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Friday 19 May 2017

Mr Greg Hammond OAM
Chair
Review of Reforms for Cooperatives, Mutuals and Member-Owned Firms
The Treasury
Australian Government
Sent via: coopsandmutualreview@treasury.gov.au

Dear Mr Hammond

Re: Review of Reforms for Cooperatives, Mutuals and Member-Owned Firms

Please accept the attached submission from People's Choice Credit Union, for consideration as part of the review on reforms for cooperatives, mutuals and member-owned firms.

I thank you and the Australian Government for the opportunity to contribute to ongoing discussions about the mutual banking sector.

People's Choice welcomes this consultation on reforms to member-owned firms and I look forward to the opportunities arising from this review – for the mutual sector, our credit union, and of course, for the four million customer-owned banking members nationwide.

Yours sincerely

Steve Laidlaw
Chief Executive Officer

People's Choice Credit Union submission To the Review on Reforms for Cooperatives, Mutuals and Member-Owned Firms

The Treasury, Australian Government
Review Chair: Mr Greg Hammond OAM | May 2017

People's Choice Credit Union strongly supports the recommendations made by the Senate Economic References Committee, in particular those related to issuance of Mutual Equity Instruments and the legislative change to allow the issuance of Mutual Capital Instruments.

People's Choice's core purpose is to serve its members through the provision of a full range of banking services. People's Choice and other mutual ADIs play an important role in providing a genuine alternative to the major banks, promoting healthy competition and consumer choice within the Australian banking market.

We believe that maintaining the principles of mutuality is of absolute importance and key to our identity and connection to our members. Examples from overseas jurisdictions show that legislation and regulation can be effectively implemented without jeopardising these principles. We firmly believe that legislative and regulatory change is critical for the mutual sector to thrive and continue to be a viable alternative to the major banks and promote competition.

People's Choice has a strong capital base, which enables us to undertake normal operations and grow at a moderate pace. While we manage a well capitalised and profitable business model, the inability to issue capital limits our ability to invest in growth opportunities.

For example, in 2015 People's Choice acquired the Territory Insurance Office (TIO) banking portfolio from the Northern Territory Government. This acquisition saw People's Choice significantly contribute to housing growth in the region through a product designed towards more affordable properties that also helps apply downward pressure on the rental market by encouraging increased home construction. Through a partnership with the Northern Territory Government to manage the HomeBuild Access scheme, we have helped increase the supply of new and affordable homes in the Northern Territory for low to medium income households. This acquisition benefited our members and the broader community. However, given the significant capital that this acquisition utilised and our inability to raise capital to offset the impact, People's Choice has not been able to pursue other similar acquisition opportunities.

Limitations on the ability of mutuals to issue additional capital also restricts the sector's ability to invest in innovation and growth and, over time, could lead to the reduction of consumer choice and competition in the market. People's Choice strives to deliver relevant and innovative products and services to its members. Keeping pace with the digital advancements in financial services is critical to ensure we continue to meet the needs of our members. To this end, considered and prudent investment is required to enable People's Choice to be a viable alternative to the major banks well into the future.

The limitations on capital issuance also makes it difficult for us to invest in products and services that will benefit our members and ensure we meet consumers' evolving expectations and maintain our competitiveness with the bigger banks. People's Choice does not enjoy the significant benefits of scale and efficiencies that large banks have, yet we still need the critical technological investment to maintain and advance our member experience through better products and services and to remain relevant and up to date with larger competitors' offerings. Mutuals should not be put in a position where lending growth is restricted by having to choose between investment in technology and membership growth. This reduces competition in the industry and provides an advantage to the larger banks which have the ability to raise the necessary capital for these purposes.

This is particularly the case with rapidly changing technology in digital banking and payments, and market changes such as the introduction of the New Payments Platform (NPP). The NPP is a mandated change that will bring significant benefits to consumers through real-time payments between ADIs. However, the impact of investing in the required infrastructure is significant. For mutual ADIs, this will result in tradeoffs needing to be made where other product or service innovation cannot be pursued. The ability to raise capital would greatly enhance our ability to operate with a level of flexibility more closely aligned to non-mutual ADIs.

A capital investment instrument to be used only by mutually owned businesses could facilitate raising investment capital from members and external investors. Such a new instrument would carry legal protections for the issuing mutual, to ensure that their core member value proposition is in no way compromised by a new class of shareholder, or that they risk demutualisation. Such legislation is operational in other countries, such as Canada, the Netherlands and the UK.

These key features which protect the integrity of the mutual purpose include:

- New securities would be permanent
- They may confer membership on the holders
- They could be owned by individuals or institutions
- No member would have more than one vote as a result of holding the shares
- Investing members who did not trade with the business would be excluded from any member votes related to mergers or dissolution

People's Choice is supportive of a change to the Corporations Act to clearly establish the basis of an incorporated mutual corporation to facilitate a new capital instrument for mutual businesses that currently have no permanent investment capital. In conjunction with the necessary legislative changes, the regulatory requirements must also be considered. Cooperation with APRA on this approach will be essential to ensure any new capital instruments developed qualify as Common Equity Tier 1. This would facilitate investment into the long term sustainability of our credit union without having balance sheet growth constrained by retained earnings growth.

Being a mutual organisation, our value proposition to our existing and future members is to provide an effective and competitive alternative to the larger banks. The lack of ability for mutuals to raise Common Equity Tier 1 is not in the best interests of the wider community, in that access to financial products and services is reduced and costs are increased, both within the mutual sector and through reduced competition in the industry. The flexibility that raising capital from members and non-members provides would enable mutual ADIs to continue to provide competitive and innovative financial products and services and bring Australia into line with many other world jurisdictions.

Thank you for considering our submission. We are available to provide further comment via mail or in person at any time convenient to you.