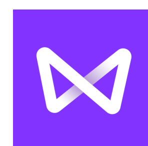

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Submission from Wildcard Money Pty Ltd - Licensing: A phased approach to authorising new entrants to the banking industry.

Wildcard Money Pty Ltd ('Wildcard') supports APRA's approach to the phased licensing for new entrants. The approach is workable for an ADI start up and it provides a pathway to obtaining a licence and promotes competition. We commend APRA for the practical approach and the lowering of barriers to entry.

In our submission we have highlighted three areas that warrant further consideration – contagion risk, balance sheet management and depositor protection. In our view these are the highest risks confronting an ADI start up and, have a material impact on the financial stability of the sector.

The general public does not have a deep understanding of how the financial system works and the protections in place. They will likely follow the 'herd' on social media. The consequence of this is a contagion effect on other start ups in the financial sector, this is likely to be very high regardless of their financial strength and the protection of the Financial Claims Scheme.

Taking into consideration that 95%[1] of start-ups fail, the viral force of social media and lowering the barriers to entry, this is new territory for the sector. The high probability of

[1] http://www.smh.com.au/business/the-grim-reality-of-startups-95-per-cent-fail-20150320-1m3wtb.html

failure and virailty of social media have the potential to impact a liquidity event (aka run) exponentially.

In our responses to the consultation questions we have provided further discussion on the three areas stated above.

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

Wildcard supports the phased licensing approach. In our view the changes proposed are a significant lowering of the entry barriers for new entrants and promotes much needed competition in the banking sector.

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

From our review the eligibility criteria and restrictions imposed significantly minimize the increased risk to the financial system. But when you consider the 95% failure rate of start ups and contagion risks the balance should be improved further with greater consideration placed on capital and liquidity management. We discuss this further in this submission.

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

The proposed eligibility criteria are commensurate with the proposed risks to financial stability.

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?

Two years is a reasonable period of time. Less than two years does not provide adequate time to build and test the operations and systems required to set up an ADI and meet the prudential standards. Beyond two years places increased working capital drain on the business and increases the probability of failure.

We support APRA's powers to terminate the ADI application of a start up if they do not demonstrate the capability to meet the two year timeframe. We suggest that if an applicant is on track to meet the requirements soon after the two year timeframe that APRA is able to exercise discretion in extending the two years.

Are the proposed minimum requirements appropriate for potential new entrants to

the banking industry? Are there alternative requirements APRA should consider?

The biggest risks with an ADI start up are capital and liquidity. New entrants need to able to demonstrate they have the skills, capability and systems to manage the complex balance sheet of an ADI.

ADI's take risks and the combination of an ADI and a start up results in a significantly higher risk business compared to an established ADI.

The most common cause for a start up failing is lack of capital. The depth of the local investor market is low. There is approximately $400M of available funding from VC's in Australia. That is not a lot of funding for start ups, particularly for start ups that will require large amounts of capital like ADI start ups. They will require capitalisation for both operational expenses and asset allocation.

For the protection of the financial system ADI start ups should be required to demonstrate they have access to regulatory capital for asset growth plus working capital for business operations.

Liquidity management is materially important for funding loans and deposit withdrawals. In managing liquidity ADI start ups should be able to demonstrate they have deep and diversified funding sources. They should also be required to demonstrate they have the systems and skills to management their asset and liability portfolio mis-matches.

The minimum requirements should include detailed capital and funding plans. As a minimum these plans should include adequate resources, balance sheet management skills, forecasts and liquidity management policies & procedures.

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

APRA has stated that it "expects there will be instances where Restricted ADI's would not proceed to an ADI licence".

Under these circumstances we propose that APRA restrict the business from trading until APRA is confidant that they will get a licensing. If the ADI start up is providing a limited range of products and fails to get a licence then the business would most likely be wound up. This exposes other start ups to contagion and potentially damages the entire start up banking sector in the eyes of consumers. Therefore start ups which are not likely to be granted a licence should not be trading any products or services until APRA is confident that a licence will be issued.

In relation to MLH, a ratio of 20% is too low. [2]The industry average MLH in June 2017 for building societies was 18.5% and credit unions 15.8%. These are well established and experienced ADI's with little to no exposure on social media and they are running their MLH at close to 20%.

New inexperienced ADI start ups will predominantly be digital and heavily marketed using social media. In is not inconceivable a run on a digital ADI start up could see as high as 80% of customers withdrawing deposits.

A MLH of 60%-80% would ensure that in the event of a start up experiencing a social-media fueled customer panic would limit the risk that customer funds will not be available. We consider the risk that such a panic occurs in the next five years to be high. We suggest APRA consider a phased approach to the level of MLH commensurate with the maturity and sophistication of the ADI start up.

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

Wildcard fully supports the proposed exit plan approach and new entrants accessing the FCS. A managed exit and depositor protection is paramount to supporting the stability of the financial system and integrity of the financial sector.

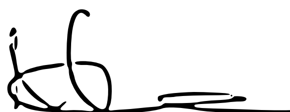
Are there other refinements to the licensing process APRA should consider?

We have no suggestions for other refinements.

Thank you for the opportunity to respond to the discussion paper, we hope this submission provides APRA with some insight into start ups and valuable feedback on the phased licensing approach. Should you wish to discuss our submission please do not hesitate to contact Randall Maccan at randall@wildcard.money

Yours Sincerely,

Randall Maccan
Chief Operating Officer



Nathan Tesler
Chief Executive Officer

[2] http://www.apra.gov.au/adi/Publications/Documents/2908-QADIPS-Jun-2017-PDF.pdf