Spriggy's first product offering is a mobile app that parents and kids use together to manage the digital payment, spending and saving of pocket money plus a prepaid card for young people. Spriggy's digital pocket money offering has been tremendously well received in the market, growing to over 60,000 parents and child users in just 12 months.

Having surveyed the market closely for the right commercial, technical and regulated partners to bring this product to life, Spriggy has a unique perspective on the proposed phased approach. Spriggy welcomes the opportunity to comment on the consultation questions outlined in the 15 August Discussion Paper.

1) "Stress & wellbeing: How Australians are coping with life", Australian Psychological Society, 2015, https://www.psychology.org.au/Assets/Files/PW15-SR.pdf

Spriggy
Level 7, 249 Pitt Street
Sydney NSW 2000
www.spriggy.com.au

**Introduction of phased approach for ADIs**

Spriggy strongly supports APRA's efforts to implement a licensing framework that supports new entrants with innovative business models or those leveraging greater use of technology. Having brought an everyday payment product to market as a startup, Spriggy has first-hand experience with the historical challenges facing new independent banking propositions, either as a prospective ADI applicant or working in collaboration with an existing ADI. Spriggy is confident that the phased licence approach proposed by APRA in the 15 August Discussion Paper will be successful in facilitating new market entrants and is excited to see the improved outcomes for consumers that these new entrants create in the banking industry.

Perhaps the most powerful benefit of APRA's proposed phased licensing approach is the prescribed pathway the proposals offer to graduate early-stage banking entrants to the risk, governance and prudential standards justifiably required to operate as an ADI. Early access to APRA's expertise, guidance in improving processes and feedback on areas for improvement will help new entrants achieve the required standards faster and with less waste. Ultimately producing better entrants and a stronger industry. Spriggy's experience with the licensing unit has so far been excellent. Spriggy encourages APRA to continue to resource the unit's consultative and transparent approach to prospective entrants.

**Balance of APRA's mandate**

Spriggy believes that the proposals strike an effective balance between financial safety and the expected improvements to the sector. Our market experience in the sector confirms that the system is tremendously well-trusted by Australian consumers and this trust forms the bedrock of consumer confidence. It is essential that this systemic trust is preserved and Spriggy believes that the proposals appropriately prioritise financial safety in the effort to improve other considerations.

The differentiated treatment of applicants is wholly appropriate to encourage non-traditional business models from new entrants. Incumbent institutions are strongly incentivised to sustain and protect their existing business models to support their ongoing profitability. Almost inevitably it will be new entrants, without legacy interests, that are most likely to deliver new business models or greater leverage of technology to deliver better outcomes for consumers. Given the significant scale benefits to operating in the banking industry, it is necessary to take a differentiated approach to the licensing process.

Spriggy
Level 7, 249 Pitt Street
Sydney NSW 2000
www.spriggy.com.au

**Eligibility**

Spriggy supports limiting the Restricted ADI licence category to startups with more limited financial resources and an initially simpler product set. Additionally, Spriggy supports the position that larger institutions, with the resources to proceed directly to a full licence, be encouraged to do so. This will ensure that sufficient resources remain available for the licensing unit to continue to maintain its consultative and transparent approach.

We would encourage the regulator to provide clarification to prospective applicants on whether a banking licence is required, or indeed if a prospective applicant is eligible when their proposed activities do not initially involve *both* taking deposits and making advances of money as prescribed by Part 5 of the Banking Act. Many possible business models may not necessarily include the provision of credit, initially or potentially ever. As such it is important to identify how these models may be eligible for the proposed Restricted ADI licence category.

**Restricted ADI Licence phase**

Spriggy believes that two years is an appropriate maximum time period for an ADI to operate in the Restricted licence category. The time limit, in conjunction with additional constraints on permitted banking activity create a strong incentive to progress and an important implicit acknowledgement of the speed with which startups and the regulator must progress applications for those startups to be commercially viable.

One consideration that Spriggy would seek further clarification on is the proposals' position on related activities where the prospective applicant is already in the market at a commercial scale – such as the distribution of prepaid cards. Specifically, as it relates to the proposals' language that *"a Restricted ADI will not be actively conducting banking business",* and, that in the event of not advancing to a full ADI licence, the applicant must *"exit the banking industry".*

Spriggy would strongly encourage that where the related activity is not explicitly of a banking nature (i.e. taking deposits and making advances of money only) and otherwise compliant with all relevant regulation and legislation, that prospective applicants be encouraged to pursue non-banking activities at commercial scale. This is especially true where that activity may directly assist the prospective applicant in establishing the systems and processes to support banking business at commercial scale - such as the distribution of prepaid cards.

Spriggy
Level 7, 249 Pitt Street
Sydney NSW 2000
www.spriggy.com.au

An excellent example of the benefits of this accommodation can be seen in the path taken by a number of new banking entrants in the UK market under changes proposed in 2013 to the UK bank authorisation process[2]. In particular, Spriggy suggests examining Monzo's approach in validating the customer demand for its offering through a related prepaid card product, before progressing to a full deposit account issued under its own banking licence[3].

In Spriggy's view, new entrants with an established track record delivering related services will make for better qualified applicants who can more successfully deliver improved consumer outcomes at lower risk to the financial system.

**Minimum requirements**

Spriggy acknowledges that the proposed minimum requirements are a substantial accommodation towards the goal of facilitating new entrants the banking industry. We believe the proposals strike an effective balance between contestability and financial safety.

Spriggy strongly supports APRA's proposal to streamline the supporting information and requirements in comparison to that typically required for a full ADI licence. As has been discussed throughout the 15 August Discussion Paper and this submission, the ability for the regulator and startups to move quickly through the Restricted ADI phase, while not compromising prudential standards, will be one of the key benchmarks on which the success of the proposals will be measured.

Wherever possible, Spriggy encourages the regulator to provide clear guidance on the preferred format and key acceptance criteria for required documentation. Most likely delivered early in prospective applicant consultation, detailed guidance on the required information, including suitable examples, may potentially save significant time and resources in the evaluation of prospective applicants for the Restricted ADI licence category.

2) "A proposed phased approach to authorising new entrants to the banking industry", FSA, 2013, http://www.bankofengland.co.uk/publications/Documents/joint/barriers.pdf

3) "Challenger bank Monzo raises another £71M", TechCrunch, 2017, https://techcrunch.com/2017/11/06/monzo-moolah/

Spriggy
Level 7, 249 Pitt Street
Sydney NSW 2000
www.spriggy.com.au

**Licence restrictions**

Spriggy considers the proposed licence restrictions appropriate for reducing any systemic risk arising from the proposals and sufficiently constraining to encourage prospective applicants to build the systems and processes to graduate to a full ADI licence as quickly as possible.

As discussed previously in this submission, it is important that the Nature of Business restrictions, detailed at a high level in the 15 August Discussion Paper, do not restrict the applicant from other activities which do not constitute the taking of deposits and the lending of money. This is especially true for new entrants who choose to validate elements of their offering at a commercial scale outside of their Restricted ADI licence – such as the distribution of prepaid cards. Spriggy believes that excluding Restricted ADI licence holders from these activities will materially lower the speed to market and ultimate quality of services to consumers.

**Financial Claims Scheme**

In the experience of distributing a prepaid card, Spriggy can report from its aggregated user feedback, that one of the most important supports of trust is whether funds stored are covered under the Financial Claim Scheme. As such, it is critically important, as the proposals identify, that deposits with a Restricted ADI licence holder are fully covered by the FCS up to the same individual limits as established ADIs (while remaining within the aggregate deposit limits established by the Restricted ADI licence category limits).

The aggregate deposit limit of $2 million and minimum capital requirements, including wind-up costs, provide sufficient protection to the Financial Claims Scheme to ensure the proposals do not compromise the stability of this important system-wide program.

**Further refinement**

Spriggy strongly supports the purpose and structure of the proposals made to introduce a phased approach to licensing new applicants in the Australian banking industry. We're excited about the innovation these changes may generate and look forward to the improvements in experience they will bring for consumers of the Australian banking sector.

Further to several comments made through this submission, Spriggy believes that a key driver of success in implementing the proposals will be the openness, expediency and responsiveness

Spriggy
Level 7, 249 Pitt Street
Sydney NSW 2000
www.spriggy.com.au

with which the regulator brings these changes to life. Thus far, we have been tremendously impressed with their approach and strongly encourage their efforts to be appropriately resourced to continue through the implementation phase.

Spriggy thanks APRA for the opportunity to share its perspective on the proposals and looks forward to the dividends it will yield to the industry in the coming years.

Sincerely,
Mario Hasanakos

M Hasanakos

Founder
Spriggy