CUSTOMER OWNED BANKING ASSOCIATION

22 May 2023

Naomi Menon
Director
Competition Exemptions
Mergers, Exemptions and Digital
Australian Competition and Consumer Commission

Via webform: accc.gov.au

Dear Ms Menon

Commonwealth Bank of Australia and Ors – Authorisation for Establishing an Aggregator Assurance Program

COBA appreciates the opportunity to contribute to the ACCC's consultation on the application received from the Commonwealth Bank of Australia and Others for authorisation to establish an Aggregator Assurance Program (AAP) to jointly procure assurance reviews of participating mortgage aggregators.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over $160 billion in assets and is the fifth largest holder of household deposits. Customer owned banks account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

Key points

COBA strongly supports the establishment of a voluntary and industry wide AAP due to the many benefits it will provide to lenders, aggregators, and to consumers.

Like many banks, some COBA members choose to utilise mortgage aggregators but due to their size they write significantly lower loan volumes than their largest peers.

COBA is concerned that the equal split cost model proposed in the AAP could limit its accessibility for smaller lenders.

COBA suggests the adoption of a proportional funding mechanism for the AAP to alleviate these concerns.

Benefits of authorising the AAP for smaller lenders

COBA strongly supports the establishment of a voluntary and industry wide AAP due to the many benefits it will provide to lenders, aggregators, and to consumers. Many of our members utilise aggregators as part of their businesses and while our sector collectively is a significant presence in the mortgage market, our individual members are relatively small. The potential benefits for smaller lenders could be significant if they can access the AAP.

Suite 403, Level 4, 151 Castlereagh Street,
Sydney NSW 2000

Suite 4C, 16 National Circuit,
Barton ACT 2600

Customerownedbanking.asn.au

Lenders, including COBA members, face significant costs in conducting and completing assurance reviews of the governance and oversight approaches of aggregators. This is due to the resource intensive process of acquiring and analysing the information from aggregators as part of conducting these assessments. Significant duplication occurs across the industry as multiple lenders request similar information from the aggregators thereby creating costs for aggregators to compile and provide the information to individual lenders which also increases costs for lenders as a whole.

Establishing an AAP will reduce costs and duplication for both participating lenders and aggregators as the assurance reviews will be conducted in a more structured and efficient way. The AAP will also help to drive improvements in the quality of assurance standards across the industry by making available high-quality reviews to more lenders.

COBA's view is that the AAP will be beneficial to our members and other smaller lenders by greatly simplifying processes for all parties, improving industry standards, create a standardised assurance program, and making key insights on an aggregator more widely available to all lenders. The AAP could make it easier for more of our members to utilise aggregators as the costs of compliance become more manageable from the AAP. However, for these benefits to be fully realised the AAP must be accessible to the whole of industry.

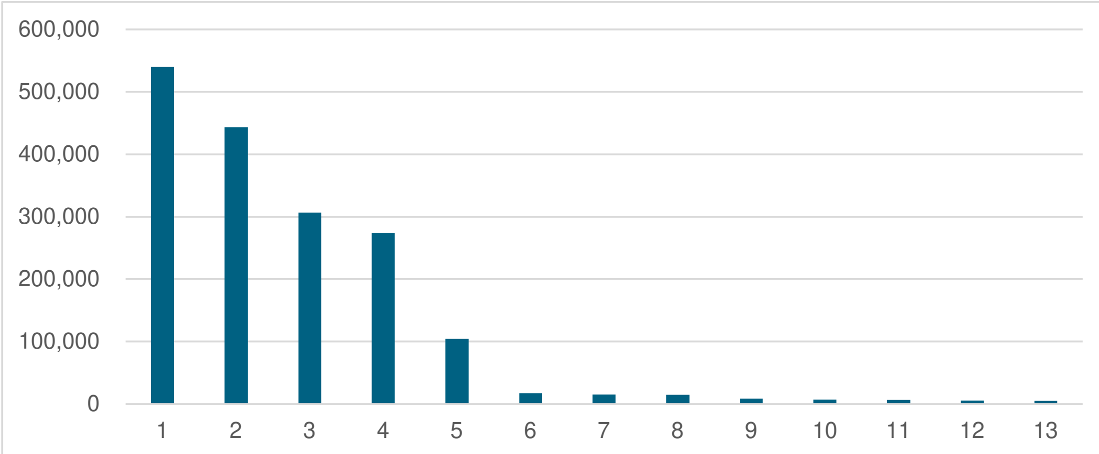
Proportional funding for the AAP

A major concern for COBA is ensuring that smaller mortgage lenders, such as customer owned banks, can fairly participate in this program. In line with this, we support an AAP that includes proportional pricing to maximise access for smaller lenders. Proportionality for the AAP could take the form of a tiered funding model that recognises some kind of size metric. A proportional funding model will increase the benefits of the AAP as it will make the scheme accessible to more lenders, thereby increasing the number of lenders joining.

We understand that the AAP's funding is currently proposed on an equal split basis where each lender requesting a review of an aggregator pays the same amount as the others. COBA's view is that the effect of an equal split basis for funding could create barriers for smaller lenders to access the program as both the smallest and largest lenders could end up paying the same fee. This ignores the fact that larger lenders have greater capacity to pay and typically receive more commercial benefits from aggregators than smaller lenders.

COBA recognises that the major banks and Macquarie have borne significant costs to date in bringing this application to the ACCC and that, if successful in receiving authorisation from the ACCC, there will be further costs to establish the AAP. However, we do not think it is appropriate for smaller lenders to potentially pay the same fees as these five very large banks with significant market share and loan volumes from aggregators. While the AAP reduces the fixed costs of the assurances, an equal split pricing model still embeds the scale advantage of the largest banks when it comes to regulation.

Relative Housing Portfolios of 5 applicant banks and largest eight customer owned banks



Source: APRA Monthly ADI statistics, March 2023

Equal split pricing could create barriers to smaller lenders

A part of the justification for seeking the authorisation of the AAP is that it will be voluntary and open to the whole industry to join and gain its benefits. It is COBA's view, however, that the equal split basis for allocating costs could create a barrier to smaller lenders joining the AAP which reduces competition.

Given participation costs are unknown, smaller lenders paying an equal amount as the major banks and Macquarie could create a barrier to entry and price them out of accessing the benefits of the AAP. An equal amount rather than a proportional amount will see smaller lenders facing a higher cost to gain access to the AAP reviews. Due to the size of these smaller lenders, there is less capacity to absorb costs compared to the larger lenders. If smaller lenders are priced out of accessing the AAP, then a competitive advantage will be obtained by larger lenders being able to pool their resources to gain access to the assurance reviews while excluding smaller competitors. COBA also notes that if these priced out lenders pursued their own assurances this creates an additional burden on aggregators.

We look forward to engaging with the ACCC on this issue and thank you for taking our views into account. Please do not hesitate to contact Robert Thomas, Senior Policy Adviser (rthomas@coba.asn.au) if you have any questions about our submission.

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer