

14 August 2017

The Manager  
Banking, Insurance and Capital Markets Unit  
Financial System Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Email: [useofbank@treasury.gov.au](mailto:useofbank@treasury.gov.au)

Dear Sir/Madam

**Removing Restrictions on the use of the term 'Bank' – July 2017**

Thank you for the opportunity to provide Heritage Bank's submission on Reducing Barriers to New Entrants to the Banking Sector - Removing Restrictions on the use of the term 'Bank'.

Please see our submission attached.

Yours sincerely



Peter Lock  
Chief Executive Officer  
Heritage Bank Limited

## Removing Restrictions on the use of the term 'Bank'

### HERITAGE BANK SUBMISSION

#### Heritage Bank

Heritage Bank ('Heritage') is Australia's largest customer-owned bank and one of the three largest mutual ADIs in the country. Heritage's history stretches back 142 years to its beginnings as a building society founded in Toowoomba in 1875, making it one of the oldest mutual financial institutions in the country. Heritage has grown to more than \$9 billion in assets, 300,000 customers, 800 staff (including 470 in the Toowoomba region) and 61 branches across southern Queensland. Heritage is a national player in the mortgage market; having sourced loans from brokers for twenty years, and now has customers around Australia sourced via a network of mortgage broker partners.

In 2011, Heritage Building Society made the decision to change to Heritage Bank. We believe our new name and status as a bank more accurately reflects our core business and is more readily understood by our customers and potential customers. Further, we believe the use of the term 'bank' has given our organisation a higher status and recognition that has been useful in the wider financial sector. Indeed, Heritage is now seen as a leader in capital management within the mutual sector, having completed a number of innovative, industry first transactions. Notable accomplishments over the past decade include completion of the first ASX listed, Basel II compliant subordinated debt transaction by a mutual ADI in October 2009. More recently Heritage issued the first Basel III compliant subordinated debt issue, after working with APRA on the prudential treatment of Tier 2 capital instruments that satisfied the non-viability provisions via a 'write-down' only capability. Heritage's access to these markets and the experience gained in completing these transactions and operating within the governance and reporting regimes of disclosing entities, is strengthened through our status as an ADI and recognition as a bank.

#### Removing Restrictions

The Australian banking sector needs greater diversity as a prudent approach to diffusing systemic risk associated with the concentration of retail banking services into four dominant players. Banking consumers need broader choices to stimulate competition and innovation. Accordingly, Heritage is supportive of government moves to introduce greater competition and remove barriers and restrictions, real or perceived, from the financial market.

At present, mutual organisations have the potential to provide meaningful competition to the dominance of listed banks, but their ability to compete is constrained by a number of factors that impede the sectors ability to effectively fund innovation and growth. Many of these issues are being addressed by recent Treasury announcements, reviews and proposed changes to existing regulation.

The different naming conventions for organisations within the current Mutual ADI sector can create confusion for consumers despite the regulation and protections being uniform. Consequently, we support the removing of the capital test when all other factors in relation to the granting of ADI status and the subsequent regulation of the ADI are in place. We believe a more universal adoption of the term 'bank' and ability to use 'banker' and 'banking' will move to increase competition and improve the understanding of alternative banking models, particularly the Mutual model to the banking consumer.

## Regulatory Compliance

As a Mutual ADI, Heritage is regulated in the same manner as all ADIs large and small. We work cooperatively with all regulators and recognise the privileged role we play in the economy and our communities. Many of our competitors continue to be described as Credit Unions or Building Societies. The larger players within these sectors have chosen not to change their name to incorporate the term 'bank'. In their circumstances, scale is an important consideration; however, many smaller organisations would benefit from the enhanced recognition the term 'bank' conveys. We note and agree that APRA would continue to have authority over the use of these descriptors and would prohibit non mutual ADIs from conveying the concept of Mutuality through the use of these terms.

We comment specifically:

### Amendments to the Banking Act

Heritage notes there are many smaller ADIs within the Mutual sector that do not currently carry the term 'bank'. The size, business models and governance structures of these organisations is varied and careful consideration must be given to individual business models.

Heritage supports the proposed amendment to the Banking Act 1959 to allow any ADI to use the words 'bank', 'banker' and 'banking' in relation to an ADI's business, noting that APRA retains the right to restrict the use of the term 'Bank'. Heritage supports the removal of the existing \$50m capital threshold.