



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

Australian Prudential Regulation Authority
Policy and Advice Division
Level 12, 1 Martin Place
Sydney NSW 2000

via email: licensing@apra.gov.au

Dear Sir/Madam

ADIs: New entrants – a pathway to sustainability.

We support the introduction of a phased approach to authorisation that assists new entrants navigating the ADI licensing process. The historically high barriers to entry in the banking industry has limited competition. Small businesses and family enterprises often struggle to access adequate finance to grow their operations, particularly without offering up their family home as a security.¹ This has facilitated a traditional banking business model biased towards home lending over small business lending. Exacerbating this challenge for small businesses is the limited competition within the prudentially regulated sector.

To achieve the objectives outlined by APRA we suggest the following:

1. New entrants are not ‘mini banks’

The limitations placed on restricted ADIs maintains a ‘one size fits all’ model. To effectively allow for sustainability and competition in the banking sector, we encourage a more nuanced approach. A deepened understanding of the diverse markets, sectors and risk profiles that new entrants operate in is important.

New entrants must be clear on APRA’s expectations. As such, we encourage provision of further clarity around risk profiles and clear definitions of what constitutes low and high risk capital.

To generate genuine competition in the banking industry and support small business’ access to finance, the phased licensing approach must accommodate for diverse product offerings. We encourage APRA to adopt a flexible approach to minimum liquidity holdings thresholds, derived from the entity’s size, business model and exit strategy.

2. Additional guidance regarding APRA’s supervisory approach

New entrants must be able to communicate with external investors and internal stakeholders about reliable and clear timelines to a licensing decision and the supervisory process once granted a restricted licence. The guidelines around the supervisory approach should include all further documents that may be requested along with expected timelines for reporting. This is particularly important in relation to reporting items ‘beyond the usual content’ of ADI reporting standards. All feedback from APRA during the restricted supervisory phase should be provided in plain language to minimise misunderstandings and ensure documents are submitted in a format preferred by APRA.

¹ <https://www.rba.gov.au/publications/bulletin/2018/sep/pdf/access-to-small-business-finance.pdf>

3. Two year timeline on restricted licensing phase

The two year timeline is a concern and we would recommend flexibility through offering calibrated extensions of restricted ADI licences for businesses that can demonstrate an unforeseen delay in progressing to full ADI. The strict timeframe outlined would act as a disincentive for potential investors if the new entrant is nearing the end of the two year period, thereby limiting access to capital and ultimately causing an exit from the licensing process. Setting a two year limit also creates challenges for these new entrants to quickly raise capital, build a reputation (while only accepting deposits from staff, family and friends), access the wholesale funding market, and forecast accurately.

4. Limited product launch on deposits to staff, friends and family

Deposit limits and restrictions on customer types influence new entrants towards business models offering consumer-oriented retail products, creating further challenges for small businesses with limited ADI lender options. APRA's oversight and capital requirements should be sufficient to secure the return of deposits should that be required, without restricting to staff, friends and family. If APRA wishes to restrict the types of deposit customers, we would suggest examining the possibility of restricting deposits to consumers and business depositors who are financially aware of the risks associated with new entrants, similar to being a 'sophisticated investor'.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Miss Kit O'George on 02 6243 7244 or at kit.ogearge@asbfeo.gov.au.

Yours sincerely



The Hon. Bruce Billson

Australian Small Business and Family Enterprise Ombudsman